



Dave Yost • Auditor of State

**City of Wellston
Jackson County, Ohio**

Report on Accounting Methods

Local Government Services Section

**City of Wellston
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 Wellston was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The control deficiencies and instances of non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to section 118.10 of the Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Sharon Hanrahan, Chairman of the Financial Planning and Supervision Commission of the City of Wellston, Matt Petersen, Representative of Council of the City of Wellston; and Edgar Hayburn, Mayor of the City of Wellston.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 10, 2011

City of Wellston – Jackson County

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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 municipality. This report shall state whether Chapter 117 of the Revised Code and the requirements of the Auditor of State have been compiled with..."

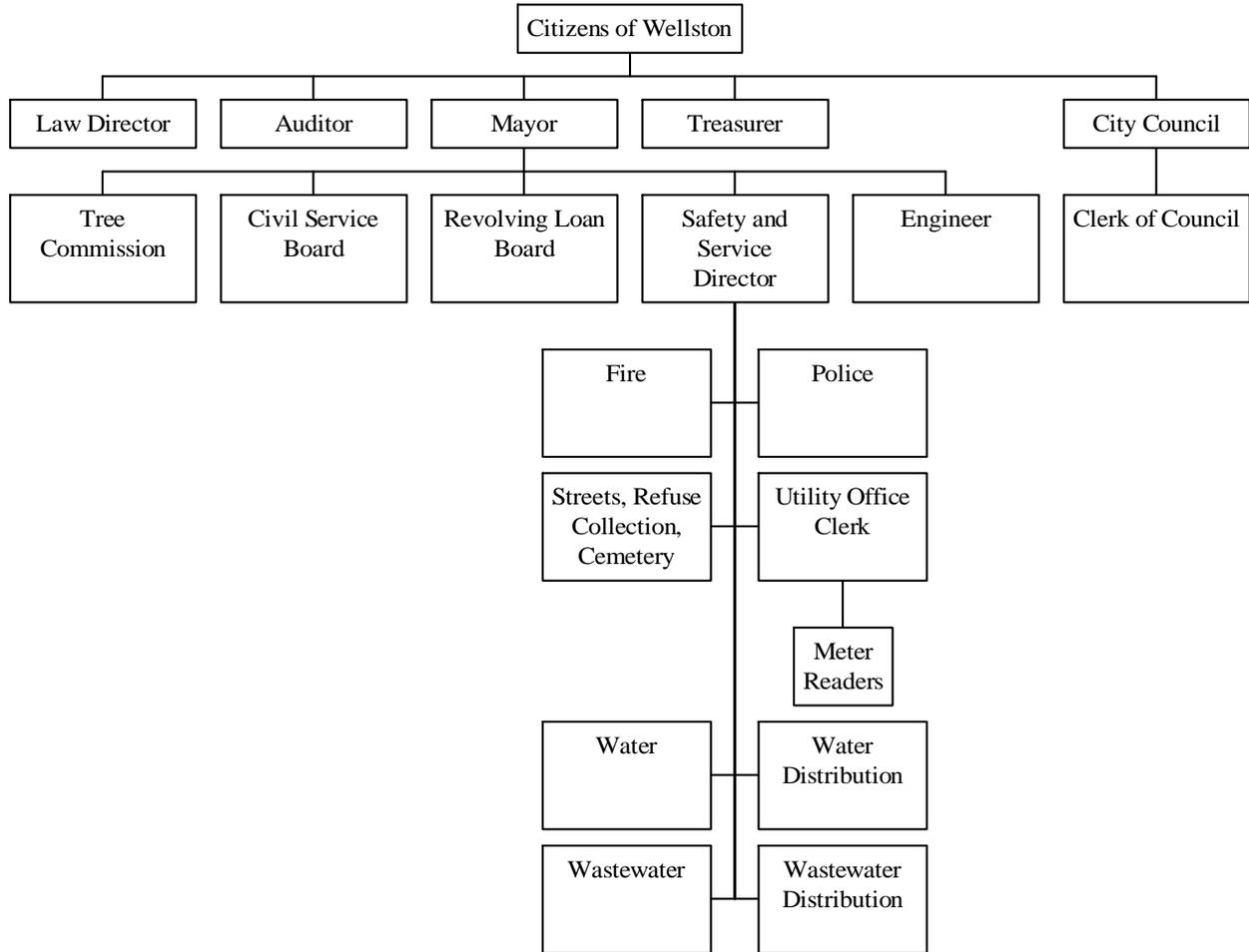
Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the City, and (2) whether the current accounting system complies with Chapter 117 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained 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 Wellston. We were not engaged to, nor did we perform an audit, the objective of which would be the expression of an opinion on the 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.

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City of Wellston
Organizational Chart



City of Wellston – Jackson County

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Governance Overview

The City of Wellston (the “City”) is located in Jackson County. The City is a home rule municipal corporation governed by Article XVIII of the Ohio Constitution and by Title 7 of the Ohio Revised Code. Operating as a statutory city, Wellston must comply with all State laws governing City government. The decision making process is directed by an elected City Council (Council) and Mayor.

The Council is the legislative authority of the City and consists of an elected President of Council and seven elected members. Four members are elected to serve specific wards and serve terms of two years, and three are elected at large and serve terms of four years. Council appoints a Clerk of Council who attends all Council meetings and keeps a record of all proceedings, rules, bylaws and legislation. The Council has the authority to prescribe by ordinance the manner in which any power of the City shall be exercised.

The Mayor is the chief executive officer of the City and serves a term of four years. The Mayor supervises the administration of the City, has the right to make recommendations to Council, and has the power to appoint various City officials.

The Auditor serves as the chief fiscal officer of the City, and serves a four-year term. The Auditor is required to keep the books of the City and exhibit accurate statements of all money received and expended, of all property owned by the City and the income derived therefrom, and of all taxes and assessments. The Auditor shall audit the accounts of the several departments and officers and all other accounts in which the municipal corporation is interested at the end of each fiscal year, more often if required by the legislative authority. The Auditor may prescribe the form of reports, the method of keeping accounts by all other departments, and shall require daily reports, showing all money received and the disposition thereof by each department to be rendered to the City Auditor’s Office. The City Auditor is responsible for establishment of the accounting procedures necessary to comply with the administrative rules adopted by the Auditor of State.

The Treasurer is the chief custodian of all monies of the City and is elected to a four-year term. The Treasurer is required to keep the moneys of the municipal corporation in such a manner and in such place as is determined by the legislative authority, and shall pay out money only on warrants issued by the Auditor.

The Law Director is the City’s chief legal officer, elected to a four-year term.

