



**Auditor of State
Betty Montgomery**

**City of Monroe
Butler County, Ohio**

Report on Accounting Methods

Local Government Services Section

City of Monroe - Butler County

Report on Accounting Methods

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CERTIFICATION

In compliance with the requirements set forth in Section 118.10(A) of the Ohio Revised Code, an assessment of the methods, accuracy, and legality of the accounts, records, files, and reports of the City of Monroe was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The deficiencies and non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to Section 118.10 of the Ohio Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Paul Marshall, Chairman of the Financial Planning and Supervision Commission of the City of Monroe; Robert Routson, Mayor of the City of Monroe and Steve Tannreuther, Vice Mayor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 19, 2006

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City of Monroe - Butler County

Report on Accounting Methods

Purpose

As required by Section 118.10(A), Revised Code, the Auditor of State "...Shall issue a preliminary report with respect to the methods, accuracy and legality of the accounts, records, files and reports of the City. Such report shall state whether Chapter 117 of the Revised Code and the requirements of the office of the Auditor of State have been compiled with..."

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the City, and (2) whether the current accounting system is in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained by interviewing City personnel and reviewing pertinent accounting, financial and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the City of Monroe. We were not engaged to, nor did we perform an audit, the objective of which would be the expression of an opinion on specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

City of Monroe - Butler County

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Governance Overview

The City of Monroe (the “City”) is located in southwest Ohio in Butler County. The City is a home rule municipal corporation organized under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-manager form of government, was originally adopted May 7, 1974. The legislative authority is vested in a seven-member Council. Council members are elected to a four-year term. The Council elects one of its members to serve as Mayor, who is the chief executive officer. The Council appoints the City Manager, who is the administrative officer.

The Council, elected at-large, is the legislative authority of the City. Each Council person has to have been a resident and qualified elector of the City for at least one year immediately prior to the election as well as to continue to be a resident and qualified elector of the City throughout the term of the office. The Council has the authority to prescribe by ordinance the manner in which any power of the City is exercised. Council appoints a Clerk of Council who attends all Council meetings and keeps a record of all proceedings, rules, bylaws, and legislation.

The Mayor serves a two-year term. The Mayor has the authority to preside at Council meetings, to appoint committees of Council and coordinate such committees, and to act as ceremonial head of the City, but has no administrative authority. While presiding at Mayor’s Court, the Mayor has all judicial powers granted generally by the laws of Ohio and can exercise all or any such powers in accordance with the procedure established by law governing Mayor’s Court.

The Vice-Mayor is elected by Council and serves a two-year term. The Vice-Mayor acts as the presiding officer of the Council and may exercise all the powers and perform the duties granted the Mayor by the Charter in the absence or disability of the Mayor.

The City Manager, on the basis of his executive and administrative qualifications, is appointed by a majority vote of Council. If a Manager has not been employed within 180 days after a vacancy occurs, the Mayor may appoint a Manager. The Manager’s responsibilities and duties to Council for the administration of the City affairs are the following: to appoint, suspend, or remove all City employees and appoint administrative officers provided by law or personnel rules adopted pursuant to the Charter; to direct and supervise the administration of all departments, offices and agencies of the City; to attend Council meetings on request of Council; to oversee that all laws, provisions of the Charter and acts of Council, subject to enforcement by him or by his officers; to formulate and arrange contracts, franchises and agreements, and sign all contracts, bonds, and notes on behalf of the City, provided proper Council approval has been given; to formulate job descriptions as deemed necessary for the City employees; to make reports to Council concerning the operations of City departments, offices, and agencies subject to his direction and supervision, and to prepare and submit the annual budget, capital program and appropriation ordinance to Council. No member of Council shall interfere in the appointment, removal, or direction of officers or employees subordinate to the Manager.

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Report on Accounting Methods

Governance Overview

(Continued)

The following departments are established by the City's Charter:

1. Department of Finance
2. Department of Law
3. Department of Engineering and Inspection
4. Department of Fire
5. Department of Parks
6. Department of Police
7. Department of Streets
8. Department of Utilities

Each City department is headed by a full or part-time department head. Subject to approval by Council, the City Manager appoints all department heads, except the law and finance departments. The law and finance departments are appointed by Council.

The Finance Director is the head of the Finance Department. The Finance Director performs those functions customarily performed by the Auditor or Treasurer under the general laws of Ohio and is responsible, as the fiscal officer of the City, for all accounting, collecting, and maintaining custody of public funds as well as controls disbursements.

In the absence of a Finance Director, the City Manager performs the functions of the Finance Director. In March of 2005, the City hired a new Finance Director. With the hiring of a Finance Director, the City Manager relinquished the duties of the Finance Director.

On August 12, 2004, the City was declared in a state of fiscal emergency by the Auditor of State. As a result of the declaration, a Financial Planning and Supervision Commission (the "Commission") was established under Section 118.05 of the Ohio Revised Code. The Commission membership is as follows:

1. The Director of Budget and Management or a designee;
2. The Mayor of the City or a designee;
3. The President of City Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals appointed by the Governor with knowledge and experience in financial matters.

The powers, duties, and functions of the Commission include:

1. Review all tax budgets, tax levy ordinances and bond and note resolutions or ordinances, appropriation measures, and certificates of estimated resources, to ensure they are consistent with the financial recovery plan;
2. Inspect and secure copies of pertinent documents of the City;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the City;
4. Review, revise, and approve determinations and certifications affecting the City made by the County Budget Commission or the County Auditor;
5. Bring civil actions to enforce fiscal emergency provisions;
6. Approve the amount and purpose of any debt obligations;

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Report on Accounting Methods

Governance Overview

(Continued)

7. Implement steps necessary to bring accounting records, accounting systems and financial procedures and reports into compliance with the Auditor of State's rules;
8. Make and enter into all contracts necessary or incidental to the performance of its duties;
9. Make recommendations for cost reductions or revenue increases to achieve a balanced budget; and,
10. Annually, before April 1, make a report and recommendations to the Speaker of the House of Representatives and President of the Senate on the progress of the City.

Once a City is declared to be in fiscal emergency, the Mayor and Council must prepare a financial recovery plan that details the steps that will be taken to alleviate the financial problems. The plan is subject to the approval of the Commission. Once the Commission has approved the plan, all financial activities of the City must conform to the provisions of the plan.

The Commission will continue in existence until the Auditor of State, or the Commission itself, determines that:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The City Council has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "nonadverse".

Once these requirements are satisfied, the activities of the Commission are terminated.

Auditor of State Comments

None

City of Monroe - Butler County

Report on Accounting Methods

Budgetary System

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and the type of financial resources that shall be raised, and how those financial resources shall be spent. Annually, a budget consisting of estimated revenues and expenditures for each fund for the next year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of revenues and the programs, activities and major objects of expenditures. The budget should encompass current operations and maintenance, capital acquisition and replacement, and debt retirement. The budget, once approved by the governing body, should be the basis for the appropriation measure. The appropriation measure should identify by fund the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized revenues and balances available for expenditure.

Statutory Requirements

The budgetary process for the City is prescribed in Chapter 5705 of the Ohio Revised Code, and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance.

The Tax Budget: The County Budget Commission requires a tax budget containing levy information for all funds that receive property tax revenue to be submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the succeeding year. The Budget Commission examines the budget to ascertain that all tax levies of the City are properly authorized. The Budget Commission also revises and adjusts the estimated receipts for property taxes and local government fund allocations and certifies the rates of each tax necessary to be levied and the date on which each tax will expire. Before October 1, Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

Certificate of Estimated Resources: The County Budget Commission issues an official certificate of estimated resources on or about September 1, based on information provided by the City in the tax budget and other information available to the Budget Commission. On or about January 1, the Finance Director certifies the actual year-end balances for all City funds to the Budget Commission. Upon receipt of the information, the Budget Commission issues an amended official certificate of estimated resources that include the unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that the revenue to be collected by the City will be greater than or less than the amount included in the official certificate.

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Report on Accounting Methods

Budgetary System

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Appropriation Ordinance: On or about January 1, the annual appropriation ordinance must be enacted by Council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the City until April 1. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission at the time of adoption. Appropriation measures must be classified so as to set forth separately the amounts appropriated for each office, department, and division, and within each, the amount appropriated for personal services. Any revisions that alter the appropriations at the levels adopted by Council must be approved by Council. The City may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

No appropriation measure is effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the official certificate or amended official certificate. When the appropriation does not exceed the certificate, the County Auditor shall give a certificate forthwith upon receiving a certified copy of the appropriation measure from the appropriating authority.

Encumbrances: As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and maintain legal compliance with the adopted appropriations. Expenditures plus encumbrances may not legally exceed appropriations.

Administrative Code Requirements

Section 117-2-02(C)(1) of the Ohio Administrative Code states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The legal level of control is the level at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Revised Code, the minimum legal level of control is described in section 5705.38 of the Revised Code. The legal level of control is a discretionary decision to be made by the legislative authority, so long as it meets the minimum required by Statute.

Charter Requirements

Article IV, Section 4.04(D) of the City Charter requires that the Council adopt an annual appropriation ordinance based upon the annual budget in the manner set forth in the general laws of Ohio.

Article VI, Section 6.04(I) of the City Charter requires the City Manager to prepare and submit the annual budget, capital program and appropriation ordinance to the Council.

Article X, Section 10.01 of the City Charter states that the laws of the State of Ohio relating generally to budgets, appropriations, debts, bonds, assessments, deposit and investment of funds and other fiscal matters of the City shall be applicable.

City of Monroe - Butler County

Report on Accounting Methods

Budgetary System

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City's Budgetary Process

The tax budget is prepared by the acting Finance Director and is based on prior year actual receipts and expenditures, current year actual and estimated receipts and expenditures, and estimates for the next year based on information available at the time of preparation. The tax budget is reviewed and adopted by the Council prior to submitting it to the County Budget Commission. The tax budget for the next year is generally adopted by Council on or by July 15 and filed with the County Budget Commission on or by July 20. A public hearing was held for the 2005 tax budget on June 22, 2004. Council adopted a resolution to authorize the 2005 tax levies on September 14, 2004 and certified them to the County Auditor on September 16, 2004.

From January through March of 2005, the acting Finance Director did not certify the year-end fund balances to the County Budget Commission nor request an amended certificate of estimated resources that includes the actual unencumbered fund balances from the preceding year. No amended certificate was approved by the County Budget Commission for the City during all of 2004 as well. The City used their Council-adopted and county auditor-certified tax budget as estimated receipts on the Central Cash System for all of 2004 and for January through March of 2005.

The estimated receipts per the tax budget are posted to the accounting system by the acting Finance Director. He reviews the estimated receipts posted to the system and compares them to the tax budget to make sure they match.

Beginning in November, the City Manager develops departmental budgets for all departments within the City except for the fire and police departments. The fire and police chiefs verbalize anticipated expenditures for the upcoming year to the City Manager. The City Manager's budget has significantly more detail than the tax budget approved in July. The acting Finance Director enters each department's budget in the computer system and generates a Budget Report. The Budget Report is the following year's appropriation resolution. In late November, the Finance Committee, department heads and the City Manager conduct budget meetings to discuss the "budget requested" column on the Budget Report. The acting Finance Director revises the Budget Report during the budget meetings. Once all budgets for the following year's appropriations have all been agreed upon by the Finance Committee and the respective department heads, a revised Budget Report is submitted to Council for review. In an open council meeting, Council members review and mark on the Budget Report any changes or corrections and return the Budget report to the City Manger. The changes and corrections are posted and a final Budget Report is then printed and submitted to Council. By motion, Council gives their final approval and this serves as the basis for the appropriation ordinance.

