



Mary Taylor, CPA
Auditor of State

**City of Garfield Heights
Cuyahoga County, Ohio**

Report on Accounting Methods

Local Government Services Section

**City of Garfield Heights
Report on Accounting Methods**

Table of Contents

Certification	2
Purpose.....	3
Governance Overview	4
Analysis of the City Methods:	
Budgetary System.....	6
Chart of Fund and Account Codes.....	11
Accounting Ledgers.....	12
Revenue Activity	14
Purchasing Process	23
Cash Disbursements.....	29
Payroll Processing	33
Debt Administration	39
Capital Assets and Supplies Inventory	42
Cash Management and Investing.....	45
Financial Reporting	48
Recording Official Proceedings.....	50
Conclusion	52



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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 Garfield Heights was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The control deficiencies and instances of non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to section 118.10 of the Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Paul Marshall, Chairman of the Financial Planning and Supervision Commission of the City of Garfield Heights, Frank J. Wagner, President of Council of the City of Garfield Heights; and Thomas J. Longo, Mayor of the City of Garfield Heights.

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November 24, 2009

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Purpose

As required by Section 118.10(A), Revised Code, the Auditor of State "...shall issue a preliminary report with respect to the methods, accuracy, and legality of the accounts, records, files, and reports of the municipality. This report shall state whether Chapter 117 of the Revised Code and the requirements of the Auditor of State have been compiled with..."

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the City, and (2) whether the current accounting system complies with Chapter 117 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained by interviewing City personnel and reviewing pertinent accounting, financial and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the City of Garfield Heights. 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.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Governance Overview

The City of Garfield Heights (the “City”) is located in Cuyahoga County. The City is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The Charter, which provides for a mayor-council form of government, was adopted November 6, 1956. Legislative authority is vested in an eight-member Council. Seven members are elected by wards for a two year non-staggered term and a council president is elected at large. 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 and consists of an elected President of Council and four elected members who serve specific wards for a two year term. Council appoints a Clerk of Council who attends all Council meetings and keeps a record of all proceedings, rules, bylaws, and legislation. The Council has the authority to prescribe by ordinance the manner in which any power of the City shall be exercised.

The Mayor supervises the administration of the City’s affairs and exercises control over all departments and divisions except those reserved to Council. He is responsible for the preparation and submission to the Council of the annual budget of receipts and expenditures and the appropriation ordinance, and is to keep the Council fully advised as to the financial condition and needs of the City. The Mayor appoints all officers and employees of the City, except members, officers and employees of the Council and Judges. The Mayor may make recommendations to Council, to introduce ordinances and has the power to appoint various City officials. If the office of the Mayor becomes vacant, the President of Council shall fill the vacancy. The Mayor has the power to veto ordinances or resolutions.

The Director of Finance serves as the chief fiscal officer of the City. The Director of Finance is appointed by the Mayor to serve at his pleasure. The Director of Finance has charge of the financial affairs of the City, including the keeping and supervision of all accounts; the custody and disbursement of City funds and moneys; the making and collection of special assessments, the issuance, and collection of licenses fees; the control over expenditures; and such other duties as the Council may by ordinance require. The Director of Finance maintains the general accounting system of the City and for each of its officers, departments and agencies and exercises financial budgetary control over each office, department and agency.

A Board of Control which consists of the Mayor, Director of Law, Director of Finance, Director of Public Service, the President of Council, and three members of Council selected by the President of Council approves all contracts let by competitive bid and the renewal of certain other contracts. Any question brought before the Board of Control resulting in a tie vote is brought before the Council as a whole for a final determination.

The City Charter establishes the following departments and divisions:

- Department of Public Safety
 - Police Division
 - Fire Division
 - Building, Engineering and Inspection Division
- Department of Public Service
- Department of Law
- Department of Finance
- Department of Public Relief and Welfare
- Department of Parks and Recreation

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Governance Overview

(Continued)

On October 14, 2008, the City was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Section 118.05 of the Ohio Revised Code. The Commission membership is as follows:

1. The director of the State office of Budget and Management or a designee;
2. The Mayor of the City or a designee;
3. The President of City Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals appointed by the Governor with knowledge and experience in financial matters who are also residents of the City

The powers, duties, and functions of the Commission may include:

1. Review all tax budgets, tax levy ordinances and bond and note resolutions or ordinances, appropriation measures, and certificates of estimated resources, to ensure they are consistent with the financial recovery plan;
2. Inspect and secure copies of pertinent documents of the City;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the City;
4. Review, revise and approve determinations and certifications affecting the City made by the County Budget Commission or the County Auditor;
5. Bring civil actions to enforce fiscal emergency provisions;
6. Approve the amount and purpose of any debt obligations;
7. Implement steps necessary to bring accounting records, accounting systems and financial procedures and reports into compliance with the Auditor of State's rules;
8. Make and enter into all contracts necessary or incidental to the performance of its duties;
9. Make recommendations for cost reductions or revenue increases to achieve a balanced budget; and,
10. Annually, before April 1, make a report and recommendations to the Speaker of the House of Representatives and President of Senate on the progress of the City.

This Commission adopted a financial recovery plan on April 23, 2009. By State statute, the City must operate within the provisions of the recovery plan.

The Commission will continue in existence until the Auditor of State or the Commission itself determines that:

1. An effective financial accounting and reporting system is in the process of being implemented and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The City Council has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "non-adverse."

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

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

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.

Charter Requirements

Section 23 of the City Charter states that on or before the fifteenth day of November of the current year, the Mayor, with the assistance of the Director of Finance, shall prepare and submit to the Council an estimate of the revenues and expenditures of the City departments for the ensuing year. This estimate shall be compiled from detailed information furnished by the head of each department, division, board, or commission on uniform blanks prescribed by the Mayor. The classification of the estimate of expenditures shall be as nearly uniform as possible for the main functional divisions of all departments, and shall give the following information:

- (a) An estimate of the anticipated revenue from each source during the next succeeding fiscal year, with a comparative statement of the amount received from such source during the two preceding years and the current year plus an estimate of such amounts for the remainder of the current year.
- (b) A detailed estimate of the expense of conducting each department and activity of the City for the next succeeding year, together with comparative statements as provided in the next preceding paragraph, with reasons for proposed increases or decreases as compared with the current year.
- (c) A detailed inventory of supplies and materials on hand and the estimated value thereof at the date of the preparation of the estimate.
- (d) A separate schedule for each department showing the things necessary for the department to do and the things which should be done if possible.
- (e) The amount of the total and net debt of the City together with a schedule of maturities of outstanding bonds and notes.
- (f) A statement of the unencumbered balance in each bond and improvement fund.

Section 24 of the City Charter states that the Mayor shall furnish to the Council, along with the estimate described in Section 23, an ordinance making appropriations for the expenditures of the City during the year covered by said estimate. As early in the fiscal year as possible but in no event later than ninety (90) days after the beginning of the fiscal year, Council shall adopt such ordinance in its original form or with such revision as it may find proper. The appropriation ordinance shall be in such form and detail as may be required by the general laws of Ohio, and may be amended or supplemented by the Council after its passage but appropriations shall not be made in excess of the estimated revenues of the City. The Council may make

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Budgetary System

(Continued)

preliminary appropriation for current expenses sufficient in amount to meet the current needs until the annual appropriation ordinance has been enacted and is in effect. The passage of any ordinance authorizing the issue or sale of bonds or notes of the City shall constitute an appropriation of the proceeds thereof for the purposes for which said bonds or notes are issued.