On October 1, 2009, the City was declared in a state of fiscal emergency by the Auditor of State. 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 the State office 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 who are also residents of the City

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The powers, duties, and functions of the Commission may 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;
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 Senate on the progress of the City.

This Commission adopted a financial recovery plan on March 19, 2010. By State statute, the City must operate within the provisions of the recovery 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, "non-adverse."

Once these requirements are satisfied, the Commission will be terminated.

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Budgetary System

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining how much and the type of financial resources that shall be raised, and how those financial resources shall be spent. An annually appropriated budget should be adopted by ordinance, for all funds other than agency funds, and the amounts appropriated for each fund should not exceed the estimated resources available for the year. The budget should present sufficient information to identify the major sources of revenues and the programs, activities and major objects of expenditures. The process should encompass current operations and maintenance for the various city departments, programs offered to its residents, capital acquisition and replacement and debt retirement. The adopted budget 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 obligation.

Statutory Requirements

The Tax Budget: The Jackson County Budget Commission has waived the requirements of the formal tax budget. The County Budget Commission requires estimated receipts and disbursements information to be submitted on or about January 1, when the City Auditor certifies the actual year end balances for all funds to the County Budget Commission.

Certificate of Estimated Resources: Using the information submitted, the County Budget Commission issues an official certificate of estimated resources that includes the unencumbered fund balance at December 31. Further amendments may be made during the year if the City Auditor determines that the revenue to be collected by the City will be greater than or less than the amount included in the official certificate.

Appropriations Ordinance: On or about January 1, an annual appropriation ordinance must be enacted by city 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, as accepted by the County Budget Commission, must be within the estimated resources as certified by the County Budget Commission. Appropriation measures shall 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 level adopted by Council must be approved by Council. The City may pass supplemental fund appropriations so 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 shall become 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 such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the County Auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure.

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.

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Report on Accounting Methods

Administrative Code Requirements

According to Section 117.2.02 of the Administrative Code, 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 provisions of Chapter 5705 of the Revised Code, the minimum legal level of control is described in Section 5705.38 of the Revised Code as department, personal services and other. The legal level of control is a discretionary decision made by the legislative authority and must meet or exceed the level prescribed in Section 5705.38 of the Revised Code.

City's Budgetary Process

The annual budget process begins as soon as the City receives property tax and local government monies estimates from the Budget Commission. The Budget Commission sent property tax and local government monies information for 2011 on August 20, 2010. Estimated receipts for the ensuing year are based on two years of historical data and current year to date information.

Council adopted a resolution to authorize the collection of the tax levies in 2011 on September 16, 2010 and certified it to the County Budget Commission.

Once City Council has certified the tax levies, work begins on estimated resources and appropriations for the following year. The City Auditor prepares an estimate based on the prior two years actual receipts and expenditures, current year actual and estimated receipts and expenditures, and estimates for the next year. The new year estimates are based on information available at the time of preparation and historical data. Salaries and benefits are set based on bargaining agreements approved by Council. Between September and December, the proposed departmental budgets are reviewed by the City Auditor and Council. Annual appropriations for 2011 were adopted by Council on December 29, 2010. Council establishes the legal level of control for all funds at the object level within each fund and department. Any increase or decrease in appropriations at the object level adopted by Council must be approved by Council.

After the close of the year, the City Auditor certifies the year-end fund balances to the County Budget Commission and requests certificate of estimated resources that includes the actual unencumbered fund balances of the preceding year. The first certificate of estimated resources for 2011 was approved by the Budget Commission on January 21, 2011.

The City Auditor compares estimated and actual revenues on a monthly basis and determines if revenues received are in line with the anticipated amounts.

Certified copies of the appropriation measures are filed by the City Auditor with the County Budget Commission upon adoption. The City receives from the County Auditor a certificate that the total appropriations from each fund did not exceed the official or amended certificate of estimated resources.

Initial revenue and appropriation estimates, as well as all revenue and appropriation amendments, are entered into the City's accounting system by employees in the City Auditor's office within a few days of approval by Council and the County Budget Commission.

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Report on Accounting Methods

The City Auditor compares monthly expenditures, including encumbrances, to appropriations. The City Auditor discusses budgetary issues with the Mayor and the Finance Committee, and any amendments are submitted to Council for approval.

Auditor of State Comments

None.

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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. The consistent use of fund account codes is necessary to classify and summarize receipt and disbursement transactions. Fund codes should allow for the classification and identification of fund types and individual funds. Receipt and expenditure codes should allow the transactions to be summarized by major revenue sources or expenditure programs. Major object codes for expenditures should be used consistently throughout the various program and activity codes.

Statutory Requirements

The creation of funds is authorized by section 5705.09 of the Revised Code. Section 5705.13 of the Revised Code allows for the creation of a reserve for budget stabilization, payment of claims under a self-insurance program, and the payment of claims under a retrospective workers' compensation plan. This section also allows for a special revenue fund to accumulate resources for the payment of sick and vacation leave. Additionally, it allows for creation of capital projects funds to accumulate resources for up to ten years for the acquisition, construction, or improvement of capital assets. Funds may also be established under section 5705.12 of the Revised Code with the written approval of the Auditor of State.

Methods Used by the City

The City establishes funds as required by the Ohio Revised Code. The Auditor assigns the new fund numbers based on a chart of funds that reflects the fund type classification. Account codes are assigned and entered into the computer system by the Deputy City Auditor based upon available fund codes. Each account code consists of thirteen digits. The first three digits designate the fund, for revenue transactions, the next four digits designate the revenue type, and the last six represent the specific revenue source. For expenditures, there is a four digit department code, followed by six digits representing the expenditure object code

Auditor of State Comments

None.

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Accounting Ledgers

Description of Effective Accounting Ledgers

The accounting ledgers of the City should allow for ongoing and timely information on estimated and actual revenues, disbursements and encumbrances, comparison of expenditures to the appropriation authority, available cash balances for each fund, and the available treasury balance. The information captured for each transaction should allow the transaction to be trailed 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 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 Director of Finance’s office. The cash journal presents receipts deposited to and warrants drawn against the City treasury and the funds 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.

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.

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Methods Used by the City

The City utilizes Software Solutions, Incorporated's fund accounting software package to maintain all accounting records. The City uses three of the software's module systems: Financial Management, Utility Billing, and Central Cash, which allows for the interaction of the other two modules. The software program allows for the accumulation and aggregation of budget and actual information. Detailed receipt and expenditure information is accumulated by fund, revenue source, expenditure program, department and object code. The software provides month and year-to-date information and detailed and summary information for receipts and expenditures. The Auditor's office follows Software Solutions' user manual to assist in the processing of transactions and closing procedures for the software. All processing occurs through a server located in the Utility Department office.

