



Dave Yost • Auditor of State

**City of Niles
Trumbull County, Ohio
Report on Accounting Methods**

Local Government Services Section

**City of Niles, Trumbull County
Report on Accounting Methods**

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CERTIFICATION

In compliance with the requirements set forth in Section 118.10(A) of the Ohio Revised Code, an assessment of the methods, accuracy, and legality of the accounts, records, files, and reports of the City of Niles 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 non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to Section 118.10 of the Ohio Revised Code, a “Report on Accounting Methods” is hereby submitted and certified to Quentin Potter, Chairman of the Financial Planning and Supervision Commission of the City of Niles; Thomas Scarnecchia, Mayor of the City of Niles and Robert Marino, Council President.

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

David Yost
Auditor of State

January 30, 2018

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City of Niles – Trumbull 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 complied 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 Niles. 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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Governance Overview

The City of Niles (the “City”) is located in Trumbull 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, Niles must comply with all State laws governing City government. The decision making process is directed by an elected City Council (Council) and Mayor. Legislative authority is vested in a seven-member Council. Three members are elected at large and four members are elected by wards for two year staggered terms. A council president, who presides at all meetings of the legislative authority, but has no vote except in case of a tie, is elected at large for a two year term. The Mayor is the chief executive and administrative officer who is elected for a four-year term.

The Council is the legislative authority of the City. Council shall provide for the employment of a Clerk of Council. The Clerk of Council attends all Council meetings and keeps a record of all proceedings, rules, bylaws, and legislation. All legislative powers of the City shall be vested in, and exercised by, the Council.

The Mayor exercises supervision and control over all administrative departments of the City. The Mayor appoints all officers and employees, except the other elected officials and the employees in those departments. The Mayor may also introduce ordinances and make other recommendations to Council. The Mayor has the power to veto ordinances or resolutions.

The City Auditor is elected to a four year term and serves as the chief fiscal officer of the City. The City Auditor shall collect all taxes, assessments, and monies due; disburse funds as authorized; select depositories; invest funds; maintain an efficient general accounting system; specify and supervise departmental accounting; and represent the City with other governmental fiscal agencies. The City Auditor shall serve as fiscal advisor to the Council and assist in the preparation of the yearly budget, appropriation ordinances or resolutions and statements of anticipated income. 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 City Treasurer is the chief custodian of all monies of the City and is elected to a four-year term. The City Treasurer is required to keep the monies 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 City Auditor.

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

A Board of Control which consists of the Mayor, Service Director and the Safety Director approves all contracts let by competitive bid and the renewal of certain other contracts. Decisions are reached with a majority vote of all members.

On October 7, 2014, the City was declared in a state of fiscal emergency by the Auditor of State in accordance with Revised Code Sections 118.03(A)(5) and 118.03(B). 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;
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 whose residency, office, or principal place of professional or business activity is situated within 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 initially adopted a financial recovery plan on May 12, 2015. The financial recovery plan has been amended several times. The most recent amended financial recovery plan was adopted on July 27, 2017. By State statute, the City must operate within the provisions of the recovery plan.

Section 118.27 of the Revised Code provides that the Commission will continue in existence until such time as a determination is made by the Auditor of State, or the Commission itself, one of the following:

1. The City has dissolved under Sections 118.31, 703.20 or 703.201 of the Revised Code, or
2. Have done all of the following:
 - a. An effective financial accounting and reporting system is in the process of being implemented and is expected to be completed within two years;
 - b. All of the fiscal emergency conditions have been corrected or eliminated and no new emergency conditions have occurred;
 - c. The objectives of the financial recovery plan are being met; and,
 - d. 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."

Section 118.31 of the Revised Code provides the procedures for legal action to dissolve a municipal corporation. If a petition is approved by the financial planning and supervision commission, if any, the attorney general shall file a legal action in the court of common pleas on behalf of the State to dissolve a municipal corporation if the municipal corporation has less than five thousand residents as of the most recent federal census, the municipal corporation has been under fiscal emergency for at least four consecutive years, and the implementation of the financial plan cannot be reasonably expected to correct and eliminate all fiscal emergency conditions within five years. If the court of common pleas finds that all of these conditions apply, a receiver is appointed by the court to work with the officers of the municipal corporation to wind up the affairs of and dissolve the municipal corporation.

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of the Office of Budget and Management, and the County Budget Commission; 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: As authorized by Revised Code Section 5705.281, the Trumbull County Budget Commission requires an alternative tax budget containing levy information for all funds that receive property tax revenue to be submitted to the County Auditor as Secretary of the County Budget Commission, by July 20 of each year, for the succeeding year. The County Budget Commission examines the budget to ascertain that all tax levies of the City are properly authorized. The Budget Commission also revises and adjusts the estimated receipts for property taxes and local government fund allocations. On or about October 1, Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

Certificate of Estimated Resources: The County Budget Commission issues an official certificate of estimated resources on or about August 15, based on the revenue estimate submitted by the City and other information available to the County Budget Commission. Section 5705.36 of the Revised Code requires that on or about January 1, the City Auditor certifies the actual year end balances along with total amount available for all services for all City funds to the County Budget Commission. Upon receipt of the information, the County Budget Commission issues an amended 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: Section 5705.38 of the Revised Code requires that on or about January 1, an annual appropriation ordinance must be enacted by Council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the City until April 1. The appropriation ordinance, by fund must be within the estimated resources as certified by the County Budget Commission. 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.

As required by Section 5705.39 Revised Code, 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.

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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.

Section 705.19 of the Revised Code provides that no money shall be drawn from the treasury of a municipal corporation, except in pursuance of appropriations made by the legislative authority, and whenever an appropriation is so made, notice will be given to the Auditor and the Treasurer. Appropriations may be made in furtherance of improvements or other objects or work of the municipal corporation which will not be completed within the current year. At the end of each year, all unexpended balances of appropriations shall revert to the respective funds from which they were appropriated and shall then be subject to future appropriations.

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.

Methods Used by the City

The annual budget process begins in June with the preparation and filing of the alternative tax budget with the County Budget commission. Estimated receipts for the ensuing year are based on current year to date information and any changes in the current economic situation, such as a tax levy increase. Department heads are involved through submitting revenue estimates for the following year. The alternative tax budget is reviewed and adopted by City Council on or about July 15, prior to submitting it to the County Budget commission on or about July 20. The 2018 alternative tax budget was adopted by Council on July 19, 2017.

Council adopted a resolution to authorize the rate of the tax for the levies to be collected in 2018 on September 20, 2017 and certified it to the County Auditor. The County is required to provide the City with a certificate of estimated resources based on the tax budget by September 1. The original certificate of estimated resources was received from the County on October 16, 2017.

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In October, work begins on appropriations for the following year. In preparing appropriations for the next year, all department heads submit estimated budgets based on current year to date information. Between October and November, Council conducts budget hearings with the various department heads. After the budget hearings are complete and department budgets have been revised, the City Auditor prepares the complete budget. The complete budget is usually presented by the Mayor to Council in November or December. Permanent appropriations for the 2018 year were adopted by Council on December 6, 2017. Normally, the City passes permanent appropriations in December. 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 must be approved by Council. Any department requiring an amendment to appropriations notifies the City Auditor. In some cases, the City Auditor may initiate an amendment to appropriations himself, as he monitors them at least monthly. Then, the City Auditor will reach out to the appropriate member of Council to sponsor legislation to revise appropriations.