A temporary appropriation ordinance for 2004 was adopted by Council on December 16, 2003. The permanent appropriation ordinance for 2004 and 2005 was adopted by Council on March 23, 2004, and December 14, 2004, respectively. Council establishes the legal level of control at the object level within each fund and department. Any increase or decrease in appropriations at the level adopted by Council must be approved by Council.

No appropriation measure for 2004 nor for 2005 (through March) was filed with the County Auditor. The City did not receive a certificate that the total appropriations from each fund did not exceed the official or amended official certificate.

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Report on Accounting Methods

Budgetary System

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All appropriations are entered into the City's accounting system by the acting Finance Director within a week of approval by Council. The acting Finance Director compares the amounts entered into the accounting system to the appropriation ordinances to ensure accuracy.

The acting Finance Director prepares and monitors a monthly financial report that compares expenditures and encumbrances with the appropriations. A similar report which does not include encumbrances is presented to the Mayor, Council and the department heads. When negative variances are identified, the City Manager will discuss the variance with the respective Department Head and the Finance Committee. Once the reason for the negative variance is determined, the City Manager presents to Council supplemental changes to appropriations at the legal level of control to provide for more appropriations as long as the increase is within the estimated resources per the amended certificate. The acting Finance Director also reviews monthly revenue reports to determine if actual receipts are within the amounts that are anticipated.

Auditor of State Comments

- For 2004 and 2005, the total amount from all sources which is available for expenditures and the balances existing at the end of the preceding year were not certified to the County Auditor contrary to Section 5705.36, Revised Code. The Finance Director should certify to the County Budget Commission the actual unencumbered fund balances early in January of each year.
- The City utilized the tax budget for their estimated resources for 2004. The City should have received a completed copy of the Official Certificate of Estimated Resources from the County Auditor's office.
- At the end of 2004, actual receipts exceeded estimated receipts in some funds and actual receipts were less than estimated receipts in several other funds. Under Section 5705.36, Revised Code, estimated resources should have been increased as new resources were identified or actual receipts exceeded prior estimates, if Council desired to appropriate the additional resources. Also, estimated resources should have been decreased as revenue report comparisons throughout the year determined that actual receipts were identified as being less than estimated, and Council should have decreased appropriations to avoid deficit spending.
- In 2004 and for January through March of 2005, the temporary and permanent appropriation ordinances were not filed with the County Auditor contrary to Section 5705.39, Revised Code. Starting in April of 2005, the City filed their permanent appropriations and any supplemental appropriation ordinances with the County Budget Commission. The Clerk of Council should certify temporary, permanent, and supplemental appropriation ordinances to the budget Commission.
- Appropriations are not in effect until the County Auditor certifies that the total appropriations from each fund do not exceed the total official or amended official certificate. The City must allow for sufficient time between the passage of appropriation ordinances and the receipt of a certificate from the County Auditor so that obligations are not authorized against such appropriations until the certificate is received.

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Budgetary System

(Continued)

- During 2005, the City had deficit fund balances contrary to Section 5705.10, Revised Code, expenditures plus encumbrances that exceeded the Council adopted appropriations contrary to Section 5705.41(B), Revised Code, and appropriations that exceeded estimated resources contrary to Section 5705.39, Revised Code. The Finance Director, City Council, and City Manager should attend a workshop or schedule a workshop at the City for Council and management that addresses Ohio budgetary law and the role each has in the budgetary process.
- The City Manager presents an expenditure report to Council that excludes encumbrances from the comparison of expenditures to appropriations. The expenditure report should be corrected to include encumbrances so that compliance with budgetary requirements is accurately presented.

City of Monroe - Butler County

Report on Accounting Methods

Chart of Fund and Account Codes

Description of Effective Chart of Fund and Account Codes

Common terminology and classification should be used throughout the budgeting, accounting, and financial reporting activities. Fund codes should allow for the classification and identification of fund types and individual funds. Receipt and expenditure account codes should allow the transactions to be summarized by major revenue sources or expenditure programs/activities and/or objects. The account codes should be used consistently across all funds, departments, and/or activities. The fund and account codes should also facilitate the preparation of year-end financial statements.

Statutory Requirements

The creation of funds is authorized by Section 5705.09, Revised Code. Section 5705.13, Revised Code, allows for the creation of reserve funds for accumulated sick and vacation termination benefits and for the acquisition, construction, or improvement of capital assets. Additional funds may be established under Section 5705.12, Revised Code, with the written approval of the Auditor of State.

Methods Used by the City

In 2004, the City established the Storm Water Enterprise Fund (633) and the Law Enforcement Trust Fund (884). The Employee Flexible Spending Trust Fund (885) was established in 2005. These funds were established in the temporary appropriations ordinance in 2004 and the permanent appropriation ordinance in 2005. The City Manager and Finance Director jointly assign each fund a number that reflects its fund type classification. Under the City's fund structure, City's fund codes include: 100 – General; 200s – Special Revenue; 300s – Capital Projects; 400s – Debt Service; 500s – Special Assessments; 600s – Enterprise; 800s – Agency.

Account codes are assigned by the City Manager and Finance Director based on a chart of accounts. The City has a draft policy that includes written guidelines for assigning account codes for revenue sources and expenditures. Receipt and expenditure codes allow the transactions to be summarized by major revenue sources or expenditure programs. Major object codes for expenditures are used consistently throughout the various program and activity codes.

Auditor of State Comments

- The procedures manual maintained by the Finance Director should include an explanation of the account code structure including updated changes caused by GASB Statement No. 34 and the meaning of the various dimensions used in the account codes.
- The City created new funds by including them in an appropriation ordinance. New funds should be created by an ordinance that identifies the purpose of the funds, its revenue sources and allowable expenditures, and the section of the law that allows or requires it to be created.

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Accounting Ledgers

Description of Effective Accounting Ledgers

The accounting ledgers should include all the funds and accounts of the City and should provide ongoing, timely information on estimated and actual revenues and appropriations and expenditures including encumbrances, uncollected revenues, and appropriations available for expenditures. The information captured for each transaction should allow the transaction to be traced throughout the ledgers and back to the document that originated the transaction.

Administrative Code Requirements

Section 117-2-02(A) of the Ohio Administrative Code requires that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Ohio Administrative Code Section 117-2-03.

Section 117-2-02(C)(1) of the Ohio Administrative Code states that all local public offices should integrate their budgetary accounts into their financial accounting system at the legal level of control or lower. The accounting system should provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Section 117-2-02(D) of the Ohio Administrative Code states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides and should consider the degree of automation and other factors. Such records should include the following:

Cash Journal - The cash journal is the book of original entry for recording all cash receipts and disbursements processed in the Finance Director's office. The cash journal presents receipts deposited to and warrants drawn against the City treasury and the fund(s) to which the receipts and warrants were recorded. Entries to the cash journal are posted sequentially by date from source documents such as pay-in orders and warrants. The related pay-in order or warrant number, account codes, and date are also recorded for each transaction. At the end of each month, month-to-date totals and year-to-date totals are recorded.

Receipt Ledger - The receipt ledger is used to summarize receipts by fund and account. In addition, the estimated revenue and uncollected balance are presented for each source of revenue. Estimated revenues are recorded from the detail used in the preparation of the tax budget and are adjusted for any amendments to the certificate of estimated resources. Receipt transactions are posted from the cash journal based on the account code. A balance reflecting the estimated amount remaining to be received is maintained. At the end of each month, month-to-date totals and year-to-date totals are to be recorded.

City of Monroe - Butler County

Report on Accounting Methods

Accounting Ledgers

(Continued)

Appropriation Ledger - The appropriation ledger is used to summarize appropriations, disbursements, and encumbrances, by fund and account. In addition, the ledger accommodates the encumbering of obligations of the City, the warrant/check issued for the payment of the obligation, and necessary adjustments to an appropriation account. The ledger also facilitates budgetary control by enabling the City to keep its disbursements and encumbrances within the amounts appropriated by Council. The unencumbered appropriation balance provides information on the amount available for obligation. At the end of each month, month-to-date totals and year-to-date totals are recorded.

Methods Used by the City

The City uses a fund accounting package from Software Solutions Incorporated (SSI). The software integrates estimated receipts and appropriations by fund and account. SSI allows for the accumulation and aggregation of budget and actual information. Detailed receipt, expenditure and encumbrance information is accumulated by fund, revenue sources, and expenditure programs, departments, and object codes. The software provides month and year-to-date information and detailed or summary information for receipts and expenditures. SSI also provides software for income tax operations and bank and treasury functions.

The City Manager prepares daily and annual backup tapes of the SSI system, which includes other applications such as income tax, utility, and personnel. The back up tapes includes all financial records and transactions as well as information from other applications from SSI system. At the end of 2004 and the beginning of 2005, these tapes were stored in the City Manager's office in a closet which was neither fireproof nor capable of being locked. As of March, 2005, the City Manager is storing these backup tapes at a safe off-site location.

The City does not have a disaster recovery plan. In prior years, they had a disaster agreement with the City of Trenton; however, the City of Monroe has upgraded their fund accounting package with SSI and is no longer compatible with Trenton. Since the upgrade to the fund accounting package, the City of Monroe has not researched other comparable sites to enter into a new disaster recovery plan.

Auditor of State Comments

- The City does not have a disaster recovery plan. The City should develop and implement a disaster recovery plan.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent identification and recording of each receipt. All receipts should be promptly recorded, safeguarded, and deposited at least daily. A pre-numbered, multi-part receipt form or a system-generated receipt form should be issued for any payment received by departments. The receipts should bear the name of the entity and reflect the date received, the payer, the amount, the purpose/nature of the receipt, and the signature or name of the person preparing the receipt. Departmental receipts should be summarized and remitted to the finance department daily. The finance department should issue pay-in-orders to those departments depositing daily collections to the finance department and for any payments received by the finance department. The pay-in-order forms should be a multi-part, pre-numbered form that bears the name of the entity, the date received, the payer, the amount, the purpose/nature of the receipts, the account code, and the signature or name of the person preparing the pay-in-order. Supporting documents should be attached to a copy of the pay-in-order and filed numerically or by payer. All pay-in-orders should be recorded in the cash journal and receipts ledger in a timely manner. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, depositing of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38, Revised Code, provides that a person who is a public official, employee, or agent shall deposit all public monies received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such monies received exceeds one thousand dollars. If the total amount of the public monies so received does not exceed one thousand dollars, the person shall deposit the monies on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies until they are deposited. If the public office of which the person is a public official is governed by a legislative authority, only the legislative authority may adopt such a policy.