All files, including accounting system files, as well as other daily files such as Microsoft Word and Excel files, are backed up by the City on flash drives each day. Flash drives are kept in a fire-proof safe in the Utility Department office, and are rotated on a weekly basis. This allows five days of backups to be stored at any given time.

The City does not have a written disaster recovery plan.

Auditor of State Comments

- The City does not have disaster recovery plan. A disaster recovery plan identifies how the City would restore operations, including information technology and accounting functions if the City would experience a serious incident (flood, explosion, computer malfunction, accident, grievous act) which prevents it from continuing normal operations. The City should develop and implement a disaster recovery plan.
- The City has not adopted a public records policy in accordance with Ohio Revised Code §149.43. The City should develop and adopt a public records policy pursuant to Ohio Revised Code §149.43.

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Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent identification and recording of each receipt. Receipts should be promptly recorded, safeguarded, and deposited. 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 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 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, deposit 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 moneys 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 moneys 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 moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys 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 Processing of Revenue Activity

Most City monies are received either by the City Clerk's office or the City Treasurer. Any monies received by the City Clerk are subsequently forwarded to the Treasurer. Occasionally, money is collected by the Police and Fire Departments, which is also forwarded to the City Treasurer.

City Clerk

Utilities (Water, Sewer, and Garbage)

Water charges are based upon a reading of the water meter. Sewer charges are based on water usage. Garbage charges are based upon a monthly charge per household, based upon City Ordinance.

Water meters are read either by radio signal or with a hand-held computer. On the first day of the month, information is collected from the radio-read meters. Remaining meters are read with a hand-held computer during the first twenty-one days of the month. For customer meters that are not read (due to weather, time, etc) usage is estimated based upon the average of the previous three months readings.

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Utility payments are due on the tenth of each month and a ten percent late fee is assessed on payments made after that day. Payment may be made in person, by mail, or may be placed in a drop box located in front of the City Building. There are three clerks in the clerk's office, each with a cash drawer with \$200 to start each day. The first clerk in for the day prepares a deposit from the previous day's mail and the drop box payments, recording the amount paid on the billing statement stub. The total from the billing statement stubs is compared with the deposit slip. The three utility clerks count out their drawer from the prior day and prepare a deposit slip, comparing stub totals to deposit tickets. All four deposits are taken to the City Treasurer's office.

When a customer comes to the counter, one of the clerks takes the payment and records the amount paid on the billing statement stub, and marks it paid, including the date paid.

An account that is thirty days past due is considered delinquent. Reminder and delinquent notices are mailed out after the tenth of the month to the customer and to the landlord of rental properties. Delinquent accounts that are more than forty days past due are subject to shut-off. Shut-offs generally begin the third week of the month. Accounts that have been turned off are required to make full payments in cash plus a forty dollar reconnect fee in order to resume service.

A fee of \$100 is required for new accounts. This fee is split equally between the Water and Sewer Funds.

Occasionally, customers will request a write-off of all or a part of their bill. The request is typically due to water leaks, pool filling, etc. A Water Advisory Board has been established to review these requests on a case by case basis. The Water Advisory Board consists of two members appointed by council and the Service Director. The Water Advisory Board has the authority to write off any portion of a bill that they deem reasonable. The Water Advisory Board has not adopted specific guidelines as to the allowable circumstances for amounts to be adjusted or written off.

Other Receipts

Other types of revenue are received through the City Clerk's office, including proceeds from the sale of cemetery lots, building permits, zoning certificates, and amusement licenses. A pre-numbered receipt is issued, and funds are forwarded to the City Treasurer on a daily basis for deposit.

Police Department

The Police Department receives monies for copies of police reports and occasional donations. When funds are received, a pre-numbered duplicate receipt is prepared. One copy is given to the payor, and a second copy accompanies the funds to the City Treasurer's office. A third copy is retained by the Police Department.

Fire Department

The Fire Department occasionally receives money for inspections, copies of reports, and in rare occasions, payments on fire contracts. When funds are received, a pre-numbered duplicate receipt is prepared. One copy is given to the payor, and a second copy accompanies the funds to the City Treasurer's office. A third copy is retained by the Fire Department.

City Treasurer

In addition to monies received through the City Clerk's office, the City Treasurer receives monies through the mail as well as by direct deposit to the City's bank accounts. The Treasurer issues a pre-numbered receipt for all monies received by the Office. All documentation relating to individual receipts is kept with the Treasurer's copy of the receipt. Any direct deposits are identified and posted in the same manner as those received in the mail.

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Income Tax Department

The City levies an income tax of one percent on all salaries, wages, commissions, and other compensation earned within the City as well on the incomes of residents earned outside the City. In the latter case, the City allows a credit of up to 100 percent of the tax due to the City for those taxes an individual pays to another municipality. The City has a mandatory income tax filing requirement for all residents and businesses. Businesses are generally required to pay on a monthly or quarterly basis. Individuals paying estimated taxes are required to pay on a quarterly basis and file a return annually, all others file and pay annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance of facilities, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Wellston.

The City has a contract with the Regional Income Tax Authority (RITA) for income tax collections and processing. All income tax payments are to be sent directly to RITA.

The City receives a payment from RITA twice monthly by electronic fund transfer into the City's First National Bank main operating account. The City Treasurer reviews this bank account on-line daily for EFT receipts.

RITA also, twice a month, provides the City with an income tax distribution report detailing the amounts collected and the source of the collections (i.e., individual, business, withholding). One copy of this report is retained by the City Treasurer and one copy is retained by the Deputy Auditor.

The City Treasurer has read only access to RITA's billing and collection system which enables the City Treasurer to review taxpayer accounts, if necessary. The City Treasurer has not had any reasons to view taxpayer accounts to date. Issues and questions are directed to and handled by RITA.

Based on the documentation provided, the City Treasurer works with the City Auditor's office to determine the appropriate fund and revenue code for each receipt. The City Treasurer makes all deposits to the bank.

Auditor of State Comments

- The City does not have any written policies or procedures for the handling of monies that are paid to the various Departments in the City. The City needs to establish comprehensive policies and procedures addressing receipt activity, including but not limited to, documentation, verification, bank deposits, posting, collections, and the safeguarding of receipts until deposited.
- The Water Advisory Board needs to adopt comprehensive guidelines and policies addressing the process of appeal to the Board, circumstances for which an appeal will be considered, and remedies which the Board can apply to appeals.

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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 purchase of items should be in agreement 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 need 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 do 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 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.