Statutory Requirements

The Tax Budget: The Cuyahoga County Budget Commission requires a 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 September 1, based on the revenue estimate submitted by the City and other information available to the Budget Commission. About January 1, the Director of Finance certifies the actual year end balances for all City funds to the budget commission. Upon receipt of the information, the 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 Director of Finance determines that the revenue to be collected by the city will be greater than or less than the amount included in the official certificate.

Appropriations Ordinance: On or about January 1, an annual appropriation ordinance must be enacted by city council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the city until April 1. The appropriation ordinance, by fund must be within the estimated resources as certified by the county budget commission. Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and within each, the amount appropriated for personal services. Any revisions that alter the appropriations at the level adopted by Council must be approved by Council. The City may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

No appropriation measure shall become effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the County Auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure.

Encumbrances: As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and maintain legal compliance with the adopted appropriations. Expenditures plus encumbrances may not legally exceed appropriations.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Budgetary System

(Continued)

Administrative Code Requirements

According to Section 117.2.02 of the Administrative Code, all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The legal level of control is the level at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to provisions of Chapter 5705 of the Revised Code, the minimum legal level of control is described in Section 5705.38 of the Revised Code as department, personal services and other. The legal level of control is a discretionary decision made by the legislative authority and must meet or exceed the level prescribed in Section 5705.38 of the Revised Code.

City's Budgetary Process

The annual budget process begins in July with the filing of property tax levy and debt information with the County Budget commission. The legally required tax budget is waived by the county budget commission and an alternative tax budget is filed. Five schedules which include a listing of all tax levies, estimated receipts for all funds, inside millage for debt service, voted millage, and any tax anticipation notes are filed with the budget commission. Estimated receipts for the ensuing year are based on two years of historical data and current year to date information. Although public hearings are waived along with the tax budget, a public hearing was held on June 25, 2008. The alternative tax budget is reviewed and adopted by City Council prior to submitting it to the County Budget commission on or about July 20. The 2009 alternative tax budget was adopted by Council on July 14, 2008.

At the time the information is prepared for the budget commission, the Finance Director prepares estimates of the basic amount of wages of the police and fire departments that may be paid from the average pay fund. This fund receives property taxes levied under the City's Charter. The millage is changed annually based on the estimated wages for the next year and is approved by City Council and without further voter approval. The property tax proceeds are receipted into the average pay special revenue fund and then are transferred to the general fund where the police and fire operations are budgeted.

Council adopted a resolution to authorize the collection of the tax levies in 2009 on October 13, 2008 and certified it to the county auditor. The County obtained an extension from the State Tax Commission until October 31, 2008 to complete its work. The County is required to provide the City with a certificate of estimated resources based on the alternative tax budget, by September 1 or in this case November 1. The original certificate of estimated resources was received from the County in December, 2008.

Once City Council has certified the tax levies, work begins on appropriations for the following year. The Mayor's Estimate is prepared by the Finance Director and includes the prior two years actual receipts and expenditures, current year actual and estimated receipts and expenditures, and estimates for the next year. The new year estimates are based on information available at the time of preparation and historical data. In preparing appropriations for the next year, all department heads complete a departmental budget worksheet in September. Salaries and benefits are set based on bargaining agreements approved by Council. Between September and December, the proposed departmental budgets are reviewed with the Director of Finance, Mayor, and Council. A temporary appropriation ordinance for all funds for 2008 was adopted by Council on

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Budgetary System

(Continued)

December 10, 2007. Annual appropriations for 2008 were adopted by Council on March 24, 2008. Council establishes the legal level of control for all funds at the account level within each fund and department. Any increase or decrease in appropriations at the account level adopted by Council must be approved by Council.

After the close of the year, the Finance Director 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. The first certificate of estimated resources for 2008 was approved by the Budget Commission on December 31, 2007. The second amended certificate of estimated resources for 2008 was approved by the Budget Commission on March 31, 2008. The last amended certificate of estimated resources for 2008 was approved by Council on December 15, 2008 and by the Budget Commission on December 22, 2008.

The Director of Finance compares estimated and actual revenues on a monthly basis and includes determining if revenues are received within the time period and in the amounts anticipated.

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

All revenue and appropriation changes are entered into the City's accounting system by the Finance Manager within a few days of approval of Council.

The Director of Finance compares monthly expenditures, excluding encumbrances, to appropriations. Encumbrances are not tracked in the accounting system. The Director of Finance discusses budgetary issues with the Mayor and an amendment is submitted to Council for approval.

Auditor of State Comments

- The City Charter requires that the Mayor, along with the assistance of the Finance Director, shall prepare and submit to Council of a schedule of anticipated revenues and expenditures for the next succeeding year by November 15th. The Mayor is to advise Council as to the financial condition and needs of the City, including necessary appropriation measures. While the Mayor, Council, and the Finance Director meet with the department heads, a budget document, "the Mayor's Estimate," is not completed and presented to Council.
- The appropriations adopted by City Council does not provide management with any discretion in further allocating appropriations to more detail objects of expenditure within each fund and department. City Council should change the level of detail of control in the appropriation ordinance to fund, department, and major object level, which includes personal services, employee benefits, materials and supplies, contract services, capital outlay. Separate amounts should be appropriated for debt principal and interest and transfers. This change in the legal level of control would allow management to further allocate the amounts appropriated to more detail object levels within each fund and department and reduce the number of ordinances presented to Council moving appropriations from one account to another.
- During 2006, 2007 and 2008, the City had deficit fund cash balances contrary to Section 5705.10, Revised Code.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Budgetary System

(Continued)

- During 2006, 2007 and 2008, the City had expenditures plus encumbrances that exceeded the Council adopted appropriations contrary to Section 5705.41(B), Revised Code.
- During 2006, 2007 and 2008, the City had appropriations that exceeded estimated resources contrary to Section 5705.39, Revised Code.
- The Finance Director presents an expenditure report to Council that excludes encumbrances from the comparison of expenditures to appropriations. The expenditure report should be corrected to include encumbrances so that compliance with budgetary requirements is accurately presented.
- Each year that new Council Members and Mayor are elected, a workshop or several workshops should be scheduled upon them taking office where the function of the elected officials, city departments, the budgetary process, including the restriction on the use of city funds are presented and discussed.
- The City levies and receives a property tax in the amount of 13.6 mills for the payment of the basic amount of wages of the police and fire departments as defined in Section 41 of the Garfield Heights City Charter. The millage is changed annually based on the proposed tax budget approved by City Council and without further voter approval. The property tax proceeds are receipted into the average pay special revenue fund and are transferred to the general fund. Section 5705.09, Revised Code, requires a special fund for each special levy and Section 5705.10, Revised Code, requires all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made, and requires money paid into any fund to be used only for the purpose for which such fund is established. The City, beginning in 2010, should cease transferring the levy proceeds to the general fund and account for the payment of the basic wages of the police and fire departments within the average pay fund.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Chart of Fund and Account Codes

Description of Effective Chart of Fund and Account Codes

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

Statutory Requirements

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

Methods Used by the City

The City establishes funds as required by the Ohio Revised Code. The Finance Manager 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: 01 – General; 02-55 – Special Revenue; 56-89 - Capital Projects; 91 – Debt Service; 95 – Proprietary; 99 – Agency. Account codes are assigned and entered into the computer system by the Finance Manager based on a chart of accounts. Each account code consists of eight digits. The first two digits designate the fund, the third digit designates transaction type (revenue, expenditure), the fourth and fifth digits indicate operating or other income for receipts and program for expenditures and the last three digits indicate the specific type of revenue or expenditure object code.

Auditor of State Comments

None.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Accounting Ledgers

Description of Effective Accounting Ledgers

The accounting ledgers of the City should allow for ongoing and timely information on estimated and actual revenues, disbursements and encumbrances, comparison of expenditures to the appropriation authority, available cash balances for each fund, and the available treasury balance. The information captured for each transaction should allow the transaction to be trailed throughout the ledgers and back to the document that originated the transaction.

