



**CHILlicothe**  
OHIO'S FIRST CAPITAL

JACK A. EVERSON  
MAYOR

December 20, 2012

Dave Thompson  
Chief Project Manager  
Local Government Services Division  
88 East Broad Street  
Columbus, Ohio 43215

**RECEIVED**  
DEC 20 2013  
DAVE YOST  
AUDITOR OF STATE

Dear Dave,

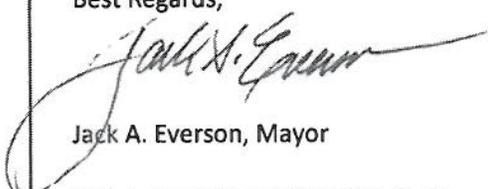
Enclosed is my official response to the Audit you filed on September 25, 2012 placing the City of Chillicothe on fiscal caution. There were three reasons the city was placed on fiscal caution, two of which involved bank reconciliation statements from the Treasurer's office not filed within compliant guidelines for 2011 & 2012, and the other was for unfunded Fire and Police pension payments not being posted prior to the end of the year in 2011.

Attached are the responses and action plans for these issues from the department managers responsible. It is my intent to follow up on these issues on a monthly basis regarding the Treasurer's activities. As we discussed on the phone last week, the current Treasurer, Dave Neal, has announced his plans to apply for Disability Retirement before December 31, 2012. I must confess that I am not confident that the books will be brought up to date within the holiday-shortened week. We will continue to work with Dave to get the statements reconciled and if necessary with the new Treasurer. I am prepared to temporarily fill the position if there is any delay on a party directed appointment by the Ross County Democratic Party.

As for the pension funding, we have structured the carryover beginning in 2014 to fund the end of the 2013 calendar year Police and Fire Pensions at the front end of the year to eliminate the causes for this to happen again. The necessary funds will be appropriated to that account well in advance of year-end to insure they are there when they are needed to fulfill this requirement.

I will be contacting you after the holidays to arrange a meeting to discuss the five-year budget planning. If you have any questions regarding any of the attached, please give me a call.

Best Regards,

  
Jack A. Everson, Mayor

[jack.everson@ci.chillicothe.oh.us](mailto:jack.everson@ci.chillicothe.oh.us)



**CHILLICOTHE**  
OHIO'S FIRST CAPITAL

**DAVID A. NEAL**

*Chillicothe City Treasurer*

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CITY OF CHILLICOTHE, OHIO 45601 ★ CITY BUILDING, 35 SOUTH PAINT ST ★ PHONE: (740) 773-8171 ★ FAX (740) 773-8004

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December 19, 2012

Mayor Jack Everson  
35 S. Paint St.  
Chillicothe, OH 45601

RE: Response to Fiscal Caution Declaration

Mayor,

This is my response to conditions #1 and #3 described in the "Declaration of Fiscal Caution" dated October 23, 2012. You are welcome to use any or all of my response in the City's official response to the State Auditor, which is due December 23, 2012.

The City Treasurer's office will prepare complete and timely monthly bank reconciliations for all City of Chillicothe bank accounts. In order to accomplish this, the following steps have or will be implemented;

1. The first step to accomplish this involved going back to the old method of data entry. Late in 2010 my office began entering data by grouping several transactions into one data entry item. This appeared to work at first but after a few months it became too difficult to determine which checks cleared the bank and which checks were still outstanding. Without a complete and accurate accounting of outstanding checks a true reconciliation was not possible.

2. A complete bank reconciliation was prepared for December 31, 2011. This included an accurate accounting of outstanding checks. This provided an accurate accounting to begin 2012.

3. Complete and accurate reconciliations for all City bank accounts will be prepared for every month. We will work with the Auditor's office to ensure that both the City Treasurer and Auditor are in agreement and reporting accurate balances.

4. I personally will review these reconciliations. To ensure their accuracy I will review source documents including; bank statements, listing of outstanding checks, schedule of any adjustments, schedule of investments and report of fund balances prepared by the auditor's office.