City Method for Recording Receipts

Finance Department

All departments, except the Fire Department and Mayor's Court, enter receipt information in the Central Cash System and submit their daily receipts to the Finance Department. Accountability is achieved by using the Central Cash System. The system provides reports that identify the revenue sources, corresponding account numbers, and all receipts in numerical order. The Fire Department submits a monthly spreadsheet report that identifies the amounts billed and received for the month, which the Finance Department uses to post the revenues into the finance software per the Central Cash System.

The Finance Department also receives receipts by wire transfer. The Finance Clerk reviews bank accounts on-line daily. Once wire transfers are received, the Finance Clerk matches the transfer to the documentation sent by the sender of the deposit. A receipt is written, posted, and retained with the documentation in the Finance Department.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

The Administrative Assistant receives the daily central cash management system collection reports from various City departments and the monthly collection report from the Fire Department. The collection reports are used to enter the account code information and revenue amount into the City's accounting software in batches daily. The collection reports are filed by the Administrative Assistant for use in reconciling at the end of the month.

Mayor's Court

The Mayor's Court Clerk receives the original copy and the white copy of the citation written by the police department. Each citation written has a box to be marked by the police officers to determine which court has jurisdiction over the citation. The white copy of the citation is not received by the Mayor's Court Clerk if the citation is to be heard in a different court. It would be sent by the City's police department to the court with jurisdiction. The original copies, including voided citations, are filed numerically in the Mayor's Court Clerk's office. Accountability for all citations is a responsibility of the Mayor's Court Clerk. Those citations that are to be heard in Mayor's Court have a jacket prepared. The citation is entered into the Mayor's Court computer software system. The system generates a court case number for the citation and enters it into the automated docket book. The court case number is then written on the jacket cover by the Mayor's Court Clerk. The white copy of the citation is filed in the jacket.

The Magistrate of the Mayor' Court provides the Mayor's Court Clerk a fee schedule with corresponding ordinance numbers for violations. The Clerk of Court uses the fee schedule to determine the amount owed for court bonds, parking tickets, traffic citations, police summons, and court fines. The Mayor's Court Clerk receives payments for court bonds, parking tickets, traffic citations, police summons, and court fines. The Mayor's Court Clerk has a pre-numbered receipt book to record cash payments for cases not going to court. No receipts are issued for check payments. Computer generated receipts are issued for cases where the defendant appeared in court. From the receipt book, the original receipt is given to the payer and the duplicate receipt is retained in the receipt book. When computer generated receipts are issued, the payer is given a copy while receipt information is stored in the computer system.

All receipts are entered into the Mayor's Court computer system. The Mayor' Court computer system post to both the Mayor's Court cashbook which shows the case number, defendant, receipt number, receipt date, and amount received and the docket book where the fines, total cost, and balances owed on the case are shown. In the cashbook, the Mayor's Court Computer system breaks receipts into columns to show where the money is to be distributed, such as the State, City, etc.

At the end of each day or during lunch hours, the Mayor's Court Clerk reconciles the monies collected to the daily summary of cash receipts from the Mayor's Court computer system and prepares a deposit slip. This reconciliation is reviewed for accuracy and completion and also approved verbally by the Finance Clerk. The Mayor's Court Clerk then deposits the monies into the Mayor's Court bank account.

At the end of the month, the Mayor's Court Clerk generates a monthly financial report for the Finance Department which shows the amount due to the City, as well as the State. The Mayor's Court Clerk also provides a reconciliation of the monthly activity to the Finance Clerk. Checks are written by the Mayor's Court Clerk to the appropriate payee, such as the State and local governments, before the fifteenth of the next month. Occasionally, the Mayor's Court Clerk issues a check to a defendant for overpayment on a citation.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

For people on monthly payment plans, the Mayor's Court Clerk sets their payment date to be on one of the two court dates during the month. For each court date, the Mayor's Court computer system prints an appearance report that states the name and case for court. Within the computer docket system, the Mayor's Court Clerk notes the payment date. If the defendant doesn't pay by the set date, the computer prints the name and case with the new violators on the appearances date report. The Mayor's Court Clerk reviews the appearance report to verify non-payment for the month before a letter that states amount owed and new payment date is sent.

Police Department

The Police Department receives payments for finger printing and cash bonds (waivers) when the Mayor's Court Clerk is unavailable. The Police Department has a receipt book for all receipts. Receipts are written from the receipt book by a dispatcher. The original receipt is given to the payer, the duplicate receipt is retained in the receipt book and the amount is recorded in the receipt log book. Receipts are forwarded to the Mayor's Court Clerk for entry into the Mayor's Court cashbook and deposit into the Mayor's Court bank account.

Income Tax Department

The City levies a tax of one percent on all salaries, wages, commissions and other compensation, and on net profits earned within the City as well as on the incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another City to a maximum of the total amount assessed by the City. Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City. It is mandatory that all City residents and corporations file tax returns.

The annual income tax forms are mailed to City residents and businesses in January each year. The annual tax return is due by April 15th. A declaration of estimated taxes for the new year is included as part of the annual return. Estimated tax payments are due quarterly and statements are sent out April 1, June 1, September 1, and December 1.

Employers are required to remit employee withholdings quarterly. The quarterly forms are mailed to employers during the month of December and are due on the last day of the month following the end of each quarter.

The Income Tax Department receives payments in various ways. Payments are sent by mail, paid in person, or dropped in the locked drop off box in back of City Hall. The City Receptionist empties the drop off box daily and gives the sealed envelopes to the Income Tax Department. The Income Tax Clerk handles the tax payments that are brought in person to the Income Tax Department as well as payments received through the department's mail from the post office and the drop off box. A receipt is prepared from the Income Tax Department receipt book for in-person payments. The original is given to the taxpayer, the duplicate remains in the receipt book and the support, such as remittance forms, is placed on the Income Tax Clerk's desk with the payment. For mailed and drop off box payments, the Income Tax Clerk opens the envelopes, stamps the remittance form with the date received, and places the payment on top of the remittance form. Both the information from the remittance form, as well as the receipt, is entered into the Central Cash System. If the payment received is not equal to the expected payment per the remittance, it is noted within the system and a delinquent taxpayer letter is sent.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

A deposit slip is prepared by the Income Tax Clerk and the total collection is taken to the bank where it is deposited into the general operating account. The bank authenticated deposit slip and remittance forms are given to the Income Tax Auditor, who enters the income tax information from the remittance forms into the income tax software to update accounts. A Deposit Journal Report which notes the total received via mail, lockbox, and in person is printed at the end of the day by the Income Tax Auditor who enters the totals to the daily excel spreadsheet.

The Income Tax Auditor produces a computer generated monthly report. The report lists the entire month's receipts by transaction. Every month, the report is given to the Finance Department. The Finance Department uses the report to provide analytical information about income tax revenue being collected for the year to Council.

The first time a check is returned "NSF" to the City, a thirty dollar charge is assessed to the taxpayer and a new payment is requested.

A list of delinquent taxpayers and filers is printed when all returns received by April 15 have been entered into the system. The computer system automatically assesses the applicable interest and penalties to the respective taxpayers' accounts. Every month a Balance Due Detail Report is printed, which identifies taxpayers whose accounts are past due after April 15th. When an account is past due or the taxpayer does not file a tax return, the taxpayer is sent a letter. After two letters, a notice to appear before the Income Tax Commissioner is sent. If the taxpayer does not appear, the account is sent to Mayor's Court for prosecution.

The income tax software keeps track of all taxpayers in the City. Throughout the year, the income taxpayer list is compared to the County Auditor's real estate records, to the city's water and sewer customers, and to the city building permit copies. The City will not issue permits to contractors if their income tax payments are not current.

Refunds are paid based on processed income tax returns. When refunds are to be paid, a report is generated that identifies all pending refunds. The Income Tax Commissioner then notifies the Finance Department that the checks are ready to be printed. The refund checks are signed by the Finance Director. At year-end, a federal form 1099 is prepared for each taxpayer who received a refund. A federal 1096 "Annual Summary and Transmittal of US Information Returns" is prepared and forwarded by the Income Tax Assistant to the Internal Revenue Service.

Taxpayers are not removed from the City tax rolls without submitting proof to the Income Tax Department that they no longer live in the City. Once proof is submitted, the taxpayer is marked "inactive" in the City Income Tax System. The account will not be included on the list of income tax filers for the next year's income tax return mailing.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

Fire Department

The City has a contract with MBI Solutions, Inc. to handle all EMS billing. MBI Solutions, Inc. charges 8.5 percent of all revenue collected for their services. The Fire Department provides MBI Solutions with EMS run information. MBI Solution is contracted to establish accounts and bill patients and their insurance companies. Payments are sent to a Bank One Lock Box. If payments are mistakenly sent to the Fire Department, the Fire Department immediately puts the money into an envelope and sends it to the Bank One lock box. MBI Solutions, Inc. receives the information on payments from the bank lock box and posts payments directly to the patient's account, which are established and maintained by MBI solutions for the City. Each month the Fire Department sends to the Finance Department a report showing amounts billed, payments made, and adjustments due to write offs (waived payments per the guidelines of the signed contract with MBI Solutions, Inc) to the MBI Solutions, Inc. Write-offs are based on criteria in the contractual agreement. The Finance Department receives copies of the monthly reports and daily deposit slips prepared by MBI Solutions. Inc.

The Fire Department receives payments for copies of EMS and Fire reports. The reports are mailed with a copy of the invoice for payment. The Fire Department receives the payments and makes a copy of the check which is attached to the back of the fire reports. Donations are also received by the Fire Department. No receipt is issued for these monies by the Fire Department. The Fire Department prepares a deposit slip and deposits the monies in the bank. A copy of the deposit slip with the deposit receipt from the bank attached is taken to the Finance Clerk for posting in the financial system. These monies are posted as miscellaneous revenue. The donations and fire report monies are included on the monthly fire report sent to the Finance Department.

Utility Department

The Utility Clerk, Receptionist, and Public Works Clerk are directly involved with the utility receipt process. The utility department accepts cash, checks, money orders, or credit cards for the payment of utility bills as well as franchise fees, building and zoning fees, and cemetery fees. Payments may be hand delivered, mailed, made over the telephone (credit card), placed in the drop box, or mailed to the lock box account at First Financial Bank. Each payment, except for those received via the telephone (credit card) is accompanied by a payment stub, which is from the bill sent out to customers by the City. The payment stub is filed by the Utility Clerk.

Lock Box:

Lock box payments are received daily by the Utility Department from the bank with the envelopes, payment stubs, copies of checks, and the bank's deposit slip. The receptionist enters these payments into the Central Cash System. If a payment stub has not been received with the payment, a payment stub is manually produced. After the payments have been entered into the Central Cash System, the total from the system is compared by the receptionist to the deposit slip to make sure that all payments have been entered correctly.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

Credit Cards:

Credit card payments are processed by the receptionist. The credit card is either swiped or the card number is manually entered into the credit card machine. When a confirmation number/approval has been received, the payment and confirmation number as well as the name and utility account number are entered into the Central Cash System. If the credit card has been presented, the signature on the back of the credit card is verified to ensure proper authorization. If the credit card information has been recorded via telephone, the customer will hold until the credit card has been processed and an approval number is received.

Checks or Money Orders:

Payments by check or money order that have been received through the mail, drop box, or by hand delivery are entered into the Central Cash System. The back of the payment stub is date stamped and the amount received is written on the stub. The check or money order is endorsed by the City on the back by the City's printer.