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 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

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any previous encumbrances. If the amount exceeds \$3,000, the City Council has thirty days from 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 authorized by the City Council and executed in the name of the City by the Mayor and the Director of Finance, except as otherwise specified by City Charter or State statute. Contracts for the department of Public Safety and Service are awarded by the Board of Control.

Bidding - All contracts calling for expenditures in excess of \$25,000 shall be in writing and made to the lowest and 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 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, State statute (Revised Code section 9.24) 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 a person against whom a finding for recovery has been issued by the Auditor of State on or after January 1, 2001, if the finding for recovery is unresolved.

Per Auditor of State Bulletin 2004-006, a contract for purposes of Section 9.24 of the 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 Revised Code section 9.24. For purchases made off the State term schedule, the Ohio Department of Administrative Services engages in a contracting process as described under Attorney General Opinion 2004-014 and, consequently, is required to comply with Revised Code section 9.24. 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 Revised Code section 9.24.

Section 9.24 (G)(1)(a) of the 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) of the Revised Code provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous year, received contracts from the State agency or political subdivision, the aggregate of which exceeded \$50,000.

Terrorist Activity - Effective April 14, 2006, Section 2909.32 of the Revised Code, states that the director of public safety in accordance with Chapter 119 of the Revised Code is to identify licenses the state issues for which a holder with a connection to a terrorist organization would present a potential risk to the residents of this state. Also effective April 14, 2006, Section 2909.33 of the Revised Code, states that in accordance with 2909.32 of the Revised Code, a terrorist exclusion list shall be compiled and made available. Prior to entering into a contract to conduct business with or receive funding from any State agency, instrumentality, or political subdivision of the State, any person, company, affiliated group, or organization, may precertify that it has not provided material assistance to an organization on the terrorist exclusion list.

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Delinquent Personal Property Taxes - Section 5719.042 of the Revised Code provides that after the award by a taxing district of any contract let by competitive bid, and prior to the time the contract is entered into, the person making a bid shall submit to the fiscal officer a statement affirmed under oath that the person with whom the contract is to be made was not charged, at the time the bid was submitted, with any delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory, or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the County Treasurer within thirty days of the date it is submitted.

Campaign Financing (HB 694) - Section 3517.13 of the Revised Code states any bid or unbid contract, purchase order, or collective bargaining agreement with a value of more than \$10,000 requires the vendor to certify to the contracting authority that the vendor has not made a contribution to the contracting authority in an amount that exceeds the limits provided by law.

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.”

Methods Used by the City

A purchase requisition is prepared for all purchases and approved by the appropriate Official or Department Head. The requisition includes all pertinent information, including the vendor name and vendor code, fund and account code, the merchandise/service to be purchased, and the estimated cost or exact price, if available. All vendors are assigned a vendor code before being entered into the City’s accounting software. Vendor codes are assigned based on the vendor name in the accounting system. Upon approval by the appropriate Official or Department Head, the requisition is sent to the Auditor’s office for the preparation and assignment of a purchase order number.

The Auditor’s office prepares a three part purchase order based on the information on the requisition form. Purchase orders are not computer generated and a manual log of all purchase orders is maintained in numerical order. Purchase orders are entered into the purchase order screen on the City’s accounting software by a Deputy City Auditor. Information entered includes purchase order number, vendor, description, and price. The purchase order is then printed. If the appropriation will be exceeded, the system provides a warning. Purchase orders are processed in a batch, encumbered, and printed approximately once a week. The purchase order is signed by the City Auditor, Service Director, and the Department Head. The original copy of the purchase order is used when invoices are processed. The yellow copy is sent to the Department and the pink copy is kept in numerical order in the Auditor’s office.

Upon request, the City provides new vendors with the City’s tax exempt number, billing address, and contact information. The vendor is required to provide remittance information and the completion of an IRS Form, W-9. The information is entered into a vendor file and is “flagged” if an IRS Form 1099 is to be issued. New vendors are also made aware of the City’s purchasing procedures.

Contracts in excess of \$25,000 require authorization by City Council, following statutory procedures for bidding. City Council authorizes, by motion, the Service Director to advertise for bids. The Auditor,

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Service/Safety Director, the appropriate Official or Department Head, and interested parties such as vendors generally attend bid openings. City Council awards a contract based on the bids. The ordinance cites the reasons for accepting the bid and authorizes specific individuals to enter into or execute various contracts for the purpose of the bid.

The City uses blanket purchase orders for utility payments, pest control, gasoline, and supplies. Blanket purchase orders are entered into the City's accounting software in the same manner as regular purchase orders, with the notation that it is a "blanket" purchase order. Blanket purchase orders are closed out quarterly.

The City Auditor's office maintains an informal procedures manual that includes instructions as to the purchasing process.

Auditor of State Comments

- The original purchase order is not sent to the vendor unless requested by the vendor. The purchase order should be mailed or faxed to the vendor.
- The City does not utilize the Auditor of State Findings for Recovery Database when entering into all 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 should verify vendors against the State's database of findings for recovery before entering into a contract for goods, services, or construction paid for in whole or in part with State funds.
- The City does not have a formal purchasing policy or purchasing procedures. A comprehensive purchasing policy for the City should be developed, adopted by ordinance, and distributed to all Departments.
- The City has not adopted a ceiling for blanket purchase orders pursuant to Ohio Revised Code Section 5705.41(D). City Council should adopt a ceiling for the amount a blanket purchase order can be issued.
- The City does not track expenditures against blanket purchase orders. Each Department should maintain an itemized statement of expenditures made against each blanket purchase order and this information should be provided to the City Auditor.

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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 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 Director of Finance and a determination whether there is adequate cash in the fund to pay the obligation. All warrants should be signed by the Director of Finance 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 one 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.”

Methods Used by the City

The Assistant City Auditors perform all disbursement functions. Accounts payable checks are prepared and issued once the City Auditor determines that amounts are within appropriations and sufficient funds exist in the Treasury.

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Report on Accounting Methods

Materials and supplies are delivered to the originating Departments. The items and quantities on the packing slip are compared to the purchase order and kept by the individual departments. The packing slip is initialed by the person receiving the goods and may or may not be sent to the City Auditor's office.

Invoices are received in the City Auditor's office and various departments. One of the Deputy City Auditors matches the purchase orders with packing slips and invoices and prepares the voucher packets. Voucher packets are completed prior to creating the checks for payment.

Packing slips and purchase orders are placed in a separate alphabetical vendor file known as the "open purchase order file" in alphabetical order and kept in the City Auditor's office until processing by one of the Deputy City Auditors. Invoices for which no packing slips or receipt confirmation have not yet been received are maintained in a box by invoice date on the Deputy City Auditor's desk.