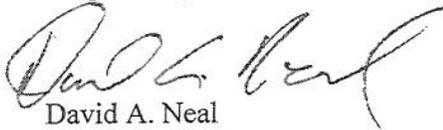
5. As of this date reconciliations have been prepared through August, 2012. Even though we are still two months behind I'm confident that we will be able to reconcile the year end and balance with the City Auditor's office in a timely manner.

6. Monthly reconciliation reports have and will continue to be sent to all City office holders and local media.

7. The software we currently use is very old and lacks many features of newer software. A conversion to a new software program is being planned for 2013.

I regret the weaknesses in my office that was in part responsible for this "Declaration of Fiscal Caution" and believe the steps listed above will correct these weaknesses. I will stay involved in the daily operations of my office to ensure work is correct, complete and timely. In addition I will continue to work closely with the Auditor's office to ensure we stay current and that accounts and funds of both offices are correct and in balance.

Respectfully,

A handwritten signature in black ink, appearing to read "David A. Neal". The signature is fluid and cursive, with a large initial "D" and "N".

David A. Neal  
Chillicothe City Treasurer

October 30, 2012

Mayor Jack Everson  
35 S. Paint Street  
Chillicothe, Ohio 45601

Re: Response to Fiscal Caution Declaration

Mayor,

I am submitting to you the following response to condition #2 identified in the "Declaration of Fiscal Caution." Feel free to use any portion of this in the City's official response, which is due to the Auditor of State on December 23, 2012.

The deficit fund balances that existed in the Police Pension and Fire Pension Special Revenue Funds at December 31, 2011 were due to differences in accounting principles between the City's budgetary basis of accounting and its reporting basis (GAAP). Under GAAP, the City's fourth quarter invoice from the Ohio Police & Fire Pension Fund (OP&F), which is due and payable on March 31, is counted as an accrued liability at December 31. However, the City prepares its budget and operates on a cash basis, whereby transfers are made from the General Fund to pay the invoice at the time the bill is paid rather than at the time the liability accrues. Since the City had not yet made any transfers to pay the fourth quarter invoice at December 31, a deficit fund balance existed in those two funds on a GAAP basis.

In reviewing the City's CAFR from prior years, I have found that the last time a deficit fund balance did *not* exist at year-end in the Police Pension and Fire Pension Special Revenue Funds was in 2003. This has never been an audit issue in any of our past audits, and I do not feel that it was a significant problem in 2011 because the ending General Fund balance was sufficient to cover the cost of the fourth quarter invoice. The money had simply not been transferred yet at the end of the fiscal year, which is an issue of timing.

Nevertheless, I fully acknowledge that the City's General Fund balance has diminished over time and that steps need to be taken to increase the balance now in order to prevent further problems in the future. One significant step has already been taken. On October 22, 2012, City Council passed an ordinance raising the garbage collection fee for City residents from \$10 to \$15, which will generate an estimated \$500,000 in additional revenue per year for the General Fund.

In addition to this action, the Mayor has submitted a budget plan to Council which would increase the General Fund balance by as much as \$2 million dollars over the next year. His plan includes proposals to increase revenue, such as raising building permit fees and switching to a "hard billing" approach for EMS services. It also includes proposals to decrease expenditures, such as negotiating a lower

commission with the City's health insurance broker and eliminating various positions in the City through attrition. Although it will take a fair amount of time for these proposals to be approved by Council and put into effect, I would expect the City to be in a positive cash flow within six months after such time.

In the future, the City will be mindful of avoiding deficits on a GAAP basis. In this particular instance, doing so would have required making large transfers from the General Fund at year-end, which can only be done if the General Fund has a sizable surplus and can make the requisite transfers without incurring a deficit of its own. While that was the case at December 31, 2011, it will not be possible to make such large transfers in 2012 without compromising the General Fund balance. Fortunately, this issue will be moot after 2012 because OP&F has announced that it will be transitioning from quarterly billing to monthly billing in 2013.

I appreciate the concerns of the Auditor of State and will continue to do everything I can to work with the Mayor and other City officials in getting the issues that have been identified corrected and resolved.

Sincerely,

Tom Spetnagel Jr.  
Chillicothe City Auditor