



Mary Taylor, CPA  
Auditor of State



**MONROE WATER SYSTEMS  
MONROE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Cover Letter .....	1
Independent Accountants' Report.....	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balance - For the Years Ended December 31, 2007 and 2006 .....	5
Notes to the Financial Statement.....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	13
Schedule of Findings.....	15
Schedule of Prior Audit Findings .....	19

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Mary Taylor, CPA  
Auditor of State

Monroe Water Systems  
Monroe County  
P. O. Box 15  
43022 Six Points Road  
Laings, Ohio 43752

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statement due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statement in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statement presents are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statement you prepared using the cash basis and financial statement format the AOS permits.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

July 28, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Monroe Water Systems  
Monroe County  
P. O. Box 15  
43022 Six Points Road  
Laings, Ohio 43752

To the Board of Trustees

We have audited the accompanying financial statement of the Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2007 and 2006. This financial statement is the responsibility of the Water Systems' management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Water Systems prepared its financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

While the Water Systems does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require water systems to reformat their statements. The Water Systems has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statement referred to above for the years ended December 31, 2007 and 2006 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water Systems as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of Monroe Water Systems, Monroe County, Ohio, as of December 31, 2007 and 2006, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Water Systems has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2008, on our consideration of the Water Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

July 28, 2008



**MONROE WATER SYSTEMS  
MONROE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$1,010,134	\$920,749
Penalties and Fees	66,960	17,051
Interest	16,995	3,371
Miscellaneous	6,602	9,577
Total Operating Cash Receipts	1,100,691	950,748
<b>Operating Cash Disbursements:</b>		
Personal Services	259,593	255,450
Utilities	76,298	76,869
Repairs and Maintenance	7,047	8,451
Testing and Licenses	8,395	5,415
Other Contractual Services	5,291	13,389
Chemicals and Operating Supplies	80,730	77,452
Office Supplies and Materials	17,162	14,413
Insurance	41,590	51,773
Capital Outlay	202,042	1,145,670
Miscellaneous	904	1,336
Total Operating Cash Disbursements	699,052	1,650,218
Operating Income/(Loss)	401,639	(699,470)
<b>Non-Operating Cash Receipts:</b>		
Intergovernmental Revenues	116,949	276,311
Proceeds from Sale of Public Debt:		
OWDA Loan Proceeds		1,494,054
Other Non-Operating Receipts	4,358	
Total Non-Operating Cash Receipts	121,307	1,770,365
<b>Non-Operating Cash Disbursements:</b>		
Debt Service	378,176	282,831
Other Non-Operating Disbursements		2,632
Total Non-Operating Cash Disbursements	378,176	285,463
Net Receipts Over Disbursements	144,770	785,432
Cash Balance, January 1	1,142,002	356,570
<b>Cash Balance, December 31</b>	<b>\$1,286,772</b>	<b>\$1,142,002</b>

*The notes to the financial statement are an integral part of this statement.*

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**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007 AND 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges for the Monroe Water Systems, Monroe County (the Water Systems), as a body corporate and politic. The Water Systems was established as a separate political subdivision of the State of Ohio under provisions of Chapter 6119 of the Ohio Revised Code. The Water Systems is directed by a seven-member Board of Trustees and an appointed Business Manager. The Board members are appointed by the Monroe County Common Pleas Court Judge. The Water Systems provides water services to residents of various locations within Monroe County.

The Water Systems participates in the Public Entities Pool of Ohio (PEP), a public entity risk pool. Note 6 to the financial statement provides additional information for this entity.

The Water Systems' management believes this financial statement presents all activities for which the Water Systems is financially accountable.

**B. Accounting Basis**

This financial statement follows the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Water Systems recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash**

The Water Systems values certificates of deposit at cost.

**D. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the Water Systems to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are cancelled, and re-appropriated in the subsequent year. The Water Systems did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

**E. Property, Plant, and Equipment**

The Water Systems records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

**F. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statement does not include a liability for unpaid leave.

**2. CASH**

The Water Systems may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

The carrying amount of cash at December 31 was as follows:

	2007	2006
Demand deposits	\$786,772	\$1,142,002
Certificates of deposit	500,000	
Total deposits	\$1,286,772	\$1,142,002

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Water Systems.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2007 and 2006, follows:

2007 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,279,000	\$1,221,998	(\$57,002)

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2007 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,279,000	\$1,077,228	\$201,772

2006 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,936,000	\$2,721,113	\$785,113

2006 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,936,000	\$1,935,681	\$319

Contrary to Ohio law, budgetary expenditures exceeded appropriations within various functions for the years ended December 31, 2007 and 2006.