Administrative Code Requirements

Section 117-2-02(A) of the Ohio Administrative Code requires that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Ohio Administrative Code Section 117-2-03.

Section 117-2-02(C) (1) of the Ohio Administrative Code states that all local public offices should integrate their budgetary accounts into their financial accounting system at the legal level of control or lower. The Accounting system should provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Section 117-2-02(D) of the Ohio Administrative Code states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides and should consider the degree of automation and other factors. Such records should include the following:

Cash Journal – The cash journal is the book of original entry for recording all cash receipts and disbursements processed in the Director of Finance’s office. The cash journal presents receipts deposited to and warrants drawn against the City treasury and the funds to which the receipts and warrants were recorded. Entries to the cash journal are posted sequentially by date from source documents such as pay-in orders and warrants. The related pay-in order or warrant number, account codes, and date are also recorded for each transaction. At the end of each month, month-to-date totals and year-to-date totals are recorded.

Receipt Ledger – The receipt ledger is used to summarize receipts by fund and account. In addition, the estimated revenue and uncollected balance are presented for each source of revenue. Estimated revenues are recorded from the detail used in the preparation of the tax budget and are adjusted for any amendments to the certificate of estimated resources. Receipt transactions are posted from the cash journal based on the account code. A balance reflecting the estimated amount remaining to be received is maintained. At the end of each month, month-to-date totals and year-to-date totals are to be recorded.

Appropriation Ledger – The appropriation ledger is used to summarize appropriations, disbursements and encumbrances, by fund and account. In addition, the ledger accommodates the encumbering of obligations of the City, the warrant/check issued for the payment of the obligation, and necessary adjustments to an appropriation account. The ledger also facilitates budgetary control by enabling the City to keep its disbursements and encumbrances within the amounts appropriated by Council. The unencumbered appropriation balance provides information on the amount available for obligation. At the end of each month, month-to-date totals and year-to-date totals are recorded.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Accounting Ledgers

(Continued)

Methods Used by the City

The City uses Tekcom Corp., a fund accounting software package to maintain its accounting records. The City uses five of the software's module systems: the Accounting and Management System, the Budget Preparation System, the Vendor Payables System, the Municipal Payroll System and the Check Reconciliation System. The 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 Finance Manager has a Tekcom Corp. user manual referencing the processing of transactions and closing procedures using the software. Aside from software closing procedures in the user manual, the City does not have written procedures for all steps to be taken during month or year-end closing.

Tekcom Corp. provides computer time sharing services to the City by backing up the City's accounting system files to a server in Chicago where the software company is headquartered.

All other program files, such as Microsoft Word and Excel, are backed up by the City on four main servers. The servers are located at the Finance Department, Fire Station, Police Station and City Court. The server in the Finance Department also backs up files for all remaining departments. Every day the files from the servers are backed up to tape. The IT Consultant prepares daily, weekly, monthly, quarterly and yearly backup tapes which are stored at the Fire Station's Fire Prevention Office. The backup tapes are reused according to a schedule as follows: daily tapes reused after two weeks, weekly tapes reused every month, monthly tapes reused every quarter, quarterly tapes reused every year and yearly tapes reused after three years.

The City does not have a written disaster recovery plan.

Auditor of State Comments

- The City does not have written month or year-end closing procedures. These procedures should be documented and maintained in the Finance Department.
- The City does not have disaster recovery plan. A disaster recovery plan identifies how the City would restore operations, including information technology and accounting functions if the City would experience a serious incident (flood, explosion, computer malfunction, accident, grievous act) which prevents it from continuing normal operations. The City should develop and implement a disaster recovery plan.
- The City's accounting software is more than 20 years old. The City did not acquire several other modules that would have been beneficial. Since the software is only accessible from two data lines into the City, it is limited to two users. The software does not allow for the encumbrance of contractual and other purchase commitments/obligations which forces monitoring of budgetary compliance outside the system. The City should assess its accounting functions and needs in all city departments, including the finance department, to develop appropriate specifications for a request for proposal to seek bids for the replacement of the accounting software.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent identification and recording of each receipt. Receipts should be promptly recorded, safeguarded, and deposited. A pre-numbered, multi-part receipt form or a system-generated receipt form should be issued for any payment received by departments. The receipts should bear the name of the entity and reflect the date received, the payer, the amount, the purpose/nature of the receipt, and the signature of the person preparing the receipt. Departmental receipts should be summarized and remitted to the finance department daily. The finance department should issue pay-in orders to those departments depositing collections to the finance department and for any payments received by the finance department. The pay-in order forms should be a multi-part, pre-numbered form that bears the name of the entity, the date received, the payer, the amount, the purpose/nature of the receipts, the account code, and the signature or name of the person preparing the pay-in order. Supporting documents should be attached to a copy of the pay-in order and filed numerically or by payer. All pay-in-orders should be recorded in the cash journal and receipts ledger in a timely manner. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, deposit of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38, Revised Code, provides that a person who is a public official, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public monies so received does not exceed one thousand dollars, the person shall deposit the monies on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited. If the public office of which the person is a public official is governed by a legislative authority, only the legislative authority may adopt such a policy.

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.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

City Processing of Revenue Activity

Finance Department

All departments remit their daily receipts along with a daily summary report to the Finance Department. The daily receipts and summary reports are given to the Finance Manager who adds all checks, counts the cash and verifies that actual receipts match the total amount found on the daily summary report. He then initials the daily summary report. The daily receipts and summary reports are kept together in a locked file cabinet in the Finance Department until Friday when the weekly deposit is made.

The Finance Department receives property taxes, income taxes and most Federal, State and local grants by wire transfer to the City's general checking account. The Finance Manager prints out the online daily activity report for the general checking account to view wire transfers that have been received. The Finance Manager will identify the proper account codes and prepare a summary for each wire-transferred receipt. The Finance Manager will book gross receipts to the proper revenue account. Any deductions, such as administrative fees, will be booked as memo expenditures. The Finance Manager verifies that the gross amounts booked for receipts and expenditures net to the amount that was wire-transferred to the bank.

The Finance Department receives payments for prisoner housing, grass cutting, inspector fees, water cut-out repairs, traffic sign damages and ambulance service fees through the mail. The mail received for the Finance Department is sorted and distributed by the Registrar.

The Finance Department also receives payments for birth and death certificates and burial permits. Typically, these payments are made at the Registrar window in the Finance Department. These payments are discussed in further detail below.

On Friday, the Finance Manager will take the receipts collected by all departments that week out of the locked file cabinet and prepares a deposit slip. If a department had receipts from multiple days that week, the Finance Manager will use the daily summary reports to prepare a weekly recap of all receipts for that department. He will also make copies of all checks. The Finance Manager will then add up all checks and currency and prepare a two part deposit slip. The checks, currency and deposit slip are given to the Finance Director who takes the deposit to the bank in a gold envelope. The Finance Director waits for the deposit to be counted and the amount validated by the bank. The white copy of the deposit slip goes to the bank and the yellow copy is stapled to the bank receipt and filed in the Finance Department.

After the deposit has been made, the Finance Manager will prepare a three part pay-in order, one for each department's receipts. The pay-in orders are created and printed out using an Access program designed by the IT Consultant specifically for this purpose. The pay-in order includes the date, pay-in number, dollar amount of receipt, description, fund name and the eight digit account code for posting the receipt. The white copy of the pay-in order is stapled to a copy of the check and remittance form and is placed in a file cabinet. The yellow copy of the pay-in order is sent to the department. For monies received directly by the Finance Department, the yellow copy is used to create duplicate files for the external auditors' use. The pink copy of the pay-in order is put in a three ring binder for quick reference. The Finance Manager posts the pay-in orders throughout the next week into the accounting system.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

Receipt of Income Taxes: 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. 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.