Cash:

Cash payments that are received at the front desk of the City Building are entered into the Central Cash System. The amount tendered as well as the payee and the account number is entered and the system displays the amount of change to be given. The payment stub is date stamped and the amount received written on the back. A receipt generated by the system is given to the customer.

\$100 is maintained in the cash drawer at all times during the work day to be used to make change. There is no money maintained in the cash drawer after work hours. The money is secured in a safe in the City building. The credit card machine transactions are posted to the bank automatically in the evening. A credit card settlement report is generated from the credit card machine daily.

At the end of each day, the payments and cash are placed in a locked workroom by either the Receptionist or the Utility Billing Clerk who are the only two people who have keys to this workroom. The following morning, the Receptionist working the front counter will generate two reports from the Central Cash System. These reports detail information from the prior day's receipts. The first report is summarized by receipt batch. This displays in detail the revenue received by payment type (i.e., cash, check, or credit card). The second report is summarized by receipt type. This report separates the utility billing payments from the other payments.

The receptionist will then count the money to be deposited and compare it to the reports from the System. Then the receptionist prepares a paper (batch ticket) that lists the deposit amount that is going to the bank, the credit card charges and the lock box payments. The total is compared to the batch report from the computer system to confirm that the amounts balance. The batch ticket is attached to the payment stubs and is filed in the Utility Department. The cash and checks along are placed in a bank bag and given to the Utility Billing Clerk, along with the reports, lockbox deposit slips, and credit card settlement report.

The Public Works Clerk prepares a spreadsheet for the Finance Department listing all accounts to which the miscellaneous revenue has been posted. The spreadsheet is prepared using the Central Cash System reports.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

The Utility Billing Clerk, upon receiving the Central Cash System reports, cash, checks, credit card receipts, lock box deposit slip and the other receipts deposit, runs a Receipts Input Journal Report from the Utility Section of Software Solutions. This Receipts Input Journal Report lists the individual's accounts to which the daily payments have been entered, along with a breakdown of how much went to the water account, sewer account, garbage, storm water, non-sufficient funds, on/off tap fees, garbage bags and miscellaneous income for the Utility Department. The total on the Receipts Input Journal Entry Report equals the Cash Receipts by Type Report. The Utility Billing Clerk prepares the deposits for the utility payments and other receipts received, entering the cash that was in the bank envelope and the amount of the checks using the batch ticket that was provided by the employee working at the front desk of the City Building. A copy of the deposit slip is made, as well as a copy of the adding machine tape that contains the amount of the checks to be deposited. A spreadsheet is prepared listing the amount of the deposit, along with the amount of the deposit in the lock box and the amount on the credit card settlement tape. These figures are totaled to confirm that it matches the total of the Cash Receipts by Type Report and the Receipts Input Journal Report. If all three totals equal, then the Receipts Posting Journal is printed. This posts the payments to the individuals' accounts.

After the Receipts Posting Journal has been printed, a spreadsheet is created by the Finance Department. This spreadsheet lists the breakdown of revenue. This report equals the amount on the Receipts Posting Journal.

The Utility Billing Clerk verifies the amount of miscellaneous revenue deposited by adding the cash and checks to verify they balance to the deposit.

The bank deposits are given to the employee working the front desk of the City Building. Each morning the employee working the front counter at the City Building will take the deposit to the bank. After the deposit is made, the copies of the deposit slip along with the transaction receipt from the bank are given to the Utility Billing Clerk. These slips are attached to the Central Cash Receipts by Type Report, the Central Cash Receipts by Batch Report and the Receipts Input Journal Report and are maintained in the Utility Department. The Receipts Posting Journal Report is filed separately in a computer binder in the Utility Department.

City of Monroe - Butler County

Report on Accounting Methods

Revenue Activity

(Continued)

Auditor of State Comments

- A procedures manual should be created describing the recording of the receipts in the Police Department, Mayor's Court, and Utility Department. The procedures should include the process of handling delinquent amounts, the safeguarding of receipts, timely deposits, the segregation of duties, and the collection and recording of receipts.
- The Finance Director should have the procedures used throughout the City in the recording of receipts and delinquencies, when applicable, documented and maintained in the finance department.
- The Fire Department should use pre-numbered duplicate receipts for all monies collected within their department.
- In all departments, the same person should not be counting cash, completing daily cash reports and taking the deposit to the Finance Department. The Mayor's Court Clerk counts the cash, inputs the receipts in the computer system, takes the deposit to the bank, and reconciles the bank account. The Mayor should be reviewing and approving all reports and reconciliations for the Mayor's Court. Also, the Mayor's Court Clerk should provide a monthly ticket accountability report to the Mayor for review and approval.
- The Utility Department should require employees to enter initials into the system when entering the data as a safeguard and as an identification of the person processing the transactions. Also, a schedule which shows who will be working the front desk each day should be created.
- The Fire Department receives donations and does not issue a receipt to the donor. Donations should be accepted by Council. Council should review Section 9.20, Revised Code and develop guidelines for the receipt and acceptance of donations.

City of Monroe - Butler County

Report on Accounting Methods

Purchasing Process

Description of an Effective Method for Purchasing

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and the purchasing should be integrated with the budget. The process should include selection of the vendor with the best price as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds stating that the amount has been appropriated and is encumbered. All purchase orders should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements

Several State laws govern the purchasing process. The requirements are as follows:

Certification of the Fiscal Officer - Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing year, the amount required to meet the obligation in the year in which the contract is made, has been lawfully appropriated for such purposes and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrance. This certificate needs to be signed only by the subdivision's fiscal officer.

Blanket Certification of the Availability of Funds - The subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that does not extend beyond year-end in an amount established by resolution of City Council. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine, recurring type items or for unanticipated emergencies. An itemized statement of obligations incurred and expenditures made under such certificate shall be rendered to the auditor or other chief fiscal officer before another such certificate may be issued, and not more than one such certificate per appropriation line shall be outstanding at a time.

"Super" Blanket Certification of the Availability of Funds - The super blanket certification permits the fiscal officer to certify any amount from a specific line item appropriation. The certification is authorized to be outstanding for any period up to the end of the fiscal year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained and provided by the fiscal officer.

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor or appraiser by or on behalf of the subdivision; fuel oil, gasoline, food items, roadway materials and utilities; and any purchase exempt from competitive bidding under Ohio Revised Code Section 125.04 and any other specific expenditure that is a recurring and reasonably predictable operating expense.

City of Monroe - Butler County

Report on Accounting Methods

Purchasing Process

(Continued)

Then and Now Certification - It is intended that the fiscal officer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate that, both at the time the order was placed (then) and at the current time (now), a sufficient sum was appropriated for the purpose of such contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. If the amount exceeds \$3,000, the City Council has thirty days from the receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the City.

Authority to Contract - Contracts are made by the City Council and executed in the name of the City by the Mayor and the Finance Director, except as otherwise specified by statute.

Bidding - All contracts calling for expenditures in excess of \$15,000 (City charter limitation is \$2,500) shall be in writing and made to the lowest and/or best bidder. Council must authorize and direct all such expenditures. Exceptions to the bidding requirements include contracts for:

1. Personal services of a specialized nature;
2. Goods and services when only one source is available;
3. Work to be done or for the purchase of supplies and materials in any department of the City if a real and present emergency exists;
4. The purchase of used equipment and supplies at a public auction or at a sale where bids are required by all parties wishing to purchase;
5. Purchases from other political subdivisions and agencies; and
6. Goods purchased under the State Cooperative Purchasing Program.

Findings for Recovery Database - Effective January 1, 2004, Ohio law (Section 9.24, Revised Code) prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.

Per Auditor of State bulletin 2004-006, a contract for purposes of Section 9.24, Revised Code, is awarded when a written agreement is executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to ORC Section 9.24. For purchases made off the State term schedule, the Ohio Department of Administrative Services (DAS) engages in a contracting process as described under Attorney General Opinion 2004-014 and consequently, is required to comply with Section 9.24, Revised Code. State agencies and political subdivisions that purchase off the State term schedule do not engage in their own contracting processes and are not subject to the provisions of Section 9.24, Revised Code.

Section 9.24 (G)(1)(a), Revised Code, states that the only contracts subject to the provisions of the statute are those contracts in which the cost of goods, services, or construction exceeds \$25,000. Section 9.24 (G)(1)(b), Revised Code, provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous fiscal year, received contracts from the State agency or political subdivision, the aggregate of which exceeded \$50,000.

City of Monroe - Butler County

Report on Accounting Methods

Purchasing Process

(Continued)

Attorney General Opinion 2004-014 explains that the term “state funds” means “moneys, other than federal funds, that are held in the state treasury and appropriated by the General Assembly in accordance with the Ohio Constitution Article II, Section 22 for expenditure by a state agency or political subdivision”. This opinion also advises that if State funds are commingled with local funds, a contract paid with those funds would be presumed to include both State and local funds. In contrast, if political subdivision segregates its funds and pays for a contract with only local funds, the contract would not be subject to Section 9.24, Revised Code.

The Auditor of State has established a database pursuant to Section 9.24, Revised Code, in order to list all persons who have unresolved findings for recovery, dating back to January 1, 2001. To comply with Section 9.24, Revised Code, the Auditor of State’s office recommends that before entering into a public contract as described above, a State agency or political subdivision verify that the person does not appear in this database.

Administrative Code Requirements

Section 117-2-02(C)(2) of the Ohio Administrative Code states, “purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by Section 5705.41(D) of the Revised Code. Purchase orders are not effective unless the fiscal officer’s certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services are made.”

Charter Requirements

Article VI, Section 6.04(E) of the City Charter provides for the City Manager to formulate and arrange contracts, franchises and agreements, and sign all contracts on behalf of the City, provided proper Council approval has been given.

Article X, Section 10.04 of the City Charter states that the City Manager shall be the contracting officer for the City and shall award and execute all contracts on behalf of the City. The Council may authorize the City Manager to act as a purchasing agent for the City with authority to award and execute contracts not in excess of bidding requirements. When an expenditure or contract exceeds the amount specified by the laws of Ohio for which work may be accomplished after advertisement and bidding, the City Manager shall be authorized to advertise and seek bids by motion of Council. The advertisement shall be once a week for at least two weeks in a newspaper of circulation in the City. Following the receipt of bids and when authorized and directed by ordinance or resolution passed by Council, the City Manager shall make a written contract with the lowest and/or best bidder.

Methods Used by the City

The City’s purchasing procedures require that a requisition form be submitted with the name of the person making the request, department, vendor name, description and quantity of items to be purchased, and amount to be encumbered. The purchase price is to be determined by contacting the vendor, choosing the lowest and/or best quote or bid, or using past purchase records.

A vendor list is maintained by the Finance Department. New vendors are added to the list as needed by the Finance Department. The Finance Department provides new vendors with the City’s tax exempt number, billing address and contract information.