When the invoice is received by the Auditor's office, and receipt confirmation in the form of a packing slip and/or a copy of the requisition or purchase order used to verify goods, has not been sent to the finance department, the Deputy City Auditor contacts the appropriate Department for the documents. All invoices are compared to the purchase orders, except utilities. A blanket purchase order is prepared for utilities.

If an invoice amount is for an amount greater than the purchase order, adjustments are made to the purchase order, as verbally approved by the City Auditor.

The voucher packet includes the invoice which requires the City Auditor's signature, the invoice which is signed by the City employee indicating that the goods or services have been received, and the purchase order, signed by the City Auditor, indicating each fund and account that is being charged and the amount or an attached sheet indicating the accounts and amounts.

A Deputy City Auditor prepares a worksheet by fund listing the dollar amount of invoices to be paid and forwards the vouchers and worksheet to the City Auditor for approval. All vouchers are kept in file folders, in order to safeguard the documents until the checks have been mailed.

Once the checks have been mailed the voucher packets are filed numerically by check number in filing cabinets in the City Auditor's office by the Deputy City Auditor at the end of the month in which the checks were processed.

Approved, but unpaid vouchers are kept on top of the filing cabinet in the City Auditor's office.

After the City Auditor approves the voucher packets, they are entered in the accounts payable system by the Deputy City Auditor. This is usually done after the City Auditor has indicated that cash is available to pay the invoices and that the checks can be printed. From the vouchers the Deputy City Auditor is able to enter the account number to be charged, the vendor number and name, the invoice number, the purchase order number, the amount and invoice number. A payables transaction edit report is also generated and compared by fund total to the worksheet prepared by the Deputy City Auditor. In order to print the checks the Deputy City Auditor enters the date of the checks and the first check number into the system. The checks are then printed along with a check register and given to the City Auditor to sign. Checks are then given to the City Treasurer for her signature.

The City uses three part checks. The original check is mailed to the vendor, the yellow copy is forwarded to the City Treasurer, and the green copy is kept in the vendor file in the City Auditor's office. The voucher packet does not include a copy of the check.

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Report on Accounting Methods

The Deputy City Auditor enters the check number and date in the requisition/purchase order system and also updates the manual purchase order log book. The check number and date are entered on the purchase order in the voucher packet.

The City prepares manual checks on occasion. The Deputy City Auditor prepares the manual checks. All payroll related deductions, such as pension and health insurance, are paid by manual checks. Manual checks are also used for any payments that the City Auditor determines need immediate payment, such as payments to contractors. The same process is followed for manual checks as is followed when computer generated checks are processed. Manual checks are prepared separately from other accounts payables.

Ohio Water Development Authority and United States Department of Agriculture debt payments are made by automatic deduction processed by the City Auditor. Once the automatic deduction has been made, the transaction appears on the bank statement. A memo check is issued for the amount and posted to the City's accounting system.

Voided accounts payable checks are stamped "void" by the City Auditor and the signature block is cut out, and are maintained in a "Voided Checks" file in the City Auditor's office.

Checks are written at various times during the month once the City Auditor determines there is sufficient cash in the Treasury to pay them. There are no set dates for check runs. Priority is given to the oldest invoices not yet paid. Utilities are paid monthly as they come due.

The City Auditor's office maintains an informal procedures manual that includes instructions on the performance of cash disbursements.

Auditor of State Comments

- The City should develop comprehensive policies and procedures for cash disbursements including the staff positions and their functions. The document should be kept on file in the City Auditor's office. The document should be reviewed periodically to ensure policies and procedures are followed and is amended and updated periodically.
- The City Auditor authorizes the payment of City obligations when there is sufficient cash in the treasury to cover the obligations. In addition to sufficient cash in the treasury, there should be a determination of sufficient appropriations and fund balances in the fund or funds from which the obligation is to be paid in order to avoid deficit cash balances.
- Invoices are mailed to either the originating Department or the City Auditor's office. The City Auditor should require all invoices to be mailed to the City Auditor's office. Invoices should be copied and sent to the appropriate Department for approval and returned along with the packing slip and any other supporting documentation to the City Auditor
- Any time an invoice is received that is greater than the amount of the purchase order, a "Then and Now" certification by the City Auditor should be attached to the voucher packet.

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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 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 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, authorized 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.

Methods Used by the City

All full and part time employees are compensated biweekly. Currently, the City has 57 full time employees and 2 part time employees. In addition, there are 27 volunteer firemen who are compensated quarterly. For all full and part time employees, the pay period begins on Sunday and ends on Saturday two weeks later. Pay checks are distributed to employees every other Thursday. All employees are paid in accordance with the City's pay ordinance or bargaining contracts. Employees receive an earnings statement with each pay that indicates gross and net pay and withholdings for the pay period as well as year-to-date totals.

Personnel files are kept in the City Auditor's office. The files contain forms for tax information, benefit 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 accounting software also lists the information on file in the City Auditor's office. The Deputy City Auditor has access to change employee information in the payroll system. Any changes made to employee records in the payroll system, are reviewed by the City Auditor or his designee.

The City's hourly employees use timecards or timesheets to track hours worked. The timecards and timesheets reflect the dates, arrival time, departure time, hours worked each day, department to be charged, and accumulated hours for the pay period. The timecards and timesheets are signed and approved by the Department Head and Service Director, and submitted to the City Auditor.

The City's salaried employees do not use timecards or timesheets for regular hours worked. Their regular pay is based on salary divided by 26 annual pays.

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Non-Bargaining Unit Employees – Individual contracts establish the rates and ranges of pay for all positions, vacation accruals, and benefit packages for all employees not covered under a union contract.

Bargaining Unit Employees - The City of Wellston's bargaining unit employees are associated with one of five negotiated agreements, depending on the department, as follows:

Police Sergeants - The Police Sergeants are covered by a negotiated agreement between the City of Wellston and the Fraternal Order of Police Ohio, Labor Council, Inc. The current contract covered the period of December 1, 2006 to November 30, 2009. The contract contains detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Police Sergeants are eligible to earn overtime compensation. The current contract has been extended and will continue in effect until negotiations are finalized on a new contract.

Police Patrolmen - The Police Patrolmen are covered by a negotiated agreement between the City of Wellston and the Fraternal Order of Police, Ohio Labor Council, Inc. The current contract covered the period of December 1, 2006 to November 30, 2009. The contract has detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Police Patrolmen are eligible to earn overtime compensation. The current contract has been extended and will continue in effect until negotiations are finalized on a new contract.