The annual income tax forms 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. The estimated billing statements are mailed out approximately 30 days before each estimated quarterly payment is due.

Employers are required to remit employee withholdings quarterly. The quarterly forms are mailed to employers during the month of December and are due on the last day of the month following the end of each quarter.

The Regional Income Tax Agency (R.I.T.A.) collects the City's Income Tax and assists with the collection of delinquent accounts.

Semi-monthly, the City receives a distribution report, an EFT and a report of the amounts collected by R.I.T.A. The gross income tax receipts and expenditures for collection are booked to the income tax fund. The income tax fund then transfers the net income tax receipts to the funds required by City Charter and City ordinance. By City Charter, 6 percent of income tax proceeds are credited to the street construction maintenance and repair special revenue fund and 6 percent is credited to the storm and sanitary sewer capital projects fund. By City ordinance, the remaining income tax proceeds are credited to the following funds: 75 percent to the general fund, 6 percent to the recreation special revenue fund and 7 percent to the debt amortization fund. The percentage being credited to these funds by ordinance can be changed by an ordinance of Council. In 2007, Council passed an ordinance to change the allocation of income tax proceeds credited to the debt amortization fund for only one year. In this year, the debt amortization fund received 0.1 percent of income tax proceeds and the revolving equipment fund received the remaining 6.9 percent. The previous allocation of income tax proceeds was resumed in 2008.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

Receipts for Ambulance Services: The Registrar in the Finance Department bills and collects for ambulance services. The Fire Department completes an EMS Run Report which contains patient information, incident and nature of services provided. The Fire Department sends a list of EMS runs to the hospital and requests additional patient information. The hospital prepares a sheet detailing the patient, responsible party and insurance information and sends this sheet to the Fire Department. The Fire Department matches the sheet received from the hospital to the corresponding EMS Run Report. Every Monday or Tuesday, the Fire Department drops off the previous week's EMS Run Reports and hospital sheets to the Registrar. The Registrar uses the EMS Run Reports and hospital sheets to enter the ambulance billing information into a software program called Concept. The Registrar will enter a code for the patient's specific medical problem based on an International Classification of Diseases (ICD) book. The Registrar will usually enter ambulance billings in the afternoons throughout the week. Every Friday, the Registrar will electronically transmit the ambulance billings to Medicare, Medicaid and Anthem insurance providers. For insurance providers not accepting electronic transmissions, the Registrar will print out the billing information onto an appropriate health insurance claim form which is mailed to the provider. The Registrar receives the checks and remittance forms from the insurance companies. The Registrar makes a copy of the checks and remittances for her use in posting the payment to the patient's account. The Registrar gives the original checks and remittance forms to the Finance Manager daily. The Finance Manager will issue the pay-in order on Friday.

Once a month, the Registrar will print out a report to view all patient accounts outstanding. If the Registrar has received a statement from the insurance company disallowing the charges, she will void the charge on the patient's account in the system. City Ordinance 22-1990 states that the City will not charge or collect any amount of money in excess of the insurance payments received.

Receipts for Birth & Death Certificates and Burial Permits: The Registrar in the Finance Department collects a fee for birth and death certificates as well as burial permits. Individuals will usually come in person to pay for birth and death certificates and burial permits. The Registrar will print a copy of the birth or death certificate onto security paper which has a number and bar-code. This security paper is purchased from the Ohio Department of Health Vital Statistics. Burial permits are printed off the Ohio Department of Health Vital Statistic's website and show the assigned number from the death certificate.

The City has a pre-numbered receipt book that is used specifically for birth and death certificate and burial permit receipts due to the fact that a portion of these receipts must be remitted to the State. The Registrar prepares the two part written receipt. The white copy goes to the customer and the yellow copy stays in the receipt book. At the end of the day, the Registrar counts the monies received and prepares a daily summary of receipts. The Registrar gives this daily summary along with the receipts to the Finance Manager.

Miscellaneous Finance Department Receipts: The Finance Department bills and collects for prisoner housing, grass cutting, inspector fees, water cut-out repairs and traffic sign damages. The Finance Manager prepares the three part billing invoice for these City services. The County is billed for the cost of prisoner housing once a month. The remaining City services are billed as the services are provided. The white copy of the invoice is sent to the customer and the yellow and pink copies are kept for internal use by the Finance Department. The Finance Manager receives the checks and remittance forms for these services.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

Unpaid billing statements are bundled and kept in the possession of the Finance Manager. Every six months the Finance Manager will review any unpaid billing statements. For unpaid grass cutting bills, the City will assess the charges to the property owner. The County will collect the assessment along with property taxes. For all other unpaid billing statements, the Finance Manager will send a second notice to the customer. If the billing statement is still not paid, a third notice may be sent. In prior years, after a third notice failed to collect payment, the Finance Manager prepared a list of unpaid billing statements which was given to the Law Department. The Law Department attempted to collect the amounts due by making a phone call to the customer and sending a letter; however, the Law Department was not successful in the past.

Recreation Department

The Recreation Department charges a fee for use of the public swimming pool and ice-skating rink as well as for various recreational programs including swim lessons, aerobics, t-ball, softball, soccer and hockey. Fees may be paid by cash, check or credit card.

The Recreation Center charges a daily admission at the outdoor swimming pool and indoor ice-skating rink. The Recreation Center sells swimming and skating season passes as well as ID cards. The ID cards expire one year from the date of purchase and provide the benefit of discounted admission. The Recreation Center also charges fees for various recreational programs. Participation in recreational programs requires the purchase of an ID card. The rates charged by the Recreation Center vary based on age and whether the participant is a City resident. The Recreation Center also has receipts from concession sales and goods such as shoelaces, tights and goggles.

The Recreation Department employs two Administrative Assistants and several part-time employees that handle receipts. These employees use the three cash registers in the Recreation Center when collecting receipts. One register is used for concession receipts, another register is used for the sale of goods and the last register is used for all remaining receipts. An employee enters the sale transaction into the register and gives the customer a register receipt. For transactions entered into the register as miscellaneous, the employee will also prepare a two part handwritten receipt to provide the customer with detail of the purchase. The white original copy is retained by the Recreation Department for their records and the yellow copy is given to the customer.

The cash registers are closed out and balanced at the end of every day. The employee closing the register will print out the register tape and also prepare a Daily Check-Out Sheet which summarizes the number and dollar amount of each type of transaction and provides a total of all sales. The receipts are placed in a gold envelope. The employee writes the dollar amount of the receipts, the date and their initials on the envelope. The envelope is then locked in the safe. The Daily Check-Out Sheet is placed in a tray above the safe.

In the morning, the Recreation Department Administrative Assistant will recount the prior day's receipts and compare the receipts to the amounts on the Daily Check-Out Sheet. She will then prepare a summary in Microsoft Excel of all daily receipts. This daily summary and the actual receipts are given to the Finance Manager. The Finance Manager prepares the pay-in order on Friday and posts the receipts to the system. The Finance Manager sends the yellow copy of the pay-in order to the Recreation Department. The Recreation Department Administrative Assistant matches the pay-in order to her daily summaries and files it.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

Building Department

The Building Department receives payments for all building permits, licenses and regulated activities under City ordinance. The Building Department also receives payments for licenses and other miscellaneous revenues. The payments are often made in person but some are also received by mail. The customer will fill out a permit application or license registration. The Building Department Administrative Assistant will take the application or registration and enter the information into the computer system. The system will generate a receipt which prints two copies. One copy of the receipt is stamped with a seal and given to customer and one copy is kept by the Building Department for their records. For miscellaneous receipts, such as zoning map fees, the Building Department Administrative Assistant will prepare a two part handwritten receipt for the customer. This is done so that the customer does not have to wait for the receipt to be entered and printed out by the system. The white copy of the handwritten receipt is given to the customer and the yellow copy remains in the receipt book.