**4. DEBT**

Debt outstanding at December 31, 2007, was as follows:

	Principal	Interest Rate
Water Resource Revenue Bonds	\$51,125	7.25%
Ohio Public Works Commission Loan	6,324	0.00%
Ohio Water Development Authority Loans	4,055,521	1.50 - 7.89%
Total	\$4,112,970	

There were seven outstanding loans with the Ohio Water Development Authority (OWDA) for water line construction, which were long term, issued up to thirty years. The loans are collateralized by water revenue. The Water Systems has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The outstanding OWDA loans total above also includes OWDA Loan 4501, which was issued for 30 years at 1.50% for \$2,000,000. As of December 31, 2007, \$1,494,054 of these proceeds has been received by the Water Systems. The final amount of the loan is subject to change based on the close-out of the project and the actual amounts utilized by the Water Systems. The amount of total OWDA loans amortized below includes the full amount of Loan 4501 as approved by the OWDA.

The Water Systems issued water resource revenue bonds to finance the expansion of its water lines. The bonds were issued October 9, 1992 for \$204,500 and have maturities through December 1, 2012. These bonds are collateralized by the future revenues from the Water Systems' water operations.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**4. DEBT (Continued)**

The Ohio Public Works Commission (OPWC) loan is a twenty year loan obtained for the purpose of constructing a water well. Revenue of the Water Systems has been pledged to repay this loan.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loans	Water Resource Revenue Bonds	OPWC Loan
2008	\$350,318	\$13,931	\$973
2009	350,788	13,190	973
2010	351,295	12,449	973
2011	351,840	11,708	973
2012	352,429	10,966	973
2013-2017	1,469,877		1,459
2018-2022	527,973		
2023-2027	415,167		
2028-2032	415,167		
2033-2037	332,134		
Total	<u>\$4,916,988</u>	<u>\$62,244</u>	<u>\$6,324</u>

The Water Systems has utilized trustees to service the water resource revenue bonds for water line construction. Payments to trustees are recorded as expenditures in the year deposited with the trustee. The Water Systems annually submits the amount of principal and interest due to the trustee bank. There are no investment services provided by the trustee.

**5. RETIREMENT SYSTEM**

The Water Systems' full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5% and 9.0%, respectively, of their gross salaries and the Water Systems contributed an amount equaling 13.85% and 13.70%, respectively, of participants' gross salaries. The Water Systems has paid all contributions required through December 31, 2007.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The Water Systems has obtained commercial insurance for the following risks:

- Comprehensive property;
- Vehicles; and
- Errors and omissions.

The Water Systems also provides health insurance coverage for full-time employees through a private carrier.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**Risk Pool Membership**

The Water Systems belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006:

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Water Systems' share of these unpaid claims collectible in future years is approximately \$1,000. This payable includes the subsequent year's contribution due if the Water Systems terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2005	\$625
2006	\$625
2007	\$625

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**7. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Water Systems are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.





# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Monroe Water Systems  
Monroe County  
P. O. Box 15  
43022 Six Points Road  
Laings, Ohio 43752

To the Board of Trustees:

We have audited the financial statement of the Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 28, 2008, wherein we noted the Water Systems followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Water Systems' internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statement, but not to opine on the effectiveness of the Water Systems' internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Water Systems' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Water Systems' ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Water Systems' internal control will not prevent or detect a more-than-inconsequential financial misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Water Systems' internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the Water Systems' management in a separate letter dated July 28, 2008.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Water Systems' financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-004.

We intend this report solely for the information and use of the audit committee, management, and Board of Trustees. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

July 28, 2008

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2007-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

As of December 31, 2007, the following function reflected expenditures which exceeded appropriations:

<u>Function Account</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Debt Retirement	\$376,000	\$378,176	\$(2,176)

As of December 31, 2006, the following functions reflected expenditures which exceeded appropriations:

<u>Function Account</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Salaries and Wages	\$214,000	\$219,755	\$(5,755)
General Utilities	25,500	26,347	(847)
Property Insurance	11,830	13,129	(1,299)
Workers' Compensation	3,850	4,600	(750)
Board Salaries	3,000	3,640	(640)
Capital Outlay	1,052,000	1,145,669	(93,669)
Other Non-Operating Disbursements	0	2,632	(2,632)

We recommend the Board of Trustees and Office Clerk compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Office Clerk should deny requests for payment when appropriations are not available.