Police Full-Time Dispatchers - The full time Police Dispatchers salaries and benefits are governed by a negotiated agreement between the City of Wellston and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of December 1, 2006 to November 30, 2009. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. The current contract has been extended and will continue in effect until negotiations are finalized on a new contract.

Fire Fighters - The fire fighters are covered by a negotiated agreement between the City of Wellston and the Wellston Firefighters. The contract covered the period of January 1, 2008 to December 31, 2010. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Fire fighters are eligible to earn overtime compensation. The current contract has been extended and will continue in effect until negotiations are finalized on a new contract.

Service and Clerical - The non-administrative service and clerical employees' salaries and benefits are governed by a negotiated agreement between the City of Wellston and the Ohio Civil Service Employees Association. The contract covered the period of January 1, 2011 to December 31, 2013. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Non-administrative service and clerical employees are eligible to earn overtime compensation.

Elected Officials - City Ordinance 2940 establishes that the Mayor's salary at \$20,000. City Ordinance 3212 establishes the annual salary for the Council President at \$2,100 and Council Members at \$1,800. Ordinance 3498 establishes the City Auditor's 2011 salary at \$25,335 and provides for a 3 percent annual increase. City Ordinance 4022 establishes the Law Director's salary at \$25,000. City Ordinance 3417 establishes the City Treasurer's salary at \$5,000. All elected officials' salaries are paid bi-weekly.

Overtime and Compensatory Leave - Employees work overtime in all the Departments at the discretion of the Department Head. Non-bargaining unit employees who are members of the executive branch, directors and professionals do not qualify for overtime pay. Overtime is paid at time and a half. For hourly employees, overtime is documented on the employee's timecard or timesheet, along with the Department to be charged. Compensatory time is earned in place of paid overtime at time and a half of the regular rate for

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all eligible employees. All employees except Elected Officials and the salaried positions of Engineer, Police Chief, and Service Director are eligible for overtime. Compensatory time is tracked by the City Auditor's office. The overtime budget is monitored by the City Auditor, the Mayor and the respective Department Heads, in order to keep overtime within budgeted amounts.

Leave - Vacation, personal and sick leave is credited to each employee at the accrual rates as set forth in the negotiated agreement or City Ordinance. The Deputy City Auditor uses payroll reports from ADP to track leave accruals and usages. The City Auditor will use these forms to calculate the City's compensated absences liability for GAAP financial reporting purposes.

Payroll Deductions - Payroll, tax and retirement forms are distributed to each new employee to be completed and returned to the City Auditor. The Deputy City Auditor enters the employee's demographic and salary information into computer. The Deputy City Auditor creates the employee record and notifies the appropriate retirement system of each new hire that is required to become a member.

Payroll deductions for OPERS, Ohio Police and Fire Pension System and Medicare are processed through the payroll system. 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. 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. Employee contributions for OPERS and the Ohio Police and Fire Pension System are due monthly.

Payroll Processing – The Deputy City Auditor processes payroll every two weeks on Monday. The Deputy City Auditor uses Automated Data Processing's (ADP) Municipal Payroll System for processing. Timecards and timesheets are due to the Deputy City Auditor no later than noon on the Monday of payroll week. The Deputy City Auditor verifies the mathematical accuracy of the hourly employees' timecards and timesheets and enters the regular hours worked, any overtime hours worked, and the appropriate Department to which the hours are to be charged. When the payroll information is entered into the system, an edit report is produced. The edit report totals are checked against the timecards, timesheets and overtime summaries received from the Departments to verify that the amounts agree. The information is then transmitted electronically to ADP for processing.

On Tuesday of the pay week, the payroll checks are received in the City Auditor's office from ADP. The checks are electronically signed by ADP and are received in individual envelopes for each employee. The checks are maintained in a locked, fireproof safe until Thursday, when they are then taken to the Mayor's Secretary along with a signature sheet for distribution. The signature sheet is returned to the City Auditor's office to be filed with the payroll information for that pay period. About one half of the City's employees receive their pay through direct deposit.

The gross payroll total is transferred into the payroll checking account by the Deputy City Auditor on Wednesday of the pay week. From the payroll checking account, electronic fund transfers are made for direct deposit and federal and state taxes when due. Checks are prepared manually for remaining payroll deductions, such as OPERS, Ohio Police and Fire Pension, City taxes and child support garnishments and mailed to the appropriate government agencies.

Retirement - When an employee wishes to retire, the City requires them to provide a resignation letter. The City receives various communications from the Ohio Public Employees Retirement System (OPERS) or Ohio Police and Fire Pension Fund (OP&F) verifying that the employee is retiring under OPERS or OP&F. OPERS or OP&F is sent notification of the employee's last working day and payroll information.

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In order to receive a payout for remaining leave time, the retiring employee enters their leave information on a timesheet which is approved by the Service Director and sent to the City Auditor's office. ADP calculates remaining balances and accruals. The employee's annual leave balances are summarized on a spreadsheet and the employee's final pay is calculated. The Service Director will approve and sign the final pay computation. Prior to payment, the City Auditor's office verifies that the payout is within the limits as set forth in negotiated agreements.

The City Auditor's office maintains an informal procedures manual that includes instructions on the performance of payroll operations.

Auditor of State Comments

- The City does not have formal written policies or procedures regarding the payroll process. The City Auditor should document its payroll procedures and maintain them in the City Auditor's office.

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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 or ordinance authorizing the issuance of debt should be passed by the Council. The statute authorizing the issuance should be identified in the ordinance as well as the purpose of the debt, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of Council and the Director of Finance. Debt proceeds should be receipted into a separate fund and used only for the purpose specified in the authorizing legislation. Money to be used for debt payments 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.

City Codified Ordinances

Section 181.2101 of the Codified Ordinances provides for seven percent of the income tax revenue to be deposited in the Debt Amortization Fund.

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.

Section 133.05, Revised Code, provides a municipal corporation shall not incur net indebtedness that exceeds an amount equal to ten and one-half per cent of its tax valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to five and one-half per cent of that tax valuation. In calculating the net indebtedness of a municipal corporation, self-supporting securities, certain securities for which there is an agreement with another subdivision to pay to the municipal corporation amounts equivalent to debt charges on the securities, securities that are not general obligations of the municipal corporation, securities that a covenants to appropriate annually municipal income taxes or other municipal excises or taxes, and certain other types of securities are excluded from the net indebtedness.

Methods Used by the City

The Deputy City Auditor monitors debt payments using a chart identifying the payee, description, fund and account number, periodic payment amounts and other information related to each issue. Debt issuances are authorized by City ordinance. The statute authorizing the issuance is identified in the ordinance as well as the purpose of the debt, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment.