At the end of the day, the Building Department Administrative Assistant counts the day's collections and prints out a summary generated by the system. The Building Department Administrative Assistant compares the receipts to the system summary. The Building Department Administrative Assistant will then prepare a daily summary of collections showing receipt type, dollar amount and the eight digit account code for posting. This daily summary along with the collections are given to the Finance Manager.

Service Department

The Service Department receives payments for snow plow permits and hall rentals. The payments are made in person by individuals. The Service Department accepts payment by cash or check. There are two Service Department Secretaries, one collects receipts for snow plow permits and one collects receipts for hall rentals.

For snow plow permits, the customer fills out an application and pays a \$15 fee. The Service Department Secretary makes a copy of the application and gives it to the customer as a receipt. The original application is stapled to copies of the customer's driver's license and insurance information and filed in a three ring binder. The Service Department Secretary gives the actual receipts along with copies of the applications to the Finance Manager on a daily basis.

Three City Hall rooms are available for rent on Friday, Saturday and Sunday. The customer will meet with the Service Department Secretary twice to setup a hall rental. At the first meeting, the Service Department Secretary will fill out a rental form for the customer. The customer will also sign a contract and leave a cash security deposit of \$25, \$50 or \$100, depending on the hall room chosen. The security deposit is kept in a locked drawer in the Service Department. At the second meeting, the final arrangements are made and the rental fee is collected. At this time, the Service Department Secretary will make a copy of the rental form and give it to the customer as a receipt. The rental form contains the customer's name, event information, the amount of the rental fee charged, the date the fee was paid and the initials of the employee that collected the fee.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

Immediately following the event, the hall rental staff will review the condition of the hall and fill out a Clean Up Checklist. The staff employee and customer both sign the checklist. If all items on the checklist were met, the staff employee will return the cash deposit to the customer and fill out a refund of security deposit receipt. The receipt contains the name of the individual receiving the refund, the date of rental, the amount refunded and signatures of both the staff employee and the customer. The hall rental staff will turn the Clean Up Checklist and refund of security deposit receipt into the Service Department Secretary to file for her records as verification that the customer received a refund.

On Monday, the Service Department Secretary will prepare a summary for all hall rental events that took place that weekend. The Service Department Secretary will verify that actual receipts match the amount on the rental summary. The Service Department Secretary will then give the receipts and rental summary to the Finance Manager.

Municipal Court Receipts

The Garfield Heights Municipal Court services the Cleveland Metro Parks and eight participating cities: Garfield Heights, Brecksville, Cuyahoga Heights, Independence, Maple Heights, Newburg Heights, Valley View and Walton Hills. The receipting of criminal and traffic monies is only done by the Cashier. The receipting of civil court monies can be handled by the Cashier as well as any of the deputy clerks. Payments are made with cash, personal checks, money orders or cashier's check.

The Garfield Heights Municipal Court charges the same fines and court costs for all participating cities based on cost and fine schedules established by the Court and in compliance with the requirements of the Ohio Revised Code. The Chief Deputy Clerk/Bookkeeper maintains a current schedule of these rates and costs schedules.

Each day, the police turn over all traffic violations to the court. The deputy clerks enter 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 Cashier collects and processes receipts for traffic violations. There are also three Court employees that can serve as backup cashiers if necessary. The Cashier enters the amount received into the system. The system will then print a two part perforated receipt automatically. The top portion of the receipt is the customer's copy and the bottom portion is the Court's copy.

The same procedure is used for criminal cases and non-waivable traffic cases except that the defendant must go before a judge. The judge writes the amount of the fine and costs on a judgment entry which is given to the bailiff. The bailiff gives the Cashier the judgment entry for use in processing. 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 clerks enter the case information into the computer system. Civil court monies can be collected and processed by the Cashier or any of the deputy clerks. When the receipt is entered, the system prints the two part perforated receipt automatically.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

At the end of the day, the Cashier and deputy clerks each count the receipts for the day and print out a Daily Money Summary from the system. The Cashier and deputy clerks verify that their receipts match the total amount found on their Daily Money Summary and initial it. The Cashier and each deputy clerk will put their receipts and Daily Money Summary into an envelope and give it to the Chief Deputy Clerk/Bookkeeper who locks the receipts in a safe overnight. The only employees with a key to the safe are the Clerk of Courts and the two Chief Deputy Clerks. Every morning, the Chief Deputy Clerk/Bookkeeper opens the safe and recounts the receipts from the previous day and balances to the Daily Money Summary which she also initials. The Chief Deputy Clerk/Bookkeeper also prints out a Daily Cashbook Report which shows the detailed receipt activity for each employee that collected receipts that day and total receipts collected by all Court employees. The Chief Deputy Clerk/Bookkeeper will match each employee's subtotal on the Daily Cashbook Report to the Daily Money Summary she received from that employee. The Daily Cashbook Report also shows the distribution of the receipts.

The Chief Deputy Clerk/Bookkeeper prepares two deposit slips, one for the criminal traffic 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 that the Chief Deputy Clerk/Bookkeeper locks with a key. The Chief Deputy Clerk/Bookkeeper gives the bank bag to the Clerk of Courts or Bailiff to take to the bank. The bank employee will open the bank bag with a key. The bank keeps the white copies of the two deposit slips and places the yellow copies of the deposit slips along with the bank receipts in the bag and then locks it again. The Clerk of Courts or Bailiff returns the bank bag to the Chief Deputy Clerk/Bookkeeper who unlocks the bag and removes the yellow copies of the deposit slips and the bank receipts. The deposit slip and bank receipt for each account are stapled and filed.

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 Chief Deputy Clerk/Bookkeeper prints out and reviews the month-end reports. The month-end reports include the Monthly Cashbook Report which subtotals receipts by day and the End of Month Disbursement Report which summarizes the disbursement of receipts. The Chief Deputy Clerk/Bookkeeper reviews the Monthly Cashbook Report looking for any noticeable coding errors. The Chief Deputy Clerk/Bookkeeper will next print out all detailed receipt reports. Each detailed report shows the total monthly amount for a specific type of receipt. The Chief Deputy Clerk/Bookkeeper matches each detailed receipt report to the summarized amounts on the End of Month Disbursement Report. The receipt monies are disbursed according to the End of the Month Disbursement Report. The End of Month Disbursement Report is generated automatically from the system based on the case and coding information entered.

The City's portion of Court receipts is sent by check to the Finance Department. The Finance Manager receives the check, prepares the pay-in order and posts the receipts to the system.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Revenue Activity

(Continued)

Auditor of State Comments

- All departments remit collections to the Finance Department on a daily basis. Collections are kept in a locked cabinet in the Finance Department until the end of the week. Section 9.38, Revised Code, requires that receipts be deposited within 24 hours.
- The City levies an income tax on all salaries, wages, commissions and other compensation, and on net profits earned in the City for the purposes of general municipal functions of the City. The entire tax proceeds are recorded in a separate fund. With the exception of the City Charter requirement to record 6 percent of the tax proceeds in each of the Street and Sewer funds, this tax revenue is unrestricted. Beginning in 2010, the City should record the income tax revenues, except for the amounts to be recorded in the street and sewer fund, in the general fund and transfer to other funds the amounts required by Chapter 181 of the City Administrative Code.
- The Recreation Department's receipt information is documented on both the Daily Check-Out Sheet and the Daily Summary. The Recreation Department should combine the Daily Check-Out Sheet and Daily Summary into one document to eliminate recording duplication.
- Cash security deposits for hall rentals are kept locked in the Service Department until the time of the event. The cash security deposit is returned to the customer immediately following the event if the hall is left in good condition. The staff employee and the customer both sign a refund of security deposit receipt acknowledging the return of the customer's deposit. The Service Department should turn in cash security deposits to the Finance Department when received. The Finance Department should issue a refund check to the customer within a week. As an alternative, the City may establish a petty cash fund for the refund of security deposits.
- After the third notice of unpaid billings, the Law Department attempts to collect unpaid billings by making a phone call to the customer and sending a letter, however, the Law Department was not successful in the past. The City should use a collection agency to ensure payment of outstanding billings.