In January of each year, the City Auditor certifies the year-end fund balances to the County Budget Commission and requests an amended certificate of estimated resources that includes the actual unencumbered fund balances of the preceding year. There are numerous amendments to the certificate of estimated resources throughout the year.

All revenue and appropriation changes are entered into the City's accounting system by the City Auditor within a few days of approval of the County and Council, respectively. The City Auditor compares estimated revenues on the amended certificate to the estimated revenues in the accounting system each time a new amended certificate is received from the County Budget Commission.

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

The City Auditor and department heads monitor actual revenues and expenditures and compare them to budgeted amounts. When large variances occur, an amendment must be made to either the estimated resources or appropriations. The City Auditor then notifies the County of any amendments to the estimated resources. The City Auditor and department head contact the appropriate member of Council to sponsor legislation for an amendment to appropriations.

Auditor of State Comments

- Section 5705.39 of the Revised Code requires that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure, as certified by the Budget Commission. The City Auditor should ensure that appropriations do not exceed the total estimated resources in any of the City's funds.

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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 City Auditor assigns the new fund numbers. The fund numbers are assigned based on a chart of funds that reflects its fund type classification. The current fund structure includes: 100's – General; 200's – Special Revenue; 300's – Debt Service; 400's – Capital Projects; 500's and 800's – Enterprise; 600's – Trust and Agency; 700's – Internal Service. Account codes are assigned and entered into the computer system by the Accountant based on the type of account. Each account code consists of twelve digits. The first three digits designate the fund, the next four digits designate department, the eighth digit indicates revenue or expense, and the last four digits indicate the specific type of revenue or 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 City Auditor’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 generated.

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 alternative 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 computed. At the end of each month, month-to-date totals and year-to-date totals are generated.

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 uses SSI Software Solutions accounting system, a fund accounting software package, to maintain its accounting records. The City has software and system support services with SSI for their various applications. The SSI software incorporates estimated revenues and appropriations by fund and account. 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 City Auditor's Office has a SSI accounting system user manual referencing financial management and payroll processes, including steps to be taken at year-end.

The City uses Municipal Income Tax Solutions software to maintain its income tax functions. The Income Tax department uses the software for tracking income tax on individuals and corporate filers. The software system generates reports and tracks delinquent accounts. Various reports are used for reconciliations of cash transactions. The Income Tax Department has a Municipal Income Tax Solutions user manual referencing the general navigation, inquiries and reports, and income tax processing.

The City uses Continental Utility Solutions, Inc. (CUSI) software to perform its utility billing functions. This software allows the City's Utility Collections department to process utility payments and maintain customer utility account balances. The CUSI reports provide for detail and summarized information regarding daily and monthly utility collections, forms of payment used (cash, check, etc.), utility type (water, sewer or electric), customer balances and delinquent accounts. The user manual is available online and references the entering of customer billing information, the calculating and printing of bills, the receipt of payment and various system reports.

The City's accounting system files and all other program files, such as Microsoft Word and Excel, are backed up by the City on servers located in the Information Technology department. The IT department does daily incremental backups, a nightly backup at the end of each day, weekly full backups and monthly backups. The monthly backup is saved on tapes and brought off-site to the Wellness Center. The tapes are kept in a locked server room at the Wellness Center. The tapes are stored for three months before being overwritten. The SSI accounting system also runs its own automatic backups using a SQL database server.

The City does not have a written disaster recovery plan identifying 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).

Auditor of State Comments

- The City does not have a written disaster recovery plan identifying 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). The plan should address common terminology, preventative measures, a readiness plan, offsite locations and an emergency contact list. The City should develop and implement a disaster recovery plan.

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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 Treasurer's office daily. The City Auditor's office should issue pay-in orders to those departments depositing collections to the Treasurer's office and for any payments received by the Auditor's office. 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.

Section 1901.026, Revised Code, provides that the operating costs of a municipal court that has territorial jurisdiction that extends beyond the corporate limits of the municipal corporation in which the court is located shall be apportioned pursuant to this section among all of the municipal corporations and townships that are within the territory of the court. Each municipal corporation and each township within the territory shall be assigned a proportionate share of the current operating costs of the municipal court that is equal to the percentage of the total criminal and civil caseload of the municipal court that arose in that municipal corporation or township. Each municipal corporation and each township is liable for its assigned proportionate share of the current operating costs of the court.

Methods Used by the City

City Treasurer's Office and City Auditor's Office

All departments, except for the Court, remit their daily receipts along with a copy of the receipt summary to the Treasurer's office. The daily receipts and summary reports are given to the Treasurer's Secretary who adds all checks, counts the cash and verifies that actual receipts match the total amount found on the receipt summary. Some of the departments, including the utility department, have the Treasurer's Secretary sign the receipt summary after verifying the total receipt amount. The Treasurer's Secretary secures all receipts in the safe located in the Treasurer's office until they are deposited.

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The Treasurer's Secretary makes a separate deposit for each department's receipts. The Treasurer's Secretary takes receipts to the bank daily as well as remotely scans in images of physical checks to the City's bank account.

If a department's daily receipts are only comprised of checks or if the department receives a large number of checks on a daily basis, the Treasurer's Secretary uses a check scanner to scan the physical checks into the City's bank account. The checks are automatically deposited to the bank electronically using the check images. The Treasurer's Secretary prints out a Remote Deposits Report verifying the amount of the bank deposit. The physical versions of the checks are stored in a locked file cabinet in the Treasurer's office for 60 days. At that point, it is verified that electronic images exist and the physical copies are shredded.

If a department's daily receipts consist of both checks and currency, the Treasurer's Secretary prepares a deposit slip for the department receipts. Once a day, the Treasurer's Secretary brings the receipts and deposit slip for each department to the bank in a locked bag to make the deposits. A City police officer will escort the Treasurer's Secretary to the bank. The Treasurer's Secretary waits for the deposit to be counted and the amount validated by the bank.

The Treasurer's Secretary makes a copy of each bank receipt and/or Remote Deposits Report. The copy of the bank receipt and/or Remote Deposits Report is given to the Accountant in the Auditor's office. For utility receipts, the Treasurer's Secretary makes a second copy of the bank receipt and Remote Deposits Report to be given to the utility department for their records.

The Accountant in the Auditor's office receives the daily receipt summaries from the departments and uses these to prepare pay-in receipts in the accounting system. Once all pay-in receipts have been entered into the system, the Accountant runs a Receipt Batch Details Report. The Accountant verifies that the amounts on the Receipt Batch Details Report match the bank receipts and Remote Deposit Reports prepared by Treasurer's office. Upon verification, the receipt batch is posted to the system and a Revenue Journal Report is printed showing total daily posted receipts.

The Accountant prints out two copies of each pay-in receipt. One copy is given to the Treasurer's Secretary and the other copy is given to the department employee for their records. The Accountant files the receipt summaries and bank receipts/Remote Deposit Reports in the Auditor's office. Each receipt summary and bank receipt/Remote Deposit Report has the corresponding pay-in receipt number written at the top of it.

The Treasurer's Secretary also maintains the receipt documentation that she files by pay-in receipt number. The receipt documentation kept by the Treasurer's Secretary includes the pay-in receipt, receipt summary prepared by the department, bank receipts and/or Remote Deposit Reports as well as any detailed receipt reports such as utility billing reports.

The City Auditor's office directly receives property tax monies, special assessments, County local government monies and motor vehicle license fees through the mail by check from the County. All mail received by the Auditor's office is sorted and distributed by the City Auditor or Deputy Auditor. The checks are given to the Treasurer's Secretary to scan an image of the check into the City's bank account.