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

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Debt Issue	Principal Remaining 12/31/10	Pledged Revenues
<u>Governmental Activities:</u>		
<u>Long-Term Loans</u>		
Fire Trucks Loan - 2001 - \$221,000 - 6.04%	\$143,293	General
Fire Trucks Loan - 2004 - \$413,052 - 3%	63,378	General
Jackson County Commissioners CDBG Loan - 2003 - \$50,000 - 0%	<u>23,335</u>	General
Total Governmental Activities	<u><u>\$230,006</u></u>	
<u>Business-Type Activities:</u>		
<u>General Obligation Bonds</u>		
Sewer Farmers Home Administration - 1993 - 5.00%	<u>\$618,000</u>	General
<u>Revenue Bonds</u>		
Sewer Farmers Home Administration - 1993 - 5.00%	<u>1,549,000</u>	Sewer Revenue
<u>OPWC Loans</u>		
Water Line Improvements - 1996 - 0.00%	162,500	General
Water System Rennovations - 1992 - 0.00%	3,990	General
South Water Sludge Basin - 2009 - 0.00%	75,259	General
Green Acres Sewer Line - 2000 - 0.00%	<u>28,804</u>	General
Total OPWC Loans Payable	<u><u>270,553</u></u>	
<u>OWDA Loans</u>		
Water Line Improvement - 1995 - 2.00%	339,785	Water Revenue
Sewer Fund - 1996 - 2.20%	297,575	Sewer Revenue
Sewer Fund - 2001 - 2.20%	<u>512,899</u>	Sewer Revenue
Total OWDA Loans Payable	<u><u>1,150,259</u></u>	
<u>Other Loans</u>		
WSOS Community Action Safe Water - 2002 - 3.00%	<u>21,282</u>	General
Total Business-Type Activities	<u><u>\$3,668,354</u></u>	

The debt will be retired by the funds that receive the proceeds.

Auditor of State Comments

None

City of Wellston – Jackson 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 accounted for and reported in accordance with generally accepted accounting principles (GAAP). Capital assets of the City should be adequately safeguarded against loss or theft. The City should have a policy that defines capital assets, capitalization thresholds, determination of cost, useful lives, method of depreciation, assignment of assets and depreciation expense to an expense function, tracking of capital and non-capital assets, and determination of salvage values. An inventory should be maintained that includes a description of each item, its cost, serial and/or model numbers, date of purchase, location, useful life, salvage value, depreciation information, fund and account used to purchase the asset, tag number, whether the item is leased, and current purchases and disposals. The purchase and disposal of an asset should be properly authorized, reported to and promptly recorded by the Director of Finance, and insurance records adjusted. The transfer or re-assignment of assets should be approved by an appropriate official and promptly recorded. Verification of the listed assets should be performed annually.

Consumable materials and supplies include office supplies, gasoline, salt and wastewater chemicals. Inventories, where appropriate, should be monitored, controlled, and physical counted periodically to determine the items and quantities in existence. A physical inventory of all material items should be conducted at or near the fiscal year end date.

Administrative Code Requirements

Section 117-2-02(D)(4)(c) of the Ohio Administrative Code, requires that all public offices should maintain fixed asset 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. Capital 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 does not have comprehensive written policies for capital assets. The City does not maintain a list of current capital assets. Property deeds are maintained by the City Treasurer in a safety deposit box at First National Bank of Wellston.

Consumable Inventory

The City does not have comprehensive written policies or procedures for consumable inventory.

Auditor of State Comments

- The City does not have written policies and procedures for capital assets and the City does not annually verify the existence of capital assets. The City should prepare and adopt a comprehensive capital asset policy that should address such things as valuing donated assets, assigning salvage values, establishing capitalization thresholds, and determining the estimated useful life of an asset. The City should also prepare written capital asset procedures that include documentation for each asset and prescribe how accountability will be maintained.

City of Wellston – Jackson County

Report on Accounting Methods

- The City does not have written policies and procedures to account for consumable inventory. The City should prepare a policy for consumable inventory. The policy should include an annual year-end physical inventory. Procedures for performing the inventory should also be developed, documented and maintained in the office of the Director of Finance.
- The City does not have a formal written capitalization threshold but in practice the City generally uses \$10,000 as the capitalization threshold. Assets that have a value of less than the minimum value are not capitalized. The City should adjust the capitalization threshold value or establish some other method for accounting for and tracking capital assets below the minimum threshold.
- The City uses Excel spreadsheets to account for and track its capital assets. The use of spreadsheets does not ensure the integrity of the data and spreadsheets increases the risk that a capital assets record may be deleted and not detected in a reasonable period of time. The City should develop or purchase a capital asset accounting system that meets the accounting and reporting requirement of the City.

City of Wellston – Jackson 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 Director of Finance 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 or governing board. The policy shall require that all entities conducting investment business with the Director of Finance 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 in not filed on behalf of the subdivision with the Auditor of State, the Director of Finance or governing board of that subdivision shall invest the subdivision’s interim moneys 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 Director of Finance 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 Director of Finance or governing board certifies, on a form prescribed by the Auditor of State, that the Director of Finance 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 Director of Finance to attend annual training programs of continuing education for directors of finance provided by the Treasurer of State.

Section 9.38, Revised Code, requires that monies received by the City is to be deposited on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the total amount of the monies received does not exceed \$1,000, the City shall deposit the monies on the next business day following the day of receipt, unless the City adopts a policy permitting a different time period, not to exceed three business days following the day of receipt, and the monies are safeguarded until they are deposited.

City of Wellston – Jackson County

Report on Accounting Methods

Federal Requirements

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that, in order for a depositor to have a valid claim to assets of a failed financial institution, there must be a security agreement. This agreement must have been:

1. in writing;
2. executed by the financial institution and the depositor making the claim;
3. approved by the board of directors or loan committee of the institution; and
4. an official record of the financial institution continuously from the time of its execution.

Methods as Described by the City

The City's treasury activities are the responsibility of the City Treasurer. The City has eleven accounts in three banks.