City of Garfield Heights – Cuyahoga County

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 fiscal officer's certification of the availability of funds stating that the amount has been appropriated and is encumbered. All purchase orders should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Charter Requirements

Section 27 of the City Charter provides that no contract, agreement or other obligation involving the expenditure of money shall be entered into, nor shall any ordinance, resolution or order for the expenditure of money be passed or issued by the Council, or be authorized by any officer of the City, unless the Director of Finance shall have first certified in writing to the Council, or to the proper officer, as the case may be, that the money required for such contract, agreement, obligation or expenditure is in the Treasury to the credit of the fund from which it is to be drawn and not appropriated for any other purpose. The provisions of this section shall not be construed to prevent the making of contracts for a period extending beyond a single fiscal year when such contracts are otherwise authorized by this Charter or by general laws of the State of Ohio. All moneys actually in the Treasury to the credit of the fund from which they are to be drawn, and all moneys applicable to the payment of the obligation or appropriation involved or that are anticipated to come into the Treasury before the maturity of such contract, agreement or obligation, from taxes, assessments, license fees, or from sales of services, products, or by-products of any municipal undertaking, and moneys to be derived from lawfully authorized bonds or notes, shall, for the purpose of such certificate, be deemed to be in the Treasury to the credit of the appropriate fund, and shall be subject to such certification.

Section 28 of the City Charter provides that the Council may authorize, in specific cases, expenditures of the funds of the City in amounts exceeding the Ohio Revised Code bid limits which currently are \$25,000, without public bidding, for the acquisition of real estate, for the discharge of non-contractual claims against the City, for personal services, for the joint use of facilities or exercise of powers with other political subdivisions, or for the product or services of public utilities (including those municipally operated and any provider of local or long distance telephone service) but no other expenditure exceeding the Ohio Revised Code bidding limits shall be made except pursuant to contract made with the lowest and best bidder after public advertising and receipt of bids in the manner provided by ordinance.

Section 44 of the City Charter establishes that there shall be a Board of Control consisting of the Mayor, Director of Law, Director of Finance, Director of Public Service, the President of Council, and three (3) members of Council to be selected by the President of Council. Any question brought before the Board of Control resulting in a tie vote shall be brought before the Council as a whole for a final determination. All Board of Control Meetings shall be held prior to any regular meeting of City Council. In the case of an emergency, a Board of Control Meeting may be held prior to a properly called Special Meeting of Council.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Purchasing Process

(Continued)

Statutory Requirements

Several State laws govern the purchasing process. The requirements are as follows:

Certification of the Fiscal Officer - Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing year, the amount required to meet the obligation in the year in which the contract is made, has been lawfully appropriated for such purposes and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrance. This certificate need be signed only by the subdivision's fiscal officer.

Blanket Certification of the Availability of Funds: The subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that do not extend beyond year end in an amount established by resolution of City Council. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine recurring type items or for unanticipated emergencies. An itemized statement of obligations incurred and expenditures made under such certificate shall be rendered to the auditor or other chief fiscal officer before another such certificate may be issued, and not more than one such certificate shall be outstanding at a time.

“Super” Blanket Certification of the Availability of Funds: The super blanket certification permits the fiscal officer to certify any amount from a specific line item appropriation. The certification is authorized to be outstanding for any period up to the end of the fiscal year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained and provided by the fiscal officer.

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor or appraiser by or on behalf of the subdivision; fuel oil, gasoline, food items, roadway materials and utilities; and any purchase exempt from competitive bidding under Ohio Revised Code Section 125.04 and any other specific expenditure that is a recurring and reasonably predictable operating expense.

Then and Now Certification - It is intended that the fiscal officer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate both at the time the order was placed (then) and at the current time (now) a sufficient sum was appropriated for the purpose of such contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. If the amount exceeds \$3,000, the City Council has thirty days from receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the City.

Authority to Contract - Contracts are authorized by the City Council and executed in the name of the City by the Mayor and the Director of Finance, except as otherwise specified by City Charter or State statute. Contracts for the department of Public Safety and Service are awarded by the Board of Control.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Purchasing Process

(Continued)

Bidding - All contracts calling for expenditures in excess of \$25,000 shall be in writing and made to the lowest and best bidder. Council must authorize and direct all such expenditures. Exceptions to the bidding requirements include contracts for:

1. Personal services of a specialized nature;
2. Goods and services when only one source is available;
3. Work to be done or for the purchase of supplies and materials in any department of the City if real and present emergency exists;
4. The purchase of used equipment and supplies at a public auction or at a sale where bids are required by all parties wishing to purchase;
5. Purchases from other political subdivisions and agencies; and
6. Goods purchased under the State Cooperative Purchasing Program.

Findings for Recovery Database - Effective January 1, 2004, State statute (Revised Code section 9.24) prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to a person against whom a finding for recovery has been issued by the Auditor of State on or after January 1, 2001, if the finding for recovery is unresolved.

Per Auditor of State Bulletin 2004-006, a contract for purposes of Section 9.24 of the Revised Code is awarded when a written agreement is executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to Revised Code section 9.24. For purchases made off the State term schedule, the Ohio Department of Administrative Services engages in a contracting process as described under Attorney General Opinion 2004-014 and, consequently, is required to comply with Revised Code section 9.24. State agencies and political subdivisions that purchase off the State term schedule do not engage in their own contracting processes and are not subject to the provisions of Revised Code section 9.24.

Section 9.24 (G)(1)(a) of the Revised Code states that the only contracts subject to the provisions of the statute are those contracts in which the cost of goods, services, or construction exceeds \$25,000. Section 9.24 (G)(1)(b) of the Revised Code provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous year, received contracts from the State agency or political subdivision, the aggregate of which exceeded \$50,000.

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

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

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Purchasing Process

(Continued)

personal property taxes on the general tax list of personal property of any county in which the taxing district has territory, or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the County Treasurer within thirty days of the date it is submitted.

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

Administrative Code Requirements

Section 117-2-02(C)(2) of the Ohio Administrative Code states, “purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by Section 5705.41(D) of the Revised Code. Purchase orders are not effective unless the fiscal officer’s certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services are made.”

Methods Used by the City

A City department makes the decision that they need to purchase an item or obtain service from an outside vendor. The City utilizes an on-line application developed in-house to create the requisition and the subsequent purchase order. Each department has access to this application and either the department secretary or department head enters the necessary information to create the requisition. Information needed includes the date, vendor name and address, item description, quantity, unit price, extended amounts, estimated shipping charges and fund and account numbers to be charged. The City doesn’t usually order goods that require paying shipping charges and if they do, the City tries to negotiate free shipping. The purchase price is determined by contacting the vendor, through the bid process, or using past purchase records. Some department heads request quotes from vendors before deciding who to order from, but obtaining quotes are not part of the policy for the City. The best quote is chosen by the individual wanting to make the purchase or the department head prior to requesting the requisition. Requisition information is entered by either the department head or the department secretary. If the department head isn’t the one to enter the information in the system, they will review the requisition before they approve it. Approval is given by clicking on an approval button which automatically adds their electronic signature to the form.