The City Auditor's office processes the receipt of homestead and rollback monies and most Federal, State and local grants received by wire transfer directly into the City's general bank account. The Accountant reviews the OAKS system and the Bureau of Motor Vehicles website each day to view wire transfers that have been received. The Accountant will identify the proper account codes and prepare a pay-in receipt for each wire-transferred receipt. These receipts are then processed and posted the same as all other receipts.

The City Treasurer and City Auditor's office do not take in any significant or regular cash receipts. However, occasionally a citizen may bring various payments in, and the staff will take the payment as a convenience for the constituents. When this occurs, a receipt is prepared and given to the customer.

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Utility Collections Department

The Utility Collections department of the City is responsible for the supervision of and collection for electric, water and sewer services to the City's patrons. The City's utility accounts are broken into four quadrants. Residents are billed on a monthly basis. Payments for utility services can be made by five different methods: (1) in person with cash, check or credit card, (2) by mail, (3) the drop box located at the City administration building, (4) by credit card through the department's online payment system or (5) through automatic bank account withdrawal.

There are three Cashiers who receive utility payments on a daily basis. A receipt is printed from the register and given to the customer for all payments made in person. The Utility Collections department uses Continental Utility Solutions, Inc. (CUSI) software to process utility payments and maintain customer utility account balances. At the end of the day, each Cashier counts the money in their drawer and runs a Posting Report from the CUSI system to verify that receipts match the amounts recorded in the billing system. They put the receipts along with the Posting Report in a gold envelope which is placed in the safe.

The Utility Collections department uses RemitPlus check scanning software to scan checks and automatically deposit them to the bank electronically. A Batch Summary Report is printed from RemitPlus showing total checks deposited with the bank. The physical versions of the checks are stored in a locked cabinet in the Utility Collections department for 90 days and then shredded.

The Utility Collections department uses Authorize.Net to process credit card payments. The Utility Collections department receives a daily Credit Card Settlement Report through email showing total credit card receipts posted to the bank that day. The amount on this report is matched and verified to the credit card receipts found on the CUSI system reports.

In the morning the Assistant Business Manager removes the prior day's receipts and Posting Reports from the safe. The Assistant Business Manager recounts the monies and prepares a daily receipt summary. The total on the daily receipt summary consists of the cash receipts, scanned check deposits, credit card receipts and any automatic bank withdrawal payments and should equal total daily receipts per CUSI reports. The daily receipt summary is given to the Business Manager who recounts the monies and reviews and signs the receipt summary. The cash receipts to be deposited along with the receipt summary are given to the Treasurer's Secretary.

A utility account that is thirty days past due is considered delinquent. Delinquent accounts that are more than 60 days past due are subject to shut-off.

Income Tax Department

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as income of residents earned outside of the City. On March 15, 2016, a majority of the electors voted to approve an increase in the income tax rate to two percent from one and one half percent effective July 1, 2016. The additional half percent of income tax paid on income earned within the City and net profits shall be exclusively used to support the City's police and fire forces. Of the two percent income tax, one percent goes to the general fund and the remaining one percent goes to police and fire. The City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City. It is mandatory that all City residents and corporations file tax returns.

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Report on Accounting Methods

The Income Tax department mails out postcards to the City's residents and businesses reminding them to file their taxes. The postcards are mailed to City residents and businesses in January each year. The annual tax return is due by April 15th. A declaration of estimated taxes for the new year is included as part of the annual return. Estimated tax payments are due quarterly by the last day of the month in April, July, October and January.

Payments to the Income Tax office can be made in person at the City administrative building with cash or check or by mail with a check. Income tax payments are taken by an Income Tax department employee. The payment is entered into the computer system to generate a receipt. Two copies of the receipt are printed out, one copy is given to the customer and the other copy is retained by the Income Tax department for their records. All mail received by the Income Tax office is sorted and distributed by the Income Tax Director.

The Income Tax office uses Municipal Income Tax Software (MITS) to process income tax payments and refunds. The Income Tax office staff members review tax returns along with the supporting calculations and documentation and enter tax payments and refunds into the MITS system. At the end of the day, a Batch Report is printed from the MITS system showing total income tax payments received. The Income Tax Director uses the Batch Report to prepare the daily receipt summary. The daily receipts, consisting of checks and currency, along with the receipt summary are given to the Treasurer's Secretary.

The Income Tax office provides assistance to taxpayers in the preparation of tax returns. No fee is charged for tax preparation.

The Income Tax office will send out notices to individuals who owe delinquent income taxes. Notices are usually sent out during the summer months. The City does not use a collection agency to try to collect on delinquent income taxes.

Building and Zoning Department

The Building and Zoning Department receives payments for all building permits, contractor registrations, electric and plumbing permits and zoning appeal fees. The payments are often made in person with cash or check but some are also received by check through the mail. The customer will fill out a permit application or license registration. The Building Department Secretary will take the application or registration and enter the information into the computer system to generate a permit or registration certificate. The Building Department Secretary prints out two copies of the certificate. One copy is given to the customer and one copy is kept by the Building Department for their records. The Building Department Secretary will also prepare a two part handwritten receipt for the customer. The white copy of the handwritten receipt is given to the customer and the yellow copy remains in the receipt book.

The building and zoning receipts are kept in a locked file cabinet. Every few days, the Building Department Secretary will add up all receipts with a calculator tape and prepare a receipt summary. The receipts along with the receipt summary are given to the Treasurer's Secretary who recounts the monies and verifies the total to the receipt summary before making the deposit.

Wellness Center

The Wellness Center charges a fee for memberships, building rentals and various programs, leagues and camps for soccer, basketball, tennis and cheerleading. Fees may be paid by cash, check or credit card.

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Report on Accounting Methods

The Wellness Center offers memberships for six months or one year. The customer fills out a membership application that is signed and dated. An employee at the Wellness Center enters the membership application information into the computer system content page for each member. Upon payment, the member is given a scan card for the facility. The Wellness Center uses the WIN-PAK system to activate the scan card. Unissued cards are stored inside a box in a cabinet behind the front desk. The unissued cards can only be used upon activation. Prior to the expiration of a customer membership, the Wellness Center will send out reminder emails for renewal as well as call customers.

The Wellness Center currently employs an Athletic Director and three staff employees that monitor activities in the building and operate as cashiers for the collection of fees. The Wellness Center has one cash register. The three staff employees serve as the cashier during their shift. The employee enters the sale transaction into the register. The register prints out two copies of each receipt. One copy is given to the customer and the other copy is kept for the Wellness Center's records. The employee will also record each transaction by receipt number on a transaction sheet log. The log sheet includes the date of the receipt, the receipt number, name of employee who took the receipt, the type of transaction, whether it was a full or partial payment and the dollar amount.

At the end of each shift, both the employee coming off the shift as well as the employee taking over the next shift will count the monies in the cash register. The employees will sign the transaction log at the shift change to verify that both employees agree to the cash register balance.

At the end of every day, the cash registers are closed out and balanced. The employee closing the register will count the monies and print out a Register Report from the point-of-sale system and verify that the amounts match. If there would be any discrepancy, it would be brought to the attention of the Athletic Director. The monies, along with register receipts and the Register Report are put in a gold envelope and placed in the safe overnight.

The next day the Athletic Director will remove the gold envelope from the safe and recount the monies. The Athletic Director signs the Daily Register Report Pay-in sheet and verifies the amount to be deposited. The cash and checks along with the Register Report are given to the Treasurer's Secretary.

Municipal Court

The Niles Municipal Court has jurisdiction within Trumbull County. This encompasses the City of Niles; the township of Weathersfield; and the village of McDonald. The Clerk of Court has several divisions including Civil, Criminal, and Traffic. The deputy clerk for each division has their own cash drawer for the collection and processing of court fines and fees. The Court also has one "floater" clerk that can assist the three divisions. Payments are made in person by cash or money order or received through the mail by money order or certified check. Payments can also be made electronically online with a credit card.

The Niles Municipal Court charges the same fines and court costs for all participating municipalities based on cost and fine schedules established by the Court and in compliance with the requirements of the Ohio Revised Code. The Clerk's Office maintains a current schedule of these rates and costs schedules and each employee of the Municipal Court possesses a copy.

Each day, the police turn over all traffic violations to the court. The deputy clerk enters the traffic case information into the computer system. If the case is waivable, the person may pay the amount without going before a judge. The traffic deputy clerk collects and processes receipts for traffic violations. The deputy clerk enters the amount received into the system and prints out a receipt to give to the customer. The Court does not print a physical copy of the receipt for its own records since the receipt information can be pulled up within the system at any time.

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The same procedure is used for criminal cases and non-waiverable traffic cases except that the defendant must go before a judge. The judge writes the amount of the fine and costs on a disposition entry which is given to the bailiff. The bailiff gives the deputy clerk the disposition entry for use in processing. The judge also submits the disposition entry electronically through the computer system. If the client is unable to pay his or her fines that day, they sign an “Extended Payment of Fine Agreement”, which allows the defendant to make payments; however, the judge must authorize the payment agreement. If the judge does not authorize the payment agreement, the client must wait at the court until the fines and court costs are paid.

When a civil case is filed with the Court, the deputy clerk enters the case information into the computer system. Civil court monies are usually received by mail and get processed by the civil deputy clerk.

If a client is more than 60 days delinquent on a payment for any outstanding cases, the Court turns over the account to a collection agency and also places a hold on future license renewal.

At the end of the day, each deputy clerk counts their receipts for the day and prints out a Daily Cash Book Report from the system. The deputy clerks verify that their receipts match the total amount found on their Daily Cash Book Report. Each deputy clerk will give their receipts and Daily Cash Book Report to the Court Administrator/Bookkeeper who recounts the monies and prepares two deposit slips, one for the traffic/criminal account and one for the civil branch account. Each deposit slip has two parts. The deposit slips and receipts are placed in a bank bag and locked in the safe.

The next day the Court Administrator/Bookkeeper opens the safe and gives the bank bag to the Bailiff who takes the deposit to the bank. Occasionally, the Clerk of Courts will take the deposit to the bank. After the deposit is made, the Bailiff or Clerk of Courts returns the bank bag along with the yellow copy of the deposit slip and the bank receipt to the Court Administrator/Bookkeeper.

The Court’s previous month receipts are disbursed by check to the City and the various municipalities and agencies at the beginning of every month. Prior to the receipts being disbursed, the Court Administrator/Bookkeeper prints out and reviews the Monthly Cashbook Report, which subtotals receipts by day, and looks for any noticeable coding errors. The Court Administrator/Bookkeeper will next print out all detailed receipt reports. Each detailed report shows the total monthly amount for a specific type of receipt. The Court Administrator/Bookkeeper uses the monthly reports to prepare a Monthly Disbursement Summary for the disbursement of Court receipts.

The City’s portion of Court receipts is sent by check along with the Monthly Disbursement Summary to the Auditor’s office. The Accountant receives the check and posts the receipts to the system. The Accountant prints out a copy of the pay-in receipt that is given to the Court for their records.

Auditor of State Comments

- According to Revised Code Section 9.38, all monies receipted must be remitted to the City Treasurer by the next business day after receipt. If the amount is less than \$1,000 and a policy is specifically adopted outlining the procedures, the monies can be held up to a maximum of three business days after the day of receipt. The Building and Zoning department frequently holds monies for more than a day. On two separate instances in the past year, the Income Tax department has left boxes of unopened checks sitting on the floor for months. The City should ensure that cash receipts are being remitted daily, or institute a specific policy outlining how many days it may be held, up to a maximum of three, and relevant procedures.
- There is no cross-training on job responsibilities in the Income Tax department. Employees should receive cross-training on Income Tax department job responsibilities.

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Report on Accounting Methods

Purchasing Process

Description of an Effective Method for Purchasing

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and the 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 City Auditor'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.

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Report on Accounting Methods

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 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 signed off on in the name of the City by the Service Director, Safety Director or City Auditor, except as otherwise specified by State statute. The contracts are then accepted by the Board of Control. Contracts over \$50,000 must go through competitive bidding.

Bidding - Section 735.05 of the Revised Code states that all contracts calling for expenditures in excess of \$50,000 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.

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Report on Accounting Methods

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(I) of the Revised Code states any bid or unbid contract, purchase order, or collective bargaining agreement with a value of more than \$500 requires the vendor to certify to the contracting authority that the vendor has not made a contribution to the contracting authority within the two previous calendar years, one or more contributions totaling in excess of \$1,000.

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 City department makes the decision that they need to purchase an item or obtain service from an outside vendor. This process is initiated by a requisition. The City uses Software Solutions, Inc. (SSI) to create the requisition and subsequent purchase order. Each department has access to the requisition application in SSI and either the department secretary or department head enters the necessary information to create the requisition. The requisition includes the name of the department submitting the requisition, the date of the requisition, a description of the planned purchase, the account code from which the purchase will be made, and the dollar amount of the purchase. The requisition is submitted electronically through the SSI system to the department head for approval.

Upon approving the requisition, the department head submits it within the SSI system to the Auditor’s office. The City Auditor or Deputy Auditor pulls up the requisition in the SSI system and verifies that the proper account code was entered and checks to see that sufficient funds are available to cover the amount of the requisition. In the event that sufficient funds are not available for the given account code, the requisition is returned to the respective department and the department is notified that there are not sufficient funds. The department then has the option to either transfer funds from a different account code to the one in question, or they can go through the appropriation process to get additional funds appropriated. If appropriated funds are available, the City Auditor or Deputy Auditor approves the requisition.

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Next, based on the amount of the requisition, it is submitted to either the Service Director or the Board of Control for final approval to verify that the expenditure was necessary. Requisitions under \$500 are submitted to the Service Director whereas requisitions of \$500 or more must be submitted to the Board of Control for approval. The Board of Control meets once a week every Wednesday morning to approve requisitions. After receiving approval from either the Service Director or the Board of Control, the requisition is resubmitted via the SSI system to the Auditor's office. The City Auditor or Deputy Auditor assigns a purchase order number to the requisition and a purchase order is automatically created in the system. The department head logs into the SSI system to view and print out the purchase order. The department head will send the printed purchase order along with a copy of the invoice to the Auditor Clerk upon verifying the receipt of goods. The Auditor Clerk records all purchase orders on a handwritten purchase order log for quick reference.

A vendor list is maintained by the Auditor's office. For new vendors, individual department heads or secretaries contact the vendors and gather all the required information to be sent to the Auditor's office. The Auditor Clerk files new vendor information in a file folder kept in her desk cabinet. The City Auditor, Deputy Auditor, Accountant and Auditor Clerk are the only individuals that can add new vendors to the system. Purchase orders can only be created using a vendor from the approved vendor list. The City does not request but will sometimes still receive an IRS Form W-9 from the vendors. The City does not conduct a search of the Auditor of State Findings for Recovery Database to ensure there are no findings for recovery against the new vendor.

There is no official process for selecting a vendor for a purchase. Some department heads request quotes from vendors before deciding who to order from, but obtaining quotes is not currently part of City policy. The vendor is typically chosen based on familiarity with a vendor for a given product which is developed over time.

Blanket purchase orders are used for items such as healthcare, utilities, postage and miscellaneous supplies. As expenditures are made against these blanket purchase orders, invoices will be sent along with copies of the blanket purchase order to the Auditor Clerk who processes them in the same way all other invoices are processed.

Council authorizes the City to advertise for bids. The Service Director advertises for bids in the Tribune newspaper and occasionally on the City's website. Bids are submitted from the various bidders along with any required documents. The sealed bids are received by Service Director and City Auditor and are time stamped upon being received.

At the bid opening, the sealed bids are opened and a list of vendors and bid amounts is created. The Service Director, department heads, Mayor's Secretary, contractors and the engineering firm hired by the City are present at the bid opening. Sometimes, the City Auditor and Mayor are also present. The Mayor's Secretary records the minutes for the bid opening.

The engineering firm reviews all bids and documents and brings them to the Law Director for legal review. Upon the Law Director's review, the documents are returned to the engineering firm who then makes a recommendation to the Service Director. Once the contract has been awarded, the engineering firm notifies the contractor that was awarded the bid. The contract is signed by the Service Director, the Law Director, the engineering firm and the contractor. Certain contracts may also be signed by the Mayor and/or City Auditor. The original signed contract is filed in the City Auditor's office. A copy of the signed contract is given to the engineering firm, the contractor and the City's engineering department.

The Municipal Court for the City of Niles does all their purchasing through the City. Requests are processed through the SSI requisition application in the same manner as the other City departments.

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Auditor of State Comments

- The original purchase order is not sent to the vendor automatically and is only sent upon request by the vendor. The purchase order should always be mailed, faxed, or emailed 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 and save that documentation.
- The City will issue purchase orders to a vendor before all the required information has been turned in and the City Auditor has given approval. The City should have all new vendors fill out the IRS Form W-9 and the City Auditor should approve the vendor before placing orders with that vendor.
- The City Council, per Section 5705.41(D), Revised Code, should establish, by resolution or ordinance, the maximum amount for blanket purchase orders to be issued by the City Auditor's office. Blanket purchase orders used without the City Council having set a limit are not valid because the City does not have the authority to use blanket purchase orders without the action by City Council.

City of Niles – Trumbull County

Report on Accounting Methods

Cash Disbursements

Description of an Effective Method for Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the City. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips or receiving copy of the purchase order, a comparison of the prices on the invoice to the purchase order, and 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 City Auditor and a determination whether there is adequate cash in the fund to pay the obligation. All warrants should be signed by the City Auditor 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 \$3,000, 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 Auditor Clerk performs the disbursement functions, with the review and approval of the City Treasurer and City Auditor.

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Report on Accounting Methods

The cash disbursement process begins with the receipt of goods and services. These goods and services are delivered directly to the department that originated the purchase order. At that time, the department head verifies that the goods received and the accompanying invoice match the purchase order. After verification, the department head attaches the invoice to the purchase order and sends both to the Auditor Clerk. The receipt of the invoice and purchase order indicates to the Auditor Clerk that all goods have been received and that the invoice is ok to pay.

The Auditor Clerk logs into the accounts payable application in the SSI system to process the payment of invoices. The Auditor Clerk pulls up the corresponding purchase order information for each invoice. She then enters the invoice number, date of the invoice and the invoice amount into the system. The system automatically assigns check numbers.

The warrant checks are then ready to be printed for payment. The warrant checks are printed from the system onto blank, perforated check paper that does not contain the City's name, account number, check number or any other information. This information is printed on the check through the check-printing process. The check printing software application, Secure Check, is username and password protected. The City Treasurer and City Auditor's signatures are both required on the check. The signatures for the City Treasurer and City Auditor are saved in the printer and print on the warrant checks. When the checks are printed, the computer system automatically updates the related encumbered balance, account balance, and overall cash balance. The Auditor Clerk matches the stack of printed checks to each invoice to verify that the checks have been issued to the proper vendors for the correct amounts. The Auditor Clerk also prints out two copies of the Check Register report. One copy is given to the City Treasurer and the other copy is filed in the Auditor's office.

If an invoice is received that has no purchase order attached, the Auditor Clerk sends the invoice back to the department and notifies them that a purchase order needs to be obtained before sending the invoice back. The department head must then complete a "then and now" purchase order and send this back along with invoice to the Auditor's office. The City Auditor approves and signs the "then and now" purchase order if the purchase was necessary and appropriations are available. The City Auditor then gives the "then and now" purchase order and invoice to the Auditor Clerk to process the payment.

In some instances, the invoice amount will exceed the amount of the purchase order. The price difference is usually due to shipping costs that were not included in the purchase order. If the invoice amount exceeds the purchase order by 10 percent or less, the purchase order is marked complete and the invoice is paid in full. However, if the invoice amount exceeds the purchase order amount by more than 10 percent, the Auditor Clerk sends the purchase order back to the department. The department head will then submit a request for additional funds by filling out a "then and now" purchase order which will need to be approved by the City Auditor.

The Auditor Clerk processes checks each day. After the daily check run is complete, voucher packets are created that consist of a copy of the check and its corresponding purchase order and invoice. The voucher packets are put in numerical order by check number. The Check Register report is placed on top of the stack of daily checks and everything is rubber banded together and filed in the Auditor's office.

Most debt payments are made by automatic wire transfer. The Treasurer's Secretary notifies the Accountant in the Auditor's office of any wire transfer payments hitting the bank account. The Accountant posts memo expenditures to the SSI system to record the electronic payments.

Voided accounts payable checks have the word "VOID" written across the warrant. The Auditor Clerk will also mark on the Check Register report that the check was voided. The voided checks are given to the Treasurer's Secretary who files them in the Treasurer's office.

City of Niles – Trumbull County

Report on Accounting Methods

Auditor of State Comments

- The City Auditor does not review the checks after they are printed and electronically signed. The City Auditor should review the printed checks to ensure that the checks are complete and to ensure that the amounts have not been changed.
- The City Auditor should document the procedures for cash disbursements including the staff positions and their functions. This document should also include procedures for invoices exceeding the purchase order and the use of “Then and Now” certifications. The document should be kept on file in the City Auditor’s office. The document should be reviewed periodically to ensure procedures are followed and it is kept up to date.
- The City Council, per Section 5705.41(D)(1), Revised Code, should approve all “Then and Now” purchase orders in excess of \$3,000 within thirty days. The City does not have the authority to issue “Then and Now” certifications in excess of \$3,000 without action by City Council.
- Invoices are mailed to the 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’s office.

City of Niles – Trumbull County

Report on Accounting Methods

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of the payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross 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.

Section 731.08, Revised Code requires the legislative authority of a City to fix the compensation and bonds of all officers, clerks, and employees of the City except as otherwise provided by law. All bonds shall be made with sureties subject to the approval of the Mayor.

