



Dave Yost • Auditor of State

MANAGEMENT LETTER

Southern Ohio Port Authority
Scioto County
433 Third Street
PO Box 1525
Portsmouth, Ohio 45662

To the Members of the Board:

We have audited the financial statements of the Southern Ohio Port Authority, Scioto County, Ohio (the Port Authority), in accordance with *Government Auditing Standards*, as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated August 29, 2013.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, (including noncompliance with laws and regulations), and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated August 29, 2013, for the year ended December 31, 2012 and 2011.

We are also submitting the following comments for your consideration regarding the Port Authority's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the report *Government Auditing Standards* requires. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. However, these comments reflect our continuing desire to assist your government. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Findings

1. **Ohio Rev. Code Section 149.43** states all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they are available for inspection.

Pursuant to Ohio Rev. Code Section 149.43(E), the Ohio Attorney General shall develop and provide to all public offices a model public records policy for responding to public records requests in compliance with Ohio Rev. Code Section 149.43 in order to provide guidance to public offices in developing their own public record policies for responding to public records requests in compliance with that section. This model policy is available at www.ag.state.oh.us/publicrecords/modelpolicy.asp.

**Noncompliance Findings
(Continued)**

1. Ohio Rev. Code Section 149.43 (Continued)

~~Pursuant to Ohio Rev. Code Section 149.43(B)(2), the entity shall have available a copy of its current records retention schedule at a location readily available to the public. The auditor of state, in the course of an annual or biennial audit of a public office pursuant to Ohio Rev. Code Chapter 117 shall audit the public office for compliance with this section and divisions (B) and (E) of Ohio Rev. Code Section 149.43.~~

The Port Authority did not have a Public Records policy or a Records Retention policy in place.

We recommend the Port Authority Council review the Revised Code Section 149.43 in order to gain an understanding of what needs to be included in the Public Records policy and Records Retention policy.

2. Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Port Authority did not adopt appropriations during 2011 or 2012.

We recommend that the Port Authority adopt annual appropriations.

3. Auditor of State Bulletin 2004-010 states an auditor can regard electronic imaging of checks as evidence when performing an audit. The Bulletin provides, in part, that a bank may use the electronic image to create a "substitute check" for a bank that chooses to continue receiving paper checks. This substitute check has the same legal effect as the original paper check. A substitute check is a paper reproduction of the original check that: contains an image of the front and back of the original check; bears a magnetic ink character recognition (MICR) line containing all of the information appearing on the original check's MICR line, with certain exceptions; conforms, in paper stock, dimension, and otherwise, with generally applicable banking industry standards for substitute checks; and is as suitable for automated processing as the original check. A substitute check that meets these requirements and bears the following legend is considered to be the legal equivalent of the original paper check.

For governments that do not receive their canceled original or substitute checks, AOS suggests these governments request that their banks send images of the front and back of all issued checks. This will enable governments to review and scrutinize the transactions and ensure that the payees as well as the various endorsements are appropriate. As monthly [or other periodic] bank statements are received, reconciliations between check numbers and the amounts paid should be conducted promptly. If questionable items are identified, governments should immediately request their bank investigate these items for possible adjustment to the government's account. Furthermore, a government may want to request a substitute check or the best available source document from the bank (e.g., copy of the front and back of the check) when a questionable item is identified that requires investigation.

Noncompliance Findings (Continued)

3. Auditor of State Bulletin 2004-010 (Continued)

The Port Authority utilizes DESCO Federal Credit Union for its checking account. The credit union did not provide the original canceled checks or the optical images of the reverse side of canceled checks for the disbursements. This could result in a lack of sufficient audit evidence or could result in a failure to follow the records retention laws.

We recommend the Port Authority consult with the credit union to have the credit union provide images of both the front and reverse side of each canceled check for disbursements. As an alternative, the credit union could send the original canceled checks back to the Port Authority.

Recommendations

1. Signed Minutes

The minutes of the Port Authority's meetings were not signed by the Chairman of the Board. Without such signatures, questions could arise as to the official actions taken by the Board. The Chairman of the Board's signature indicates the minutes have been approved by the members of the legislative body and are an accurate reflection of the actions taken by the Port Authority.

We recommend that the minutes of the Port Authority meetings be read and signed at the succeeding Board meeting.

2. Disaster Recovery Plan

The Port Authority did not have a Disaster Recovery Plan in place to recover from a disaster which impacts their data processing capabilities.

A Disaster Recovery Plan should be developed, documented, tested and maintained. This plan should identify arrangements for contingency data processing on compatible hardware and software; key individuals to be contacted and their role in the recovery; and the location of backup data and source documents. Several copies of this plan should be kept off-site in the event that the on-site copies are destroyed during a disaster. In addition, the plan should be updated and tested periodically to ensure that it is current.

3. Related Party/Conflict of Interest Policy

The Port Authority did not have a formal policy concerning related party transactions and conflicts of interest. This could result in situations occurring that could be considered to be conflicts of interest as we have noted several instances where friends/family of Board Members have received appointment to the Port Authority board or were awarded contracts with the Port Authority board.

We recommend that the Port Authority Board, with the assistance of the legal counsel, develop a formal policy regarding related party transactions to govern transactions in which members of the Port Authority Board may have an interest. This policy may include that Port Authority Board members abstain from voting on related party items in which they, a member of their family, or any of their business associates has an interest.

**Recommendations
(Continued)**

4. Loans Receivable

The Port Authority approved a \$334,000 Promissory Note with Donald Hadsell in 2007. Mr. Hadsell agreed to make \$50,000 annual payments beginning August 10, 2007. According to the Promissory Note, if Mr. Hadsell did not make the annual payment within 15 calendar days after its due date, Mr. Hadsell would pay an additional \$1,000 as a late charge. During 2011, Mr. Hadsell did make payments totaling \$50,000, however, he had not made a payment in 2010 so the payment in 2011 should have gone toward the 2010 amount due. Further, Mr. Hadsell did not pay the \$1,000 late charge. In 2012, Mr. Hadsell paid only \$10,000 which would be applied toward the \$50,000 amount due in 2011. As such, at December 31, 2012, Mr. Hadsell was \$90,000 delinquent in payments to the Port Authority. The delinquent balance puts Mr. Hadsell in default on the loan and according to the Promissory Note, the Port Authority could consider the full outstanding loan balance of \$124,000 as due in full.

We recommend the Port Authority follow up on and collect the past due amounts along with the \$1,000 late charge for 2011 and an additional \$1,000 late charge for 2012.

We intend this report for the information and use of the governing board, audit committee, and management.



Dave Yost
Auditor of State

Columbus, Ohio

August 29, 2013