City of Monroe - Butler County

Report on Accounting Methods

Purchasing Process

(Continued)

Any purchase under \$2,500, unless routine, requires three quotes to be obtained from vendors by the department head. Services or any purchases over \$2,500, unless statutorily exempt, are bid per Council discussion and wishes. Each department is given requisition forms by the Finance Department. The Department Head fills out the requisition with the date, vendor name and address, description of the items and quantities, unit price, extended amounts, total, department requesting the purchase and account numbers. The completed requisition is sent to the Finance Department with the written quotes attached, if applicable.

Prior to March 1, 2005, the availability of the funds in the applicable account code was verified by either the City Manager or the acting Finance Director. Once the funds were verified, either the City Manager or the acting Finance Director signed the requisition. After March 1, 2005, the Finance Director verifies funds are available. Both the City Manager and the Finance Director sign the requisition. The signed requisition is faxed to the Department Head who requested the purchase. The Administrative Assistant in the Finance Department enters the amount of the requisition into the computer system and prints a purchase order, which is rubber-stamped with the Finance Director's and City Manager's signature. One copy of the purchase order is printed from the computer system and filed in the Finance Department. If the vendor or the department needs a copy of the purchase order, it is photocopied and sent to them.

A then/now certification is issued for all purchases made without prior approval. A blanket purchase order is used for utility bills or routine purchases of supplies and chemicals. Blanket purchase orders are effective for a period of one year. The blanket purchase orders are kept in file folders, in alphabetical order according to the vendor name, by the Finance Department.

Services or any purchases over \$2,500, unless statutorily exempt, are required to be bid per Council's wishes, which is noted in the purchasing policy. For the informal quote process, the Department Head receives and tabulates the quotes and recommends a vendor on the requisition. If the recommendation is not for the lowest quote, a detailed explanation accompanies the requisition to the Finance Department. For the formal bid process, the City Manager and Planning and Zoning Clerk open all the bids, reads the bids, and prepares a bid tabulation and recommendation for City Council. All bids are filed by the City Manager in his office. The winning bid is decided upon and awarded by Council.

The Planning and Zoning Clerk, through approval of the City Manager, sends the company that was awarded the bid a notification and a contract. The bid bonds of the unsuccessful bidders are returned. The City Manager sends the contract to the Law Director for review and then the company is sent a copy of the contract. The Planning and Zoning Clerk notifies the Tax Department of the contract award. The successful bidder returns a signed copy which is then signed by the City Manager. The Finance Director certifies and signs the contract for availability of funds and appropriations. The original copy is filed in the City Manager's office, while copies are distributed to the company that was awarded the contract, the department being serviced, and the Finance Director.

Auditor of State Comments

- The draft procedures manual being prepared by the Finance Director should include the purchasing and competitive bidding processes. These processes should reflect the statutory requirement of Section 5705.41(D), Revised Code for certification of available resources and unencumbered appropriations.

City of Monroe - Butler County

Report on Accounting Methods

Purchasing Process

(Continued)

- Purchase order forms should have the wording “Finance Director’s signature” instead of the Treasurer’s signature required for approval.
- The City should use a three part purchase order form. The original copy should be sent to the originating department. One copy should be sent to the vendor while the Finance Department should retain the other copy of the purchase order.
- The City mainly uses then and now certificates to encumber funds. The issuance of then and now certificates should be done on an exception basis and not as a normal operation. All departments should request the approval to purchase an item or service through the Finance Department before the actual acquisition or obligation of the item or service. If there is a need to issue a then and now certificate, it is required that the City Council approve the purchase within 30 days of the invoice when it exceeds \$3,000 (per Section 5705.41(D), Revised Code).
- Contrary to Sections 9.10 to 9.14, Revised Code, the City uses a rubber stamp on purchase orders. This signature stamp is used by the Finance Director and the City Manager. The purchase orders should be signed electronically or manually by the Finance Director.
- The City does not use the Auditor of State Findings for Recovery Database when entering into contracts. Section 9.24, Revised Code, prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.
- The City does not require new vendors to submit information before a purchase order is completed. The City should not issue purchase orders to a vendor until all appropriate information about the vendor is received, including an IRS Form W-9, and the Finance Director has approved the use of the new vendor.
- The City Council, per Section 5705.41(D), Revised Code, should establish, by resolution or ordinance, the maximum amount for blanket purchase orders to be issued by the City Finance Department. Blanket purchase orders used without the City Council having set a limit are not valid because the City does not have the authority to use blanket purchase orders without the action by City Council.
- The City Council, through discussions with the Finance Department and City Manager, requires any purchase over \$2,500 to be let by formal bid. The bidding requirement under Ohio law is \$25,000 and the City Charter specifically states the City Manager is to follow Ohio law. The City Law Director should determine if Council can set a bid limit contrary to the City Charter and, if so, Council should set the bid amount by ordinance.

City of Monroe - Butler County

Report on Accounting Methods

Cash Disbursements

Description of an Effective Method for Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the City. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips or receiving copy of the purchase order, a comparison of the prices on the invoice to the purchase order, and verification of a the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount and account codes, and should include a copy of the purchase order, invoice and receiving report, or a signed billing slip. A warrant should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data), a properly executed certification by the Finance Director, and verification of adequate cash in the fund to pay the obligation. All warrants should be signed by the Finance Director and recorded in the cash journal and appropriation ledger. Vouchers should be filed numerically or by vendor.

Statutory Requirements

State law places the following requirements on the disbursements of funds:

Warrants - Expenditures may only be made by a proper warrant drawn against an appropriate fund. The warrant must show upon its face the appropriation from which the expenditure is made and the fund it is drawn upon.

Restrictions - Money is drawn from the City treasury only for appropriations enacted by the City Council. Appropriations from each fund may be used only for the purposes of such fund.

No Certification - If no certificate is furnished as required, upon receipt by the City of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order, and at the time of the execution of such certificate, a sufficient sum appropriated for the purpose of such contract, and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the City may authorize the drawing of a warrant in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than three thousand dollars, the fiscal officer may authorize it to be paid without such affirmation of the taxing authority of the subdivision or taxing unit, if such expenditure is otherwise valid.

Administrative Code Requirement

Section 117-2-02(C)(3) of the Ohio Administrative Code states “vouchers may be used as a written order authorizing the drawing of a warrant in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information.”

City of Monroe - Butler County

Report on Accounting Methods

Cash Disbursements

(Continued)

City's Method for Cash Disbursements

Invoices are mailed to the Finance Department or, on occasion, to the receiving department. The City also accepts faxed invoices. Once the receiving department receives the goods and the shipping document from the vendor, the items, quantities and vendor name and address on the shipping document are compared to the copy of the requisition. The shipping document is stamped "okay to pay" with the initials of the person to indicate that it has been reviewed and is in the correct department. The approved shipping document is sent to the Finance Department for payment.

The Finance Department Administrative Assistant compares the invoices and the shipping document to the purchase order items, quantities, vendor name, address, and amounts. The invoice is stamped "City of Monroe, Date Received" by the Administrative Assistant. If there are any discrepancies between the invoices, shipping documents, and purchase orders (e.g., shipping not included, bad estimating, not all items received), the Finance Department will notify the Department Head to investigate. If there is a problem with a purchase (e.g., backorders, items that need to be returned, dissatisfaction with goods or services), the Finance Department is notified and a hold is placed on the payment until the problem is corrected or the backorders are received.

Approved invoices are attached to the following: the purchase order, requisition and quote, and the shipping documents. Vouchers are approved by the Finance Director and entered into the computer system in batches by the Administrative Assistant. After batches are entered into the computer system, the Finance Director determines whether there are sufficient encumbered funds per the purchase orders for the payment of the obligation. The Administrative Assistant then prints the checks. Only one copy of the check with the check stub is printed. The Finance Department compares the checks to the vouchers to verify that the vendor name and address, purchase order number and amount are accurate. The checks are signed by rubber stamp containing the Finance Director's signature. The rubber stamp is located in the Finance Director's office. Checks are mailed to the vendors for payment. All unused checks are stored in a locked room which is only accessible to employees in the Finance Department. Vouchers are filed alphabetically by vendor in a file cabinet in the Finance Department. Check stubs are filed numerically in the Finance Department.

An outstanding purchase order report is generated quarterly and reviewed to determine if any purchase orders need to be closed by the Finance Director.

Manual checks, which are signed by the Finance Director, are used for emergency purposes.

Auditor of State Comments

- The draft procedures manual being prepared by the Finance Director should include the cash disbursements process. This process should include the timely payment of obligations, the approval process, and the segregation of duties.
- The Finance Department allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the Finance Director should request, by resolution, Council approval of an advance from the General Fund. The resolution should identify the anticipated resources from which the advance will be repaid and when the resources are expected to be received.

City of Monroe - Butler County

Report on Accounting Methods

Cash Disbursements

(Continued)

- Quotes obtained for the purpose of completing requisitions were not always filed with the voucher packets. The voucher packets should include quotes, a signed and approved requisition, purchase order, invoice, and shipping documents.
- Contrary to Sections 9.10 to 9.14, Revised Code, the City uses a rubber stamp signature on non-payroll checks. This signature stamp is used by the Finance Director. The checks should be signed electronically or manually by authorized personnel.
- The City does not obtain the Department Head approval for the payment of invoices for services rendered. To verify that the service has been completed or is in progress, the Finance Department should send a copy of the invoice to the appropriate department and have the Department Head sign the invoice for approval of payment for the billed services.

City of Monroe - Butler County

Report on Accounting Methods

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of the payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and Federal and State taxes should also be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain current pay schedules, information of the benefits that the employee has selected, withholding forms and any other information required by Federal and/or State laws. Safeguards should be in place to ensure that the same individual does not hire personnel, authorize pay rates, process payroll, generate and distribute pay checks, and reconcile the bank accounts.

Statutory Requirements

Section 705.13, Revised Code, states that the legislative authority of a municipal corporation shall, by ordinance, fix the salary of its members which shall be paid in equal monthly installments. For each absence from regular meetings of the legislative authority, unless authorized by a two-thirds vote of all members, there shall be deducted a sum equal to two per cent of such annual salary. Absence for ten successive regular meetings shall operate to vacate the seat of a member, unless such absence is authorized by the legislative authority.

Charter Requirements

Article IX, Section 9.08 states that Council shall, by ordinance, establish the procedures and causes for which employees in the classified service of the City may be promoted, demoted, suspended or dismissed from Municipal employment. The Council shall, by ordinance, establish procedures for appeals to the Personnel Board by employees in the classified service of the City from action by the City Manager resulting in their demotion, suspension or dismissal from the City's service. The Personnel Board shall adopt rules for the determination of merit and fitness as the basis for appointment and promotion of employees in the classified service of the City.

Methods Used by the City

All full and part-time employees are compensated bi-weekly. The pay period begins on Sunday and ends on Saturday two weeks later. Council and the Law Director are paid monthly while the volunteer Police Auxiliary are paid \$1.00 annually.

City of Monroe - Butler County

Report on Accounting Methods

Payroll Processing

(Continued)

Bi-weekly pay checks are cut by Tuesday of payroll week but are all dated that Friday of payroll week. Pay checks are distributed to the Fire Department on Wednesday afternoon because of the work schedule and union agreement, and the remaining employees receive their checks Thursday morning. Those employees who have their checks direct deposited into their accounts receive their compensation in their accounts on Friday morning. The monthly employees are paid on the first pay date of each month and receive their checks on Thursday. All employees are paid in accordance with the City's pay ordinance or bargaining contracts. Council determines and approves, within the first permanent appropriation ordinance, the fund to charge the employees compensation. Employees receive an earnings statement with each pay that indicates gross and net pay, withholdings (year-to-date and for the pay period), leave usage during the pay period, and leave balances as of the end of the pay period.

Personnel files are kept in the City Manager's office. Those files contain forms for tax information, direct deposit information, voluntary deductions, wage information, position information, hire date and any other information the City chooses to retain about the employee. The employee record in the City's payroll software also contains the information kept in the City Manager's office. Benefit information such as a retirement withholding form and an insurance application form is kept in the Finance Department. The employee record for pay rate changes is only updated by the Payroll Clerk when a Status/Payroll Change form is completed and signed by the appropriate Department Head and the City Manager. Other changes due to an address change, name change, etc. is offered in written form without a signature of the City Manager to the Payroll Clerk from the employees. For tax deduction changes, the employee is required to fill out a new withholding form.

Non-Bargaining Unit Employees – City Ordinance 2003-40 establishes the rates and ranges of pay for all positions not covered under a union contract. Vacation and sick leave accrual, retirement contributions and benefit packages are established by personnel policy or State law.

The departments covered by the City Ordinance 2003-40 turn in time sheets the Monday following the pay period ending date. Each employee records the number of hours worked each day on the timesheet. Part-time and full-time police department employees, police dispatchers and fire administration show the arrival time, departure time and actual hours worked each day. Personal, vacation, sick, and bereavement leave and holidays are also recorded on the time sheet. The Fire Department Administrative Assistant and the Police Records Clerk submit their appropriate departments' time sheets to the Finance Department after verifying any leave type and hours taken and having the Department Head sign the time sheet. The Tax Commissioner verifies and signs the Tax Clerk's time sheet. The Finance Director approves and signs the Finance Department and Tax Commissioner's time sheet. The City Manager signs the Mayor's Clerk, Public Works Clerk and Director, Economic Development Director, and Utility Billing Clerk's time sheet and the Economic Development Director signs the Zoning Clerk's time sheet. The City Manager and Finance Director only submit time sheets on pay periods in which they take personal, vacation or sick leave to document when leave was taken. A leave form is filled out as well when the Finance Director and City Manager take leave. The Department Heads send the time sheets to the payroll clerk for processing. The Payroll Clerk uses the Request for Leave forms for Administration and the Tax Department to confirm that those hours have been recorded correctly.

Bargaining Unit Employees – The City of Monroe's bargaining unit employees are associated with four negotiated agreements as follows:

City of Monroe - Butler County

Report on Accounting Methods

Payroll Processing

(Continued)

Street and Water Departments – The non-administrative Street and Water Department employees' salaries and benefits are governed by a negotiated agreement between the City of Monroe and the International Brotherhood of Teamsters, Local Union 100. The contract covers the period of July 1, 2003 to June 30, 2006. The contract contains detailed information pertaining to compensation, fringe benefits, absences and leave accruals. The non-administrative street and water employees are eligible to earn overtime compensation.

All water and street union employees prepare a time sheet showing the number of hours worked and for which department those hours were worked (i.e., street, cemetery, water, park or Lemon Township). The time sheet is signed by both the employee and the Department Head. The Department Head has employees' request for leave written on a calendar. The Department Head verifies the approval of leave on the timesheet to the calendar. Arrival and departure times are not recorded on the time sheets. The time sheets are then sent to the Payroll Clerk for processing. The Public Works clerk files all sick leave and bereavement documentation.

Police Patrol Officers – The police patrol officers' salaries and benefits are governed by a negotiated agreement between the City of Monroe and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of June 1, 2005 through May 30, 2008. The contract contains detailed information pertaining to compensation, fringe benefits, absences and leave accruals. The police patrol officers are eligible to earn overtime compensation. All police patrol officers prepare a time sheet showing the number of hours worked. The time sheets and leave forms are signed by both the employee and the Police Chief.

Police Sergeants – The police sergeants' salaries and benefits are governed by a negotiated agreement between the City of Monroe and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of June 1, 2005 through May 30, 2008. The contract contains detailed information pertaining to compensation, fringe benefits, absences and leave accruals. The police sergeants are eligible to earn overtime compensation. All police sergeants prepare a time sheet showing the number of hours worked. The time sheets and leave forms are signed by both the employee and the Police Chief.

Fire Fighters – The fire fighters' salaries and benefits are governed by a negotiated agreement between the City of Monroe and the Monroe Firefighters IAFF Local 3824. The contract covers the period of January 1, 2005 to December 21, 2007. The contract contains detailed information pertaining to compensation, fringe benefits, absences and leave accruals. The fire fighters are eligible to earn overtime compensation. All fire fighters use time clock sheets to clock in and out of work. These forms are signed by the Fire Chief but not the employees. Leave forms are used and signed by both the employee and the Fire Chief.

Elected Officials – City Ordinance 2001-13 establishes the rates and ranges of pay for the Council and Mayor. The Council members are paid \$150 per month. The Vice Mayor is paid \$175 per month. The Mayor is paid \$350 per month.

Law Director – City Ordinance 94-06 establishes the rates and ranges of pay for the Law Director. The Law Director is paid \$1,500 per month.

City of Monroe - Butler County

Report on Accounting Methods

Payroll Processing

(Continued)

Overtime and Compensatory Leave – Employees work overtime in all departments at the discretion of the Department Head. Department heads are paid a salary and are not subject to overtime except for the Tax Commissioner, who is hourly. The overtime rate paid is time and one-half for all hourly employees. Compensatory time is earned in place of paid overtime at straight time for hourly employees in the tax, street and water departments and administration. The compensatory time is written on the time sheet and entered in the payroll software where it is accumulated and shown on the pay stub.

The City's personnel policy manual contains a policy on overtime which includes compensatory time. The policy states that compensatory time must be taken within one-hundred days after the time was earned or the time must be paid out. An employee may accrue a maximum of two hundred forty hours of compensatory time, except those employees working in a public safety activity, emergency response activity, or seasonal activity, who may accrue a maximum of four hundred eighty hours.

Leave – Vacation, personal and sick leave is credited to each employee at the appropriate accrual rates indicated in the negotiated agreement or personnel policy. All departments, except the street and water departments, use a Request for Leave form. The street and water department supervisors receive requests verbally from their employees and write the request on a calendar. The Request for Leave form is filled out before the employee takes any leave time, except sick leave for illness, and is approved by the department heads. The Police and Fire Department employees submit their leave request to their respective department and the departments' Administrative Assistants keep the leave forms on file in their office. Leave usage is posted in the payroll system by the Payroll Clerk based on the information listed on the time sheet. If the employee uses more leave time than the employee has available, the employee is not paid for the hours taken off.

Payroll Deductions – Payroll, tax and retirement forms are distributed to new employees to be completed and returned to the Payroll Department. The Payroll Department enters the employee's personal information and salary information into the computer. The information is also given to the Finance Department, who notifies the appropriate retirement system of each new hire that is required to become a member. The Finance Department also notifies the appropriate health insurance company and gives the Payroll Clerk the amount to be deducted from the employee's pay check. The Finance Department also processes the new hire information on the State Website.

Payroll deductions for OPERS, Ohio Police and Fire Pension System and Medicare are processed through the payroll software. Medicare withholdings are submitted through the automated clearing house system after each pay period, along with the Federal taxes. After the last pay period in each month, a report is run for OPERS and the Ohio Police and Fire Pension System to determine the employer's share for each retirement system. This is compared to a spreadsheet that calculates the employer's share match by entering the employee's share. The OPERS report and payment are due the thirtieth of the following month and the Ohio Police and Fire Pension System report is due the thirtieth of the month following the last month of the quarter.

City of Monroe - Butler County

Report on Accounting Methods

Payroll Processing

(Continued)

Payroll Processing – Time sheets are due to the Payroll Clerk by Monday following the last day of the pay period. The Payroll Clerk verifies that the time has been added correctly and enters the hours worked, leave taken, overtime hours worked and compensatory hours earned or used from the time sheets into the City's payroll software by department. After all employees' information is entered, a time card proof sheet is printed and compared to the time sheets. Once reviewed, the time sheets are given to the City Manager for approval before proceeding further in the payroll system. When the time sheets are approved by the City Manager, the rest of the payroll is completed.

Payroll checks are printed on Tuesday, unless it is a holiday week. Blank payroll checks are removed from a locked cabinet in the Finance Department. The payroll checks are then printed by the payroll system. Once printed, the checks are rubber-stamped with the Finance Director's signature in the presence of the Finance Clerk or the Finance Director. All checks are sealed in envelopes except for the Fire and Police Departments. The Chief of the Fire and Police departments were reviewing their employees' check stubs for leave balances to check the accuracy of the department's leave records. Starting in June of 2005, all payroll checks are being sealed in envelopes. Monthly, the Finance Director submits to all departments a leave record sheet for their department employees.

The Fire Department's Administrative Assistant picks up their department checks on Wednesday afternoon. The Police Department's checks are delivered by the Payroll Clerk to the Administrative Assistant in the Police Department on Thursday morning. The Public Works Director picks up the Street and water department's checks on Thursday morning. The Payroll Clerk distributes the remaining checks on Thursday morning. Employees who have their checks directly deposited into their accounts receive their voucher stub on Thursday, but the funds are not deposited into their accounts until Friday morning. From the payroll checking account, electronic fund transfers are made for direct deposit and for Federal and State taxes and Medicare, which are deducted from the account on Friday. Checks are printed either bi-weekly, monthly, or quarterly for the remaining payroll deductions, such as OPERS, Ohio Police and Fire Pension System, City taxes, health and dental insurance, flexible spending, AFLAC, child support, YMCA dues, Deferred Compensation, union dues and Ohio School District tax and are mailed to the appropriate vendors.

Retirement – When an employee wishes to retire, the City requests them to provide a resignation letter. OPERS or Ohio Police and Fire Pension System are sent notification of the employee's last working day and payroll information. After the employee's last payroll information is entered into the City's payroll software, the outstanding balances for comp, sick, holiday and vacation are checked. The holiday, comp, and vacation balances are paid in full. Sick leave is paid to an employee who has ten or more years of service with the City of Monroe. One-fourth (1/4) of the employee's accrued but unused sick leave up to a maximum of thirty (30) days (or two hundred forty (240) hours) may be paid at the time of retirement.

Auditor of State Comments

- The Street and Water Department should require leave forms to be completed by the employee and approved by the Department Head before leave is taken. The Police Department requires and approves leave forms; however, leave forms are not filed with the Payroll Clerk. Leave forms should be completed by all employees, approved by their Department Head, and should be filed with the payroll records in the Finance Department.

City of Monroe - Butler County

Report on Accounting Methods

Payroll Processing

(Continued)

- Contrary to Sections 9.10 to 9.14, Revised Code, the City uses a rubber-stamp signature on payroll checks. This signature stamp is used by the Payroll Clerk who processes the City's payroll. The payroll checks should be signed electronically or manually by authorized personnel.
- The City uses payroll change notice forms to authorize a change in the employee rate of pay. The City should also implement payroll change notice forms for other employee master file changes, such as a name or dependent change. Once changes are made to the system, the Finance Director or the City Manager should verify and approve the changes.
- The only department within the City that does not require employee signatures on timesheets is the Fire Department. The Fire Department should require timesheets to be signed by employees as well as the Fire Chief.
- City Council approved all employees except water and sewer to be paid out of the General Fund in 2005 per the appropriations. In 2006, the City is expected to charge the appropriate funds for employee hours worked. For administrative employees that perform duties for other departments, Council should provide and approve a sound basis for allocating the amount of their wages that will be paid out of funds other than the General Fund. If a non-administrative employee works hours for different departments within the City, the employee should note the hours worked for each department on their time sheet and have Department Head(s) approvals for these hours.
- Pay checks that are not direct deposits are being distributed before the date printed on the checks even though the checks are dated that day. None of the union agreements with the City denote an early pay check date for any department. The City should distribute all checks on designated pay dates or require direct deposit for all employees.

City of Monroe - Butler County

Report on Accounting Methods

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before any debt is issued, a resolution authorizing the issuance of debt should be passed by Council. The statute authorizing the issuance should be identified in the resolution as well as the purpose of the debt, the principal amount, the maturity, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of the Council and the Finance Director. Debt proceeds should be receipted into a separate fund and used only for the purpose specified in the authorizing resolution. Money to be used for debt payment may be receipted in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. Specific statutes relating to cities are found in Chapter 7. The statutory requirements vary depending on the nature of the debt being issued.

Charter Requirements

Article VI, Section 6.04 (E) of the City Charter states that the City Manger signs all bonds and notes on behalf of the City, provided proper Council approval is given.

Article VIII, Section 8.05 of the City Charter states that the Finance Director countersigns all bonds and notes issued of the City.

Article X, Section 10.01 of the City Charter states that the laws of the State of Ohio relating generally to budgets, appropriations, debts, bonds, assessments, deposit and investment of funds and other fiscal matters of the City shall be applicable.

Article X, Section 10.03 of the City Charter states that the City cannot incur debt in excess of limitations imposed by the Constitution and laws of the State of Ohio.

City's Debt Administration Process

The City monitors debt payments by separate funds and line items in the accounting records and by appropriating by line item for principal and interest payments. The Finance Director also has a computerized tickler file which contains information for all outstanding City debt.

The City's outstanding long-term obligations are as follows:

City of Monroe - Butler County

Report on Accounting Methods

Debt Administration

(Continued)

Debt Issue	Interest Rate	Principal Outstanding December 31, 2005	Pledged Revenues
General Obligation Bonds (Unvoted)			
2003 Various Purpose Bonds	2.00-5.25%	\$7,160,000	Property Taxes
Special Assessment Bonds			
1988 Garver Road	7.75%	60,000	Special Assessments
1991 Waterline Extension	6.90%	240,000	Special Assessments
1993 American Way	5.50%	73,000	Special Assessments
1998 Waterline Extension II	5.05%	105,000	Special Assessments
2002 Limited Edition	4.75%	650,000	Special Assessments
Total Special Assessments		<u>1,128,000</u>	
Enterprise Funds Bond Anticipation Notes			
2006 Various Purupsoe Sanitary Sewer Systm Bonds	4.25%	300,000	Water and Sewer Charges for Services
2006 Various Purpose water Treatment Plant Bonds	4.25%	4,345,000	Water and Sewer Charges for Services
2006 Water System Improvement Bonds	3.56%	3,580,000	Water and Sewer Charges for Services
Total Bond Anticipation Notes		<u>8,225,000</u>	
Total Debt		<u><u>\$16,513,000</u></u>	

The funds for payment of principal and interest of the general obligation bonds, special assessment bonds, and bond anticipation notes are accounted for and paid from the debt service funds. The loan payable is paid from the water and sewer funds.

The City has a \$2,000,000 adjustable rate tax increment funding bond that is to be used for the Corridor 75 Project. The interest to be paid on this bond is the responsibility of the developer while the principal is the responsibility of the City after the project is completed.

Auditor of State Comments

- When the City issues notes, the Finance Director should certify the authorizing legislation to the County Auditor and request an amended certificate of estimated resources, if necessary.

City of Monroe - Butler County

Report on Accounting Methods

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

Capital assets of the City should be adequately safeguarded against loss or theft. The City should have a policy that defines capital assets, establishes capitalization thresholds, useful lives, method of depreciation, methods to be used in tracking capital assets, how to assign assets to programs and the recording of depreciation. An inventory should be maintained including a description of each item, its cost, serial and/or model numbers, date of purchase, fund purchased from, program used in, asset type, tag number, location, useful life, salvage value, the annual depreciation, and the accumulated depreciation. The inventory should be updated throughout the year for purchases and disposals. Verification of the listed assets should be performed periodically. The disposal of an asset should be properly authorized and reported to the Finance Director so that any proceeds from the disposal can be properly recorded, the asset can be removed from the capital assets listing, and insurance coverage can be discontinued.

A physical inventory of materials and supplies should be performed annually to determine the value to be reported in the financial statements. The annual physical inventory should be adequately planned and supervised.

Administrative Code Requirements - Section 117-2-02(D)(4)(c) of the Ohio Administrative Code, requires that all local public offices maintain fixed assets records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

City's Method of Accounting for Capital Assets

The City has no formal capital assets software or a written policy. The City contracted with American Appraisal Associates, Inc (AAA) in 2000 to conduct a physical inventory of all capital assets, except infrastructure. This appraisal has been updated yearly for additions and deletions by the City's contracted firm that performs their GAAP conversion.

On January 13, 2005, AAA was contracted again by the City to conduct a physical inventory of all capital assets, except infrastructure. The intent of the City is to maintain capital assets within the Finance Department. The City has no software to maintain the capital assets.

Tag numbers are assigned to capital assets by the Finance Department. Land and infrastructure do not have tag numbers. The City reused tag numbers from deleted assets for new capital assets.

The City has no formal procedures to have all departments perform a physical inventory of supplies.

Donated Assets

Donated assets are included in the additions report and are recorded at market value at the time it is donated unless the City determines otherwise.

City of Monroe - Butler County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

Infrastructure

The City is responsible for accounting for infrastructure. There is no policy currently in place for accounting for infrastructure.

The City Engineer, who is also the City Manager, with coordination of an independent consultant, gathers and prepares data pertaining to infrastructure. The City Engineer also works with the County Engineer and the Director of Public Works in analyzing infrastructure.

A Street Inventory Report is maintained in the City Engineer's Office. The Street Inventory Report was prepared and provided by CDS Associates, Inc. This Street Inventory Report lists each street in the City and describes in detail the following information:

- Street name
- Current condition rating
- Segment from / to
- Segment length / width
- Date inventoried
- Date built
- Traffic analysis (lite, moderate, heavy, bus route)
- Pavement type (concrete, asphalt)
- Number of travel and parking lanes
- Description of curbs, sidewalks, shoulders, and drainage
- Maintenance notes

Depreciation

Depreciation is calculated by using the straight-line method (original cost less salvage value / useful life = annual depreciation). The City's capital assets policy allows for one-half year's depreciation in the year of acquisition and one-half year of depreciation in the year of expiration. Useful lives are determined by the City Finance Department.

Depreciation is calculated using the following useful lives:

<u>Capital Asset</u>	<u>Years</u>
Land Improvements	20
Infrastructure	20
Buildings	40
Vehicles, Furniture and Equipment	8-20

Depreciation reports display a summary and a detail of the items that are depreciated. These reports contain items that are included on the additions and deletions report.

City of Monroe - Butler County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

Auditor of State Comments

- The draft procedures manual being prepared by the Finance Director should include capital assets and inventory. These processes should include documentation of the asset and how accountability should be maintained.
- The responsibilities of each of the City and American Appraisal Associates, Inc (AAA) are not clearly defined pertaining to the inventory of the City's capital assets. The contract between the City and American Appraisal Associates should outline and detail the responsibilities of the City and American Appraisal Associates.
- When new assets are purchased or donated to the City, the City should assign a new tag number to the asset.
- The City does not maintain capital assets or inventory records. The City has obtained a reappraisal of capital assets in both 2000 and 2005 due to the lack of maintaining records. The City should acquire software and maintain accountability over its capital assets, which would reduce the need and cost for repeated reappraisals.

City of Monroe - Butler County

Report on Accounting Methods

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by the City should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Reconciliations should be completed for all accounts on a monthly basis. The books should be closed at the end of the last business day of the month and processing of transactions for the new month should commence the following business day. The reconciliations should be completed immediately upon receipt of the bank statement. Reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items such as unrecorded deposits and bank charges should be posted upon completion of the bank reconciliation.

Statutory Requirements

Interim cash should be invested according to Section 135.14 of the Ohio Revised Code. The deposits of public money should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes. Cash management and investment activities of a City are additionally governed by Sections 135.01 to 135.22 of the Ohio Revised Code.

Section 135.14(O)(1), Revised Code, state, "Except as otherwise provided in divisions (O)(2) and (3) of this section, no Finance Director or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the Finance Director or governing board. The policy shall require that all entities conducting investment business with the Finance Director or governing board shall sign the investment policy of that subdivision."

Section 135.14(O)(2), Revised Code, states, "if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Finance Director or governing board of that subdivision shall invest the subdivision's interim monies only in interim deposits pursuant to division (B)(3) of this section, no-loan money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section."

Section 135.14 (O)(3), Revised Code, states, "Divisions (O)(1) and (2) of this section do not apply to a Finance Director or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the Finance Director or governing board certifies, on a form prescribed by the Auditor of State, that the Finance Director or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code."

Section 135.22, Revised Code, requires the Finance Director to attend annual training programs of continuing education for Finance Directors provided by the Treasurer of State.

City of Monroe - Butler County

Report on Accounting Methods

Cash Management and Investing

(Continued)

Under Section 1823(e) of FIRREA, a security agreement, including a pledge of collateral for a deposit, is not valid against the FDIC unless it satisfies following requirements:

1. It must be in writing.
2. It must be executed by the Financial Institution and the depositor.
3. It must be approved by the institution’s board of directors or loan committee, and that approval must be reflected in the minutes of the board or committee.
4. It must be an official record of the depository institution since it was executed.

If these requirements are not fulfilled, the FDIC may be able to void a perfected security interest and leave the City with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution.

Charter Requirements

Article X, Section 10.01 states the laws of the State of Ohio relating generally to budgets, appropriations, debts, bonds, assessments, deposit and investment of funds and other fiscal matters of the Municipality shall be applicable.

Method of Cash Management and Investing

The Finance Director sends letters to area financial institutions stating that if their financial institution is interested in making application to be a designated depository for the City to submit their written application to the City for review. Each financial institution is required by the City to include a Consolidated Statement of Condition with the application. Applications and financials are reviewed by the Finance Director and Finance Committee. With recommendation from the Finance Director, the Council approves the best financial institution and the City enters into a depository agreement with the institution.