Methods Used by the City

There are 179 full-time employees and 22 part-time employees with the City. Hourly employees are paid biweekly and salary employees are paid twice a month. For hourly employees, the pay period begins on Sunday and ends on Saturday two weeks later. Pay checks are distributed to hourly employees every other Friday. Salaried employees are paid twice a month, once at the beginning of the month and once around the middle of the month. The Mayor, Council and Civil Service employees are paid monthly on about the 5th of each month. 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 contains the payroll-related information kept in the City Auditor's office. The City Auditor, Deputy Auditor and Payroll Clerk have access to change employee records in the payroll system.

City of Niles – Trumbull County

Report on Accounting Methods

Timesheets are used for all hourly and salaried employees. The department head prepares a weekly timesheet for all employees in their department. The timesheets show the dates, hours worked each day, leave taken and accumulated hours for the pay period. Each department head will also prepare an overtime summary for approved overtime hours worked by department employees. These overtime summaries along with the timesheets are signed by the department head and submitted to the Payroll Clerk. Elected officials are not required to track hours worked.

In addition to the use of timesheets, all hourly employees, except for police and fire, punch into a time clock every day. The time clock is operated through Time Force. The Payroll Clerk transfers the information from the Time Force application into the SSI payroll system. The payroll information from Time Force is compared to the weekly timesheets for hourly employees.

Non-Bargaining Unit Employees - City Ordinance 39-15 establishes the rates and ranges of pay for all employees not covered under a union contract. All non-bargaining unit employees, except for members of the executive branch, directors and professionals, are eligible to earn overtime compensation.

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

Police Lieutenants and Captains - The Police Lieutenants and Captains are covered by a negotiated agreement between the City of Niles and the Ohio Patrolman's Benevolent Association. The contract covers the period of January 1, 2016 to December 31, 2018. The contract contains detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Police Lieutenants and Captains are eligible to earn overtime compensation.

Police Patrolmen - The Police Patrolmen are covered by a negotiated agreement between the City of Niles and the Fraternal Order of Police Ohio Labor Council, Inc. The current contract covers the period of June 1, 2016 to May 31, 2019. The contract has detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Police Patrolmen are eligible to earn overtime compensation.

Police Full-Time Dispatchers - The full time Police Dispatchers salaries and benefits are governed by a negotiated agreement between the City of Niles and the Ohio Patrolman's Benevolent Association. The contract covers the period of January 1, 2016 to December 31, 2018. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Police Dispatchers are eligible to earn overtime compensation.

Fire Fighters - The fire fighters are covered by a negotiated agreement between the City of Niles and the International Association of Fire Fighters, Local 320. The current contract covers the period of January 1, 2016 to December 31, 2018. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Fire fighters are eligible to earn overtime compensation.

Service and Clerical - The non-administrative service and clerical employees' salaries and benefits are governed by a negotiated agreement between the City of Niles and the American Federation of State, County and Municipal Employees Council 8 and Local 506. The contract covers the period of January 1, 2016 to December 31, 2018. 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.

City of Niles – Trumbull County

Report on Accounting Methods

Elected Officials - City Ordinance 31-11 establishes the Mayor's salary at \$69,000 annually over the four-year term. City Ordinance 31-11 also establishes the annual salary for the Council President at \$7,300 and Council Members at \$7,000. The Mayor's and Council's salaries are paid monthly.

Overtime and Compensatory Leave – Employees work overtime in all the departments at the discretion of the department head. The overtime rate paid is time and a half. An overtime summary sheet is prepared and submitted for hourly and eligible salaried (foremen and police rank) employees that worked overtime. The overtime summary sheet shows the dates and hours of overtime worked. Overtime is usually also documented on the department timesheet. Compensatory time is earned in place of paid overtime at time and a half for all eligible employees.

Leave – Vacation, personal and sick leave is credited to each employee at the appropriate accrual rates indicated in the negotiated agreement or City Ordinance. Forms are used to request time off and are signed by the department head and the Service Director or Mayor. The departments mark leave taken on the timesheets. The Payroll Clerk tracks sick, personal, and vacation balances for each employee on an Excel spreadsheet. Each quarter, the Payroll Clerk matches the leave balances on her spreadsheets against the balances in the payroll system to verify that the amounts match and that there are no discrepancies.

Payroll Processing – The Payroll Clerk has hand-written procedures for payroll processing. All approved department time sheets are submitted to the Auditor's Office for processing. The time sheets for hourly employees must be submitted on Monday morning following the end of the pay period. The time sheets for salaried employees must be submitted by the next day following the end of the pay period. The Payroll Clerk transfers the information from the Time Force application into the SSI payroll system. The Payroll Clerk enters leave taken and overtime worked into the system. When the payroll information is entered, a Time Card Proof report is produced in the SSI accounting system. The Payroll Clerk checks the Time Card Proof report against the timecard information in the Time Force application, the department time sheets and overtime summaries to verify that the information matches. The Payroll Clerk also checks to see that each full-time employee has 80 hours entered and that there are no noticeable errors.

The Payroll Clerk prints out various other reports including a Pay Period Check Summary which shows employee gross and net pay for all employees, an ACH Payroll Period Report which lists employee direct deposit amounts, deduction check registers listing all payroll deductions and a Pay Period Register Report which shows all detailed payroll information for the pay period. The Payroll Clerk also generates a Payroll Distribution Report that she reviews for any noticeable errors. If the Payroll Clerk finds any errors, she goes to the Deputy Auditor to help resolve the issue.

Once the various payroll reports are reviewed and deemed accurate, the checks are processed by the system. The City uses Secure Check, a check printing software application which is username and password protected, to print checks. The signatures for the City Treasurer and City Auditor are saved in the printer and print on the payroll checks. The payroll checks and direct deposit earnings statements are given to the Treasurer's Secretary in the Treasurer's office who puts them in envelopes and distributes them.

The City Treasurer transfers funds from the general checking account to the payroll account when needed to cover payroll. From the payroll account, electronic fund transfers are made for direct deposit, medicare and federal and state taxes when due. Checks are printed 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.

Each month, the Auditor's office provides the Treasurer's Secretary with various payroll reports including the payroll check register and deduction reports to assist in the City's monthly reconciliation.

City of Niles – Trumbull County

Report on Accounting Methods

Internal Revenue Service W-2 forms are processed during January of the new calendar year. W-2 forms are distributed to all employees by the end of January. The Payroll Clerk uses instructions printed each year in the SSI handbook for processing W-2 forms and submits them to the IRS.

Payroll Deductions – Payroll, tax, and retirement forms are distributed to each new employee to be completed and returned to the City Auditor's Office. The Payroll Clerk enters the employee's demographic and salary information into the computer. She 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 every pension period, 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 as well as the Ohio Police and Fire Pension System report and payment are due the thirtieth of the following month. Employee contributions for OPERS and the Ohio Police and Fire Pension System are due monthly. The payment is made by check.

Retirement - When an employee wishes to retire, he or she must sign a form stating their intention to retire. This signed form is kept in the employee's personnel file. 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.

The Payroll Clerk checks the employee's leave balances per her Excel spreadsheet against the leave balances in the payroll system. The Payroll Clerk uses the employee leave balances to calculate the employee's final payout. This calculation is given to the City Auditor to review and approve.

Auditor of State Comments

- The City does not have written procedures regarding the payroll process. The City Auditor's office should document its payroll procedures and maintain them on file.
- The employee who processes payroll has access to and is responsible for making rate adjustments and changes to the employee master file. An employee who does not process payroll should make rate adjustments and changes to the employee master file.
- The City does not have payroll policy. The City should prepare a comprehensive payroll policy which should include leave accruals, overtime, vacation etc. and have it approved by Council.

City of Niles – Trumbull County

Report on Accounting Methods

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before any debt is issued, a resolution or ordinance authorizing the issuance of debt should be passed by the Council. The statute authorizing the issuance should be identified in the ordinance/resolution 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 City Auditor. Debt proceeds should be received into a separate fund and used only for the purpose specified in the authorizing legislation. Money to be used for debt payments may be received in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. Specific statutes relating to cities issuing debt 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

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 Auditor monitors debt payments using the debt service schedules and other information related to each issue. Payments on the general obligation bonds and capital lease are made by automatic electronic withdrawals. Payments on the accrued police and fire pension liability are made twice a year by check. When the City Auditor receives the invoice from the Ohio Police and Fire Pension Fund, he gives it to the Auditor Clerk to process the payment. The OWDA loan is not finalized and debt service payments have not started yet.

City of Niles – Trumbull County

Report on Accounting Methods

The City’s outstanding debt obligations as of December 31, 2017 are as follows:

	Interest Rate	Maturity Date	Principal Outstanding 12/31/2017
	<u> </u>	<u> </u>	<u> </u>
Governmental Activities			
2011 Various Purpose General Obligation Bonds	0.7% - 4.5%	2031	\$2,460,000
2017 Various Purpose Improvement Bonds	4.00%	2027	1,600,000
Capital Leases	4.35% - 4.5%	2020	276,777
Police and Fire Pension Liability	N/A	2035	<u>318,556</u>
Total Governmental Activities			<u>\$4,655,333</u>
Business-Type Activities			
General Obligation Bonds:			
Water - 2011 Various Purpose	0.7% - 4.5%	2031	\$850,000
Sewer - 2011 Various Purpose	0.7% - 4.5%	2031	<u>2,380,000</u>
Total General Obligation Bonds			3,230,000
WWTP Upgrades OWDA Loan	0.73%	2038	30,144,936
Potential Stranded Cost Liability	N/A		<u>2,388,571</u>
Total Business-Type Activities			<u>\$35,763,507</u>
Total Debt			<u><u>\$40,418,840</u></u>

The governmental general obligation and improvement bonds will be paid out of the general fund. The capital leases will be paid out of the general, permissive tax, street and state highway funds. The police and fire pension liability will be paid from taxes out of the police and fire pension special revenue funds. The business-type general obligation bonds will be paid from charges for services out of the water and sewer funds. The OWDA loan for WWTP upgrades will eventually be paid out of the sewer fund. The potential stranded cost liability for the City’s estimated share of the impaired costs relating to a terminated project with American Municipal Power (AMP) will be paid from the light fund.

Auditor of State Comments

None

City of Niles – Trumbull 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 City Auditor, 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 has no written policy for capital assets. The City maintains a capitalization threshold of \$10,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The City does not have any record of its capital assets. The City's GAAP converter, Julian & Grube, Inc., determines capital asset additions each year based on expenditures above the capitalization threshold for specific expenditure object lines. Capital assets that meet the threshold amount are reported as capital outlay for budgetary and entered into the capital assets inventory by the GAAP converter. The classification of capital assets includes land, land improvements, buildings and improvements, equipment/vehicles, water, sewer and electric lines, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The City only reports asset additions and disposals to their insurance company for insurance purposes. The City does not actively maintain a listing of its assets. The insurance company has a list of the insured assets identified by the City.

City of Niles – Trumbull County

Report on Accounting Methods

The City uses an Internet-based auction system through a contract with GovDeals, Inc., to provide a means for the sale of surplus, unneeded, obsolete and unfit personal property. The primary sales through the internet site are vehicles that have been in the City's impound lot. The police chief is in charge of these sales as the proceeds from the sale of these vehicles goes to the police department. Other departments reach out to the police chief to sell old vehicles on the GovDeals internet site. Once the vehicle has been sold, the proceeds will be returned to the department that previously owned the vehicle. Then, the insurance company will be contacted to remove the asset from the City's insured assets.

Construction in progress (CIP) is determined by the GAAP converter. Since expenditures are not described as CIP, the converter has to identify items that could be from open construction projects. Then, they must ask the City Auditor whether it is an open project or the project has been completed as of year-end.

Depreciation is calculated on a straight-line basis. In the year an asset is acquired, a half year of depreciation is used. A full year of depreciation is then used for the asset each following year until the asset is fully depreciated or disposed of. In the last year of the asset's useful life or at the time of disposal, whichever occurs first, the remaining half year of depreciation is taken.

There is no annual evaluation of the City's assets since the City has no formal capital asset policy or records. The City has no records to update with the annual additions and disposals.

The City does not do any asset tagging, either City-wide or by department. There is no way for the City to track its capital assets.

Consumable Inventory

The City has no written policy for consumable inventory. There is no physical inventory taken annually. Each department orders supplies as they are needed. The City does not keep a large stock of supplies or other consumable inventory on hand. No inventory is reported in the City's financial statements.

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. The policies for capital assets should be approved by Council.
- 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 City Auditor. The policies for consumable inventory should be approved by Council.
- The City does not maintain capital assets or inventory records. The City should acquire software and maintain or hire an appraisal firm to maintain accountability over its capital assets.

City of Niles – Trumbull County

Report on Accounting Methods

- The City does not assign salvage value to depreciable capital assets. In accordance with GASB Statement No. 34, depreciation expense should be calculated by allocating the net cost of depreciable assets over their estimated useful lives. The net cost of depreciable assets is defined as historical cost less estimated salvage value. The City should assign salvage values to depreciable assets and recalculate annual and accumulated depreciation.
- The City does not use asset tags at all. Assets should be tagged in every department and the tag number should be entered on a fixed asset acquisition form as well as in a capital asset reporting system.
- The City does not perform an annual inventory of consumable supplies. The City should perform an annual inventory of consumable supplies as close to year end as possible to substantiate its inventory balance at December 31.
- The City does not complete a physical inventory to verify the existence of capital assets. The City should complete a physical inventory every two to three years to verify the existence of capital assets.
- The City does not have a written capitalization threshold but, in practice, the City generally uses \$10,000 as the capitalization threshold. The City should formally establish the capitalization threshold value and document the threshold in the City's Capital Asset Policy.
- The City is not using a formal capital asset addition or disposal form. In order to better track asset additions and dispositions, the City should enact a policy that documents these transactions.

City of Niles – Trumbull 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. Idle cash should be invested in interest bearing accounts, certificates of deposit, STAR Ohio, and/or other investments as authorized by State statute. Investment transactions should be conducted in accordance with the policies adopted by City Council. Deposits of public monies should be insured and/or collateralized to ensure repayment of public monies deposited with a financial institution. Interest allocated should be in accordance with the Ohio Constitution and State statutes.

Reconciliations should be completed for all accounts on a monthly basis. The reconciliations should be completed immediately after the books are closed for the month and 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.

City Codified Ordinances

Codified Ordinance 135.01 “State Treasury Asset Reserve” authorized the City to participate in STAR Ohio. Codified Ordinance 135.02 “Investment Policy” approved the “Investment and Depository Policy” (Ordinance 224-1996).

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 Treasurer 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 Treasurer or governing board. The policy shall require that all entities conducting investment business with the Treasurer or governing board shall sign the investment policy of that subdivision.

Section 135.14(O)(2), Revised Code, states, “if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Treasurer 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 Treasurer 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 Treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the Treasurer or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code.”

City of Niles – Trumbull County

Report on Accounting Methods

Section 135.22, Revised Code, requires the Treasurer to attend annual training programs of continuing education for directors of finance provided by the Treasurer of State. The Treasurer is not subject to this training if the investments are limited as defined by the Revised Code and an exemption form is certified by the Treasurer of State.

Section 9.38, Revised Code, requires that monies received by the City are 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.

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 Used by the City

The City's treasury activities are the responsibility of the Treasurer's office. The City has eight accounts in three banks. The City does not have any petty cash accounts.

Farmers National Bank serves as the primary depository where the general account receives wire transfers and deposits of the City. Checks are written against this account for City obligations other than payroll. Transfers are made from this account to the payroll account when needed. The ability to transfer funds from one account to another is specifically restricted to the Treasurer's office. The general account does not earn interest. The Treasurer's Secretary makes deposits to the general account each business day and gives copies of the bank receipts to the Accountant in the Auditor's office. The Treasurer's office and the City Auditor have access to view online banking accounts.

The City has various bank accounts with Farmers National Bank, Huntington Bank, PNC Bank and Home Federal Savings and Loan. These accounts are as follows:

Bank and Account Description

Farmers National Bank	This general checking account is used for the general operations of the City.
Huntington National Bank	This checking account is used to cover outstanding checks from the prior operating account.
Farmers National Bank	This checking account is used for the accumulations and distributions of funds for utility department operations.

City of Niles – Trumbull County

Report on Accounting Methods

Farmers National Bank	This checking account is used for the accumulations and distributions of funds for the Wellness Center.
Farmers National Bank	This checking account is used for the accumulations and distributions of funds for income tax withholdings submitted online through Ohio Business Gateway.
Farmers National Bank	This checking account is used for accumulations and distributions of funds related to payroll activities.
PNC Bank	This account is used to cover outstanding payroll checks from the prior payroll account.
Farmers National Bank	This money market account is used as a savings account of the City.
Huntington National Bank	This money market account is used as a savings account of the City.
Home Federal Savings & Loan	This account is used as a savings account for the general operations of the City.
Home Federal Savings & Loan	This account is used as a savings account for bond retirement obligations of the City.

The general account, along with all remaining accounts, is reconciled at the end of each month by the Treasurer's Secretary. The various banks provide monthly account statements as well as images of the cleared checks. The Treasurer's Secretary prepares an outstanding check list in Excel for both operating and payroll checks. The Treasurer's Secretary starts with outstanding checks at the beginning of the month, removes previous checks that cleared during the month and adds in new checks issued during the month that have not yet cleared. As part of the reconciliation process, the Treasurer's Secretary reconciles the receipts and disbursements as posted to the books to the deposits and withdrawals on the bank statements. The Treasurer's Secretary identifies all timing and non-timing reconciling adjustments. The reconciling adjustments are entered on the reconciliation as well as noted on the supporting documentation. The reconciliation is complete when the total fund cash balances on the books plus all identified reconciling adjustments matches the adjusted bank balance.

Upon completion of the reconciliation, it is reviewed and signed by the City Treasurer. The reconciliation is then given to the Accountant in the Auditor's office who books any non-timing reconciling adjustments to the system and closes the books for that month. This process is completed by the 15th of the following month. The Treasurer's Secretary keeps all supporting documentation used in the preparation of the monthly bank reconciliation. The City Treasurer's office and the City Auditor's office both keep a copy of the signed reconciliation for their records.

The City receives interest on the balance in three of its bank accounts. All interest is posted to the general fund. The City has an investment policy on file in the Treasurer's office. The investment policy does not address the allocation of interest. The City Treasurer has attended training on investing offered by the State Treasurer's Office.

City of Niles – Trumbull County

Report on Accounting Methods

The Municipal Court has two checking accounts with Home Federal Savings and Loan, a traffic/criminal account and a civil account. Both accounts earn interest. Deposits are made daily by the Bailiff. The Court Administrator/Bookkeeper reconciles the accounts at the end of each month.

Auditor of State Comments

- The City's investment policy does not address the allocation of interest. It should be updated and filed with the Treasurer's office.
- The City does not post interest to the street or state highway special revenue funds as required by Article XII, Section 5a, Ohio Constitution. The City should allocate interest to the required funds.
- The City does not have written policies and procedures for change funds. Written procedures should be developed for the change funds which include the individual designated as the custodian of the cash and the custodian's duties and responsibilities.
- The City does not include the amount of change funds maintained within City offices on the monthly reconciliations. The change funds should be included on the City's monthly reconciliation.

City of Niles – Trumbull 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 City Auditor should prepare and publish within 150 days of year end financial statements prepared in accordance with generally accepted accounting principles (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

Ohio Administrative Code section 117-2-03(A)(1) requires that local public offices file their annual financial report electronically with the Auditor of State through the annual financial data reporting system (The Hinkle System) via an entity-specific link, unless the local public office has an approved waiver. A copy of the report is to be retained by the fiscal officer of the local public office.

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, 2016 on May 30, 2017. For 2016 and prior years, the City has not published a notice of the availability of the financial statements in the local newspaper.

Monthly reports are printed by the 15th of each month. The City Auditor's office keeps copies internally for their reference but will print additional copies upon request. Copies of the monthly reports are given to the Mayor and City Council each month.

The monthly financial reports consist of the following:

Statement of Cash Position Report: This report provides the beginning fund balance, year-to-date receipts and disbursements, outstanding encumbrances, and ending fund balances for all funds.

Check Report: This report lists all monthly budgetary checks, ACH and EFT payments as well as payroll deduction checks.

City of Niles – Trumbull County

Report on Accounting Methods

Auditor of State Comments

- At the time the annual financial report is filed with the Auditor of State, the City Auditor's office must publish in the newspaper notice of the completion of the report and that the report is available for inspection.
- The Council does not receive reports presenting estimated revenues and appropriations. The City Auditor should provide the Council with reports comparing estimated revenues and appropriations to actual amounts on a monthly and cumulative basis.

City of Niles – Trumbull 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(C), 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 731.25, 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 a newspaper of general circulation in the City 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.

Section 149.39 of the Revised Code creates in each municipal corporation, a records commission composed of the chief executive or his appointed representative as chairman, the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary, who may or may not be a member of the commission, and who shall serve at the pleasure of the commission. The commission may employ an archivist to serve under its direction. The commission shall meet at least once every six months and upon call of the chairman. The functions of the commission shall be to provide rules for retention and disposal of records of the municipal corporation, to review applications for one-time records disposal and schedules of records retention and disposition submitted by municipal offices.

City of Niles – Trumbull County

Report on Accounting Methods

Methods Used by the City

The City holds their regular meetings on the first and third Wednesday 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, the detail 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 kept and filed by the Clerk of Council. On occasion, Council and the City department heads will hold an informal executive round table meeting approximately 15 minutes prior to a Council meeting to discuss various issues and gather information. Since no formal action is taken, there are no typed minutes of these meetings.

Auditor of State Comments

None.

City of Niles – Trumbull 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 Niles personnel and the related procedures documented from the City's Policy and Procedures Manual, 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 Niles 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.

City of Niles – Trumbull County

Report on Accounting Methods

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Dave Yost • Auditor of State

CITY OF NILES

TRUMBULL 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
JANUARY 30, 2018