Corporate Account	This First National Bank checking account is used for the general operation of the City and receives all wire transfers to the City.
Permanent Investment Certificate of Deposit	This Milton Bank Certificate of Deposit represents the balance of the City's Permanent Investment Capital Project Fund, which is not spendable per City Ordinance. Interest earned on the certificate is credited to the General Fund.
Cemetery Perpetual Care Fund	This First National Bank savings account is used to hold the unspendable portion of the City's Cemetery Perpetual Care Permanent Fund. Interest earned on the account is credited to the Cemetery Special Revenue Fund.
CDBG Wellston Growth	This First National Bank savings account is used to hold CDBG revolving loan fund monies. Repayments are credited to this account. Money is transferred to the City's Corporate Account when making expenditures.
Program Income	This First National Bank savings account is used to hold CDBG revolving loan fund monies. Repayments are credited to this account. Money is transferred to the City's Corporate Account when making expenditures.
Downtown Business Incubator	This First National Bank savings account is used to hold CDBG revolving loan fund monies. Repayments are credited to this account. Money is transferred to the City's Corporate Account when making expenditures.
Cemetery Certificate of Deposit	This First National Bank Certificate of Deposit earns interest for the Cemetery Special Revenue Fund.
Mine Reclamation Certificate of Deposit	This First National Bank Certificate of Deposit earns interest for the General Fund.

City of Wellston – Jackson County

Report on Accounting Methods

Meters	This PNC Bank savings account represents residual monies from a Water Fund debt reserve account. This account has been inactive for several years. The balance is \$79.31.
Community Housing Improvement	This First National Bank checking account is for activity related to the City's CHIP Special Revenue Fund.

The City Treasurer provides the Mayor and Council members reconciliations of all the bank accounts on a monthly basis, subsequent to the completion of month-end processes.

Monthly statements are received for all accounts except for certificates of deposit. Images of the cleared checks are provided by the banks. The Deputy Auditor reviews cleared checks and flags them as cleared in the accounts payable and payroll systems. The City Treasurer reconciles the accounts monthly. As part of the reconciliation process, the City Treasurer reconciles the receipts and disbursements recorded in the accounting system to the deposits and withdrawals on the bank statements, and reviews the account codes assigned to the receipts. Any discrepancies are noted on the bank statement and posted to the reconciliation by the City Treasurer during the reconciliation process. After each account is reconciled, the reconciled balance of all accounts is totaled and compared to the total fund cash balances on the books. If there is a difference, a Deputy City Auditor will post the amount to the system at this time. When the reconciliations are completed, the City Treasurer signs off on the reconciliations and the books are closed for that month.

The Deputy City Auditors perform the month end closing in the City's accounting system. This starts with a backup of the system. Following the backup, monthly reports are generated from the system. All reports are reviewed for discrepancies. If changes are made, the system is backed up and reports are regenerated. If no discrepancies are noted, the system is backed up, and the files are reset and the system is ready for the next month. This process is usually completed by the 10th of the following month. All reconciliations are filed in the City Treasurer's office.

The City receives interest on the balance in the checking account and certificates of deposit. The City has no investments. The interest is posted to the general fund and occasionally to the motor vehicle license tax and the street construction maintenance and repair funds. The City has no investment policy. The City Treasurer and City Auditor have not attended training on investing offered by the State Treasurer's Office.

Voided accounts payable and payroll checks have "void" stamped on them by the City Auditor and the signature block is cut out. They are filed numerically in the City Auditor's office. Any accounts payable and payroll checks that have not yet been used are also kept in the City Auditor's office in a secure area.

The City maintains three change funds in the City Clerk's office. Each of the three employees in the City Clerk's office is responsible for their own change fund. These monies do not appear on the monthly bank reconciliations.

Auditor of State Comments

The City does not post interest to Street Construction and Maintenance or the State Highway special revenue funds as required by Article XII, Section 5a, Ohio Constitution. The City should allocate interest to the required funds.

Blank checks are stored in the City Auditor's office, in plain sight. The City should keep blank checks in a safe or a locked file cabinet.

City of Wellston – Jackson 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, appropriation and disbursements plus encumbrances should be presented for Council's review. On an annual basis, the Director of Finance should prepare and publish within 150 days of year end financial statements prepared in accordance with generally accepted accounting principals (GAAP).

Statutory Requirements

Section 117.38, Revised Code, requires that 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 the 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 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 filed a copy of its annual financial report to the Office of the Auditor of State for the year ended December 31, 2009 on October 11, 2010. The City Auditor does not publish a notice of completion in the newspaper within ten days after filing.

The City Auditor presents a statement of cash position to each Council member at the end of every month. This report provides month and year to date receipts, disbursements, beginning and ending cash balance, encumbrances, and the unencumbered balance at the fund level.

Other month end reports are maintained in the City Auditor's office and are available for review.

Auditor of State Comments

- At the time the annual financial report is filed with the Auditor of State, the City Auditor must publish in the newspaper notice of the completion of the report and that the report is available for inspection. The City has not published completion of the report in the newspaper for the past several years.

City of Wellston – Jackson 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 the 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.

Statutory Requirements

Section 121.22, Revised Code, requires the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section. Further, the Ohio Supreme Court has held that the minutes must be "full and accurate," which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached.

Sections 731.20 through 731.24, Ohio Revised Code, address the passage, style, number of subjects, authentication and recording, and publication requirements of Council's legislation. In general, no ordinance, resolution or bylaw shall contain more than one subject, which shall be clearly expressed in its title. The copy of the proposed ordinance must be filed with the Council Clerk and kept open for public inspection for ten days. Each ordinance, resolution or bylaw is required to be adopted or passed by separate vote of Council and the yeas and nays shall be entered in the minutes. Ordinances, resolutions or bylaws shall be authenticated by the signature of the presiding officer and clerk. Ordinances and resolutions must be published in an English-speaking newspaper once a week for two consecutive weeks.

Sections 705.84 of the Ohio Revised Code requires that the Board of Control have stated meetings at least twice a week; keep a record of its proceedings; take its votes by yeas and nays, which votes shall be entered on the record; and adopt any motion or order only by a majority of the vote of all members of the board.

Methods Used by the City

The City holds their regular meetings on the first and third Thursdays of each month. The Clerk of Council records and takes notes during the City Council meetings. From those notes as well as an audiotape recording of the meeting, the Clerk of Council prepares the minutes of the meeting. The minutes include who is in attendance, reports that are presented by various departments and officials, a summary of topics discussed, resolutions and ordinances by number and description and the votes thereon, and other upcoming events. The minutes are approved, signed and dated at the next council meeting. The typed minutes, resolutions and ordinances are each kept in separate books which are maintained in the Mayor's office.

Auditor of State Comments

None.

City of Wellston – Jackson County

Report on Accounting Methods

Conclusion

The methods described and included in this report are based on our inquiries and discussions with the City of Wellston personnel and the related procedures documented from the City's 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 Wellston 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.

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Dave Yost • Auditor of State

CITY OF WELLSTON

JACKSON 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
NOVEMBER 10, 2011