A vendor list is maintained by the Finance Department. For new vendors, individual department heads contact the vendors and gather all the required information. The Finance Manager and the IT Consultant are the only individuals who can add new vendors to the system. The City asks for and usually receives a completed IRS Form W-9 from the vendors.

The Finance Department provides new vendors with the City’s tax identification number, billing address and contact information as requested. For those vendors that do request, the information is provided either by telephone or through a fax. The information can be mailed if there are no time constraints. For those vendors who make no requests, the information is not provided.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Purchasing Process

(Continued)

After the appropriate official or department head has signed the requisition, it is made available only to the Finance Director for approval. The Director of Finance verifies the availability of appropriations against the monthly budget reports, excluding outstanding encumbrances. Once the Finance Director verifies the accounts codes are correct and that funds are available, his signature is electronically added to the requisition which automatically creates the purchase order along with his electronic signature. Printing of the requisition reflects both electronic signatures.

If the appropriations are not available at the legal level of control, a supplemental appropriation ordinance is requested and passed by Council. At this time, the Director of Finance or the Finance Manager will every so often check the approved vendor against the State Data Base to ensure no findings for recovery have been levied against the vendor. All requisition forms, for any amount, have to be approved by the Director of Finance. In the absence of the Director of Finance, everything just waits until he returns.

After the requisition form has been approved, the purchase order is automatically created in the system and it is available to the Accounts Payables Clerk. She assigns a purchase order number based on the next available number in the manual purchase order log book that she keeps. She enters the number into the system and prints out a copy on yellow paper for the Finance Departments records. The purchase order reflects the signature of the department head and the Finance Director. The purchase order is rarely sent to the vendors. The purchase order is available via the on-line system to the departments if they want to print it off for their records. The purchase order information is not entered into the City's budgetary or accounts payables system; therefore no encumbrances exist in the accounting system. The City does not have a central purchasing department. Normally, once the purchase order has been generated, the orders are called in by the department heads or the Finance Manager. The Finance Department does order office supplies for the whole City.

Purchase orders are not created for utilities and occasionally invoices will come directly from the Mayor or Finance Director with the order to pay them. The City has only recently started using super blanket purchase orders and that was for services provided by a lawn chemical company. Blanket purchase orders are used for items such as asphalt, food services for the senior center, car washes for the police department, and prisoner medications.

Council authorizes the City to advertise for bids. Before a bid packet is sent out to bid, it is signed by the Finance Director certifying funds are available to pay this contract. Bids are submitted in triplicate from the various bidders, along with a bond. The bid bond is a guarantee that they will honor the bid price from the date of bid opening until the contract is awarded. It is usually five percent of the contract bid amount and is part of the bid specification to provide a bond. The Finance Manager sends the company awarded the bid a notification that they have been award the contract. The bids and bonds of the unsuccessful bidders are returned along with a letter notifying them of the successful bidder. The contract is sent to the Director of Law for review and signature and the Mayor for final review and signature. The three copies go to the Finance Department, the department originating the contract and successful bidder. Purchase Orders are not created, everything is paid off the contract. Contracts are filed in the Finance Department in file cabinet.

Bids go through the Board of Control which consists of the Mayor, Director of Finance, Director of Law, Service Director, three members of Council, usually the Finance Committee and the Council President. Bids are received at a set date at a bid opening, a list of vendors and bid amounts is created. Department Heads give their opinions on the bids received. At a later date, the Board of Control meets and evaluates the submitted bids. Minutes are taken at the meetings.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Purchasing Process

(Continued)

Based on the comments and discussions, the Board of Control awards the winning bid based on the criteria of lowest and best bid.

The Municipal Court for the City of Garfield Heights does all their purchasing through the City. Requests are processed through the in house purchase order application in the same manner as the other City departments.

Auditor of State Comments

- Section 27 of the City Charter and Section 5205.41(D) of the Revised Code, provide that no expenditures of money shall take place without proper authorization. Requisitions and purchase orders are approved after an invoice has already been received. The requisition and purchase order should be dated, prepared with all the necessary information and approved prior to obligations being incurred. Obligation incurred without prior certification may be certified with a then and now certification.
- The original purchase order is not sent to the vendor. The purchase order should be mailed or faxed to the vendor.
- The City occasionally issues purchase orders to a vendor before all the required information has been turned in and the Finance Director has given approval. The City should have all new vendors fill out the IRS Form W-9 and the Finance Director should approve the vendor before placing orders with that vendor.
- The City does not utilize the Auditor of State Findings for Recovery Database when entering into all contracts. Section 9.24, Revised Code, prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved. The City should verify vendors against the State's database of findings for recovery before entering into a contract for goods, services, or construction paid for in whole or in part with State funds.
- The City does not have a formal purchasing policy and purchasing procedures for the City are not documented. A purchasing policy for the City should be developed, adopted by ordinance, and distributed to all departments.
- The City doesn't track expenditures against blanket purchase orders. Each department should maintain an itemized statement of expenditures made against each blanket purchase order and this information should be provided to the Finance Department.

City of Garfield Heights – Cuyahoga 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 Director of Finance and a determination whether there is adequate cash in the fund to pay the obligation. All warrants should be signed by the Director of Finance and recorded in the cash journal and appropriation ledger. Vouchers should be filed numerically or by vendor.

Charter Requirements

Section 25 of the City Charter states that no money shall be drawn from the treasury nor shall any obligation for the expenditure of money be incurred, except pursuant to appropriations made by the Council. No warrant for the payment of any claim shall be issued until such claim shall have been approved in writing by the head of the department for which the obligation was incurred. Each head of a department and his surety shall be liable to the City for all loss and damage sustained by the City by reason of the negligent or corrupt approval of any claim against the City in his Department. The Director of Finance shall have power to require evidence that the amount of the claim is justly due and is in conformity to law and ordinance, and for that purpose he may summon before him any officer, agent or employee of any department of this City, any claimant or other person, and examine him upon oath or affirmation relative thereto.

Statutory Requirements

State law places the following requirements on the disbursements of funds:

Warrants - Expenditures may only be made by a proper warrant drawn against an appropriate fund. The warrant must show upon its face the appropriation from which the expenditure is made and the fund it is drawn upon.

Restrictions - Money is drawn from the City treasury only for appropriations enacted by the City Council. Appropriations from each fund may be used only for the purposes of such fund.

No Certification - If no certificate is furnished as required, upon receipt by the City of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the City may authorize the drawing of a warrant in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without such affirmation of the taxing authority of the subdivision or taxing unit, if such expenditure is otherwise valid.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Cash Disbursements

(Continued)

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 Accounts Payable Clerk and the Finance Manager perform the disbursement functions, except for determining the invoices to pay. The Finance Director determines which invoices will be paid. Accounts payable checks are issued when the Finance Director determines that sufficient funds exist in the treasury.

Materials and supplies are delivered to the originating departments. The items and quantities on the packing slip are compared to the requisition or purchase order depending on which one was printed off and kept by the individual departments. The packing slip is initialed by the person receiving the goods and may or may not be sent to the finance department.

Invoices are received in the Finance Department and various departments. The Accounts Payable Clerk is responsible for matching purchase orders with packing slips and invoices and preparing the voucher packets.

Packing slips and purchased orders waiting to be matched to the invoice are placed in a separate alphabetical vendor file known as the “open purchase order file” in alphabetical order and kept on the Accounts Payable Clerks desk. All invoices waiting for packing slips are maintained in a box by invoice date on the Accounts Payable Clerks desk.