The City’s treasury activities are the responsibility of the Finance Director. These activities include the acquisition and sale of investments and the transfer of cash assets among the various bank accounts. The City’s banks accounts and investments are as follows:

<u>Bank</u>	<u>Description</u>
<i>First Financial</i>	
General Account	This account is used to pay obligations of the City.
Payroll Account	This account is used for payment of payroll and employee deductions and withholdings.
Sprint Account	This account is used for payment of Sprint antenna maintenance on the City’s water tower on behalf of Sprint.

City of Monroe - Butler County

Report on Accounting Methods

Cash Management and Investing

(Continued)

Flexible Spending Account	This account is used for reimbursements to employees that participate in the flexible spending health and/or child care programs.
Bond and Coupon Account	This account is used for automatic withdrawal for special assessment principal and interest.
Certificates of Deposit (CDs)	The City has three CDs with First Financial for the Cemetery Trust Fund.

Bank One

High Balance Savings	This account is an investment account.
Savings Account	This account is for donations and charges for copies of EMS reports made by the Fire Department.
Checking Account	This is for EMS run billing deposits for the Fire Department.
Certificates of Deposit	The City has two CDs for cemetery trust revenue.

Fifth Third

Certificate of Deposit	This CD is for the Longstreet cemetery trust revenue.
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STAR Ohio

Investment	An investment account operated by the Treasurer of State.
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The First Financial Bank serves as the primary depository, which receives all wire transfers and deposits of the City except for EMS deposits. Transfers are automatically made from this account to the payroll accounts daily as needed for check clearing. Checks are written against this account for the obligations incurred by the City. Deposits are made daily for utility payments, miscellaneous income and income tax deposits, including lock box deposits.

The City receives all cancelled checks from First Financial Bank on a monthly basis for the accounts payable and payroll account. The First Financial Bank accounts can be accessed through the internet. The Finance Clerk reviews the account weekly through the internet to determine when deposits and checks have cleared for the monthly reconciliation. The Finance Clerk compiles information for the monthly bank reconciliation for all accounts. An independent consultant for the City prepares the reconciliation. Upon completion of the reconciliation, the Council Finance Committee reviews all information.

City of Monroe - Butler County

Report on Accounting Methods

Cash Management and Investing

(Continued)

The Finance Clerk reviews the account coding and verifies the receipt postings to the ledger as well as the deposit to the bank as part of the monthly reconciliation process. Any discrepancies found during the review are noted and adjustments are made accordingly. Interest is posted the month in which it is received.

Voided accounts payable checks and payroll checks have “void” stamped on them and the signature on the check is removed. The Administrative Assistant numerically files the voided checks in the Finance Department. All accounts payable and payroll checks are kept in a locked closet in the Finance Department.

Auditor of State Comments

- The draft procedures manual being prepared by the Finance Director should include cash management and investing.
- The use of a consultant to perform the monthly reconciliation should be terminated and the Finance Director should be completing the monthly reconciliation. Also, the reconciliation should be completed in the following month and presented to Council with the monthly finance reports.
- The prior month’s ending fund balances on the cash position report are not rolling forward to the beginning fund balances on the next month’s cash position report. The Finance Director should review this issue with its software vendor and correct the problem.
- Miscellaneous adjustments on reconciliations need to be documented and posted upon the completion of the reconciliation.
- The City Finance Director should review all bank accounts in the name of the City and consider the efficiency and savings from consolidating the bank accounts.

City of Monroe - Butler County

Report on Accounting Methods

Financial Reporting

Description of Effective Method of Financial Reporting

The fiscal officer should periodically provide Council with the year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the City. In addition, information concerning the estimated and actual receipts, appropriations and disbursements plus encumbrances should be presented for Council's review. On an annual basis, the fiscal officer should prepare and publish, within 150 days of the year-end, financial statements prepared in accordance with generally accepted accounting principals (GAAP). The financial statement should be filed with the Auditor of State's Office as well.

The City Council should produce a long-term capital plan as well as a five-year operating plan or forecast. A long-term capital plan should be completed or updated every year and the first five years should be included in the five-year operating of plan of the City. This plan should include scheduled replacement of equipment, vehicles, and other assets of the City. The five-year operating plan should be completed each year for revenues and expenditures of those funds presented and should be based on the conditions management expects to exist and the other course of actions it expects to take.

Statutory Requirements:

Section 117.38, Revised Code, requires an annual financial report be filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year for reports prepared in accordance with general accepted accounting principles (GAAP). At the time the report is filed with the Auditor of State, the fiscal officer must publish in the newspaper a notice of the completion of the report and the fact that the report is available at the office of the fiscal officer.

Administrative Code Requirements:

Cities are required by Section 117-2-03(B), Administrative Code, to prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP).

Methods Used by the City

The City prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The City was granted a 60-day extension for submitting a copy of its Comprehensive Annual Financial Report (CAFR) to the Office of the Auditor of State for the year ended December 31, 2004. Citizens are notified when the CAFR is available at Council meetings.

The City contracts with an independent consultant to compile an annual financial statements as well as the cash reconciliation.

The Finance Department has the ability to create the following reports:

- Cash Reconciliation
- Fund Report
- Income Tax Collections

City of Monroe - Butler County

Report on Accounting Methods

Financial Reporting

(Continued)

Cash Reconciliation – This report provides the reconciled bank account balances and investments that equal the City’s fund balances.

Fund Report – This report provides the beginning cash balances, receipts, expenditures, ending cash balances, encumbrances, and unencumbered balance for each fund.

Income Tax Collections – This report provides month-to-date and year-to-date income tax collections for the current and prior year.

The City Manager has the ability to create the following reports:

Departmental Report – This report provides budget and actual information at the fund and department level for all funds. Information included is the appropriations, month-to-date expenditures, year-to-date expenditures, unexpended appropriations, encumbrances, the available appropriation balance, and the unencumbered balance compared to the appropriations, expressed as a percent.

Revenue Report – This provides information about all sources of revenue for all funds. Information included is the estimated receipts, month-to-date and year-to-date receipts, amount of uncollected estimated revenue and the percentage of uncollected estimated revenue.

Auditor of State Comments

- The draft procedures manual that includes financial reporting should be completed and approved by the Finance Director.
- Council should identify the monthly reports that they wish to review. The Cash Reconciliation and the Departmental Report should not be the only two reports being presented to Council. The Fund Report, Income Tax Collections Report, Detailed Expenditure Report, and Revenue Report should also be presented to Council monthly.
- The reports reviewed by Council should be acknowledged in the minutes.

City of Monroe - Butler County

Report on Accounting Methods

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The City Councils' minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale behind Council's decisions. An ordinance, resolution, or by-law should be limited to one subject, which should be clearly expressed in its title. In the adoption or passage of an ordinance, resolution, or by-law, the yeas and nays should be entered into the minutes and the ordinance, resolution, or by-law, should be signed by the presiding officer and the Clerk of Council. All Council minutes, ordinances, and resolutions should be maintained as a permanent record of the City.

Charter Requirements

Article IV, Section 4.09 of the City Charter provides that Council shall keep a Journal of all of its proceedings. The Journal shall be open for public inspection during the Municipal Building's regular office hours.

Article IV, Section 4.10 of the City Charter provides that the Clerk of Council shall give notice of the Council meetings, keep the Journal, advertise public hearings, record in separate books all ordinances and resolutions enacted by Council and have the same published in the manner provided by the Charter. In the absence of the Clerk of Council, Council shall appoint a temporary clerk for the purpose of recording minutes of the meeting.

Article VI, Section 6.04 (H) of the City Charter requires that the City Manager make reports available to Council that Council may require concerning the operations of Municipal departments, offices and agencies subject to his discretion and supervision.

Article VII of the City Charter provides that action of Council shall be by ordinance, resolution, or motion. Each ordinance shall contain an enacting clause as follows: "Be it Ordained by the Council of the City of Monroe, State of Ohio:" and each resolution shall contain an enacting clause as follows: "Be it Resolved by the Council of the City of Monroe, State of Ohio". Each ordinance or resolution shall be read fully and distinctly on two separate days. The Council may, by a vote of five members elected or appointed thereto, dispense with the requirement that an ordinance or resolution be read on two separate days, and authorize the adoption of an ordinance or resolution upon its first reading, and authorize such reading or readings to be by title only. The vote on question of passage of each ordinance, resolution and motion shall be taken by yeas and nays and entered on the Journal, and no ordinance, resolution or motion relative to passage of ordinances, resolutions and motions shall be passed without concurrence of at least four members of the Council, except that each emergency ordinance or resolution shall require the affirmative vote of at least five members of the Council for its enactment; provided, however, that if such emergency ordinance or resolution shall fail to receive the required five affirmative votes, but receives the necessary majority for passage as a non-emergency ordinance or resolution, it shall be considered passed as a non-emergency ordinance or resolution and shall become effective as hereinafter provided by this Charter. Each emergency ordinance or resolution shall determine that said ordinance or resolution is necessary for the immediate preservation of the public peace, health, safety or welfare, and shall contain a statement of the necessity for such emergency.

City of Monroe - Butler County

Report on Accounting Methods

Recording Official Proceedings

(Continued)

No ordinance or resolution shall go into effect until thirty days following its passage with the following exceptions: a) any emergency ordinance or resolution shall take effect, unless a later time be specified therein, immediately upon its passage; b) any ordinance or resolution providing for the following shall take effect, unless a later time be specified therein, immediately upon its passage (appropriation of money, annual tax levy for current expenses, improvements petitioned for by the owners of the requisite majority of the front footage or of the area of the property benefited and to be especially assessed therefore, submission of any question to the electorate or the determination to proceed with an election, and providing for the approval of a revision, codification, recodification or rearrangement of ordinances and resolutions, or publication thereof in book form; and c) motions, except as otherwise provided by Council, shall take effect immediately upon passage. Each ordinance or resolution shall be authenticated by the signature of the Mayor and the Clerk of Council; however, the failure or refusal of such officers to sign such ordinances or resolutions shall not invalidate an otherwise properly enacted ordinance or resolution.

The Clerk of Council shall cause each ordinance and resolution adopted to be published in one of the following manners to be determined by ordinance: a) by posting a copy of the ordinance or resolution in one or more public places in the City as determined by the Council by ordinance, for a period of fifteen days; b) by publishing the title of the ordinance or resolution once in a newspaper, circular or other publication determined by Council to be of circulation within the City; or c) by publishing a concise summary of the provisions of the ordinance or resolution once in a newspaper, circular or other publication determined by Council to be of circulation within the City. Failure to post or publish ordinances or resolutions as required, or an omission, delay or error in such posting or publication, or failure to maintain posting of an adopted ordinance or resolution for the required period of time shall not invalidate any ordinance or resolution, nor shall such failure give rise to a defense to any action or prosecution brought under any ordinance or resolution.

Auditor of State Comments

None.

City of Monroe - Butler County

Report on Accounting Methods

Conclusion

The methods described and included in this report are based on our inquiries and discussions with City personnel and the related procedures documented from the City's Policy and Procedures manuals, resolutions, administrative rules, and the Ohio Revised Code. These methods in some cases vary from the actual methods used in performing the daily activities.

It is our opinion that the current methods of accounting and financial reporting of the City of Monroe are not completely in compliance with Chapter 117 of the Ohio Revised Code, and the requirements of the Auditor of State, as disclosed throughout this report.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF MONROE

BUTLER COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 23, 2006**