**FINDING NUMBER 2007-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Ohio Rev. Code Sections 5705.41(D)(1) and 5705.41(D)(3), respectively:

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING NUMBER 2007-002 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made “then” and at the time that the fiscal officer is completing the certification “now”, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Water Systems can authorize the drawing of a warrant for the payment of the amount due. The Water Systems has 30 days from the receipt of the “then and now” certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance of the Water Systems upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The Water Systems may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Although the obligations paid by the Water Systems had a statement indicating the purchase was lawfully appropriated or in the process of collection to the credit of an appropriate fund, and free from any previous encumbrance, this certification of available funds was not obtained prior to incurring the obligation for 29% of transactions tested and there was no evidence of a “Then and Now” certificate being utilized. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Water Systems’ funds exceeding budgetary spending limitations, we recommend that the Water Systems Office Clerk certify that the funds are or will be available prior to obligations being incurred by the Water Systems. When prior certification is not possible, “then and now” certificates should be used.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-002 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

We recommend the Water Systems certify purchases to which Ohio Rev. Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Office Clerk should sign the certification prior to the Water Systems incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Office Clerk should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**FINDING NUMBER 2007-003**

**Noncompliance Citation and Material Weakness**

Ohio Admin. Code Section 117-2-02(A) states, in part, that all local public offices should 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, document compliance with finance-related legal and contractual requirements and prepare financial statements required by Section 117-2-03 of the Administrative Code.

Furthermore, the Auditor of State provided, through Auditor of State Bulletins 2000-008 and 2002-004, the recommended accounting treatment for on behalf of grants and loans including Ohio Public Works Commission (OPWC) funding. Ohio Rev. Code Section 5705.40 requires that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation. Ohio Rev. Code Section 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount in the official certificate.

During 2007, the Water Systems did not record OPWC grant transactions on their accounting records or financial statement in the amount of \$112,684. During 2006, the Water Systems did not record OPWC grant transactions on their accounting records or financial statement in the amount of \$203,550. Also, during 2006, the Water Systems also did not reflect Ohio Water Development Authority (OWDA) loan proceeds in the amount of \$1,494,054 on their financial statement. The Water Systems Business Manager did not amend estimated revenues for the OPWC or OWDA monies received in 2007 or 2006. The Water Systems Board did not amend appropriations for the project funded through the OPWC and OWDA monies.

The above noted adjustments were agreed to by the Water Systems Board and are reflected in the accompanying financial statement.

We recommend the Water Systems refer to Auditor of State Bulletins 2000-008 and 2002-004 and follow the recommended accounting treatment for all OPWC funding expended directly to contractors on behalf of the Water Systems, as well as proceeds of OWDA loans. We further recommend the Water Systems follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-004**

**Noncompliance Citation**

Ohio Admin. Code Section 117-2-02(C)(1) states 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.

Ohio Admin. Code Section 117-2-02(D) states, in part, 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.

Ohio Admin. Code Section 117-2-02(D)(3) provides that such records should also include an appropriation ledger, which may assemble and classify disbursements or expenditures/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations, and any other information required may be entered in the appropriate columns.

The Water Systems prepared a monthly Statement of Income and Expense reflecting monthly and cumulative year-to-date budget versus actual receipt and disbursement amounts for each classification. The Water Systems issued purchase orders and vouchers to obtain the fiscal officer's prior certification of available funds; however, these purchase orders and vouchers were not recorded into any budgetary accounting records as required above. The Water Systems' accounting system did not provide encumbered and unencumbered disbursement information. As a result, financial decisions may be made based on incomplete or inaccurate data.

We recommend the Water Systems establish an appropriation ledger to assemble and classify disbursements or expenditures/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. As commitments are made, the encumbrance amount, purchase order number and the date should be entered resulting in an unencumbered balance (i.e., a declining balance of the total up-to-date appropriation) within the appropriation account.

**Officials' Responses:** We did not receive a response from Officials to the findings reported above.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2005-001	Ohio Rev. Code Section 5705.41(B), expenditures exceeding appropriations in several line items.	No	Not Corrected; Repeated as Finding No. 2007-001.
2005-002	Reportable Condition - not posting on-behalf-of grant activity to ledgers.	No	Not Corrected; Repeated as Finding No. 2007-003.







**Mary Taylor, CPA**  
Auditor of State

**MONROE WATER SYSTEMS**

**MONROE 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  
AUGUST 26, 2008**