When the invoice arrives in the finance department, if the packing slip and/or a copy of the requisition or purchase order used to verify goods, has not been sent to the finance department, the Accounts Payable Clerk contacts the appropriate department for the documents. All invoices are compared to the purchase orders by the Accounts Payable Clerk, except utilities. No purchase order or fiscal officer certification is prepared for utilities.

The Accounts Payable Clerk puts a voucher packet together. All voucher packets are completed prior to creating the check.

The voucher packet includes the invoice with a spot for the Finance Director to sign, the packing slip with signature of the City employee receiving the goods or service and the signed purchase order indicating each fund and account that is being charged and the amount or an attached sheet indicating the accounts and amounts.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Cash Disbursements

(Continued)

The Accounts Payables Clerk prepares a worksheet by fund listing the dollar amount of invoices to be paid and gives the vouchers and worksheet to the Finance Director for approval. All vouchers are kept in file folders with as many vouchers as will readily fit each folder, in order to protect the documents until the checks have been mailed.

Approved, but unpaid vouchers are kept on top of the filing cabinet by the Accounts Payable Clerk in the Finance Department.

After the Finance Director approves the voucher packets, they are entered in the accounts payable system by the Finance Manager. This is usually done after the Finance Director has said the funds are available to pay the invoices and that the checks can be printed, but occasionally information will be entered into the system prior to the Finance Director's approval. From the vouchers the Finance Manager is able to enter the account number to be charged, the venter number and name, the invoice number, the purchase order number, the amount and invoice number. A payables transaction edit report is also generated and compared by fund total to the worksheet prepared by the Accounts Payable Clerk. In order to print the checks the Finance Manager enters the date of the checks and the first check number into the system. The checks are then printed along with a check register and given to the Accounts Payable Clerk. Checks are stored in a storage room in the Finance Department.

The Accounts Payable Clerk runs the checks through the check signing machine. The key for the check signing machine is kept in the Accounts Payable Clerk's desk. The checks are in two parts. The white copy of the check is mailed to the vendor and the yellow copy is for the City's records. The yellow copy is kept in numerical order in the Finance Department. The voucher packet does not include a copy of the check.

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

Once the checks have been mailed the packets are filed alphabetically in filing cabinets in the Finance Department by the Accounts Payable Clerk by the middle of the following month after the proof of cash has been done.

The City writes manual checks on occasions. The Accounts Payables Clerk types the manual checks. In order to conserve checks, if an invoice is being charged to several departments a manual check will be issued so as to not waste blank checks. All payroll related deductions, such as pension and health insurance, are always paid on a manual check. Manual checks are also used for anything the Finance Director wants to go out right away, such as payments to contractors. The same process is followed to issue a manual check as to issue a computer generated check. Manual checks and checks for utility payments are paid separately from other accounts payables.

Debt payments are all made by wire transfers processed by the Finance Manager. Once the wire transfer has been made, a transaction list is made available from the Bank. This is printed off and kept in a file of all wire transfers.

Voided accounts payable checks have "void" stamped on them by the Finance Manager and the signature block is cut out. They are filed numerically in Finance Department.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Cash Disbursements

(Continued)

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

Auditor of State Comments

- The City 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 Director of Finance’s office. The document should be reviewed periodically to ensure procedures are followed and it is kept up to date.
- The Finance Director authorizes the payment of City obligations when there is sufficient cash in the treasury to cover the obligations. In addition to sufficient cash in the treasury, there should be a determination of sufficient cash in the fund or funds from which the obligation is paid so that deficit cash balances are avoided.
- Various obligations such as utilities, employee benefits and some contracts are paid without the fiscal officer’s certification. Section 5705.41(D), Revised Code, provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer saying that the amount required to meet the obligation has been lawfully appropriated and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. The fiscal officer should provide an appropriate certification for all City obligations.
- Invoices are mailed to the either the originating department or the finance department. The Finance Department should require all invoices to be mailed to the Finance Department. 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 Finance Department
- The Finance Manager is responsible for entering all information into the accounts payable system. The Accounts Payable Clerk could be doing all the data entry, thus eliminating the need to create duplicate manual reports and system reports.
- The keys for the check signer are kept on the Accounts Payable Clerk’s desk. The keys should be in the possession of the Finance Director and when it is needed he should be the one to give it to the person needing it.
- In the absence of the Finance Director, the cash disbursement process comes to a halt. During these times, the Finance Manager should have the authority to perform the Finance Director’s functions.

City of Garfield Heights – Cuyahoga 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.

Charter Requirements

Section 20 of the City Charter provides that Council shall have the power to fix its own compensation and that of each employee of the City, including officers and members of any board or commission of the City, whether elected, appointed or chosen, and to establish bond for the faithful discharge of the duties of the office. The premium of any bond required by the Council shall be paid by the City. The compensation of all elected officials shall be fixed at least thirty days prior to the filing date of nominating petitions for the terms beginning after the regular municipal elections for which such petitions were filed, and shall not thereafter be changed in any respect during the term of office or any part thereof. The Council may authorize any officer of the City to make such travel as the Council deems to be in the public interest, and may provide that the expense of such travel be paid by the City.

Section 33 of the City Charter provides in part that the Mayor shall appoint all officers and employees of the City, except members, officers and employees of the Council and Judges. All persons appointed by the Mayor, except those whose term of office is fixed by this Charter or by law, may be promoted, transferred, reduced or removed by the Mayor, subject however, to the Civil Service provisions of this Charter.

Section 48 of the City Charter provides that the Civil Service Commission shall consist of three electors of the City not holding other municipal office to be appointed by the Mayor to serve for terms of six years. At the time of any appointment not more than two members of the Commission shall be members of the same political party. A vacancy occurring during the term of any member of the Commission shall be filled for the unexpired term in the manner authorized for an original appointment. The civil service of the City is divided into the unclassified and classified service.

1. The unclassified service shall include:
 - a. All officers elected by the people.
 - b. All directors of departments.
 - c. The Clerk of Council.
 - d. The members of all boards and commissions appointed by the Mayor or Council.
 - e. Any temporary or part-time office or position.
 - f. Any position requiring qualifications of an expert.
 - g. Any person working as secretary to the Mayor or a Director.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Payroll Processing

(Continued)

2. The classified service shall comprise all positions not specifically included in the unclassified service. The Civil Service Commission shall make rules for the appointment, promotion, transfer, lay-off, reinstatement, suspension and removal of persons in the classified service. Before any such rules or amendments thereof shall become effective, they shall be published in writing and an opportunity given for a public hearing thereon to be held after reasonable notice thereof has been given by the Commission.

The Commission shall provide rules for the procedure of the Commission, for standardization and classification of positions, for competitive and noncompetitive tests, for qualifications in meeting reasonable requirements as to age, sex, physical condition and moral character, for investigating and keeping a record of the efficiency of the personnel in the classified service and for requiring reports relative thereto from appointing authority, for such other rules as may be necessary and proper for the enforcement of the merit system and for appeals from the action of appointing authority in the case of transfer, reduction or removal. The action of the Commission on any such appeal shall be final. The Commission shall report its proceedings to the Mayor or Council upon request, and shall make a report to the Mayor at the beginning of each fiscal year. All persons who have been continuously employed in the service of the Municipality in the same or similar position, herein included in the classified service for at least thirty days preceding the adoption of this Charter shall retain their positions until discharged, reduced, promoted, or transferred in accordance with the provisions of this Charter.

Statutory Requirements

Section 705.13, Revised Code, states that the legislative authority of a municipal corporation shall, by ordinance, fix the salary of its members which shall be paid in equal monthly installments. For each absence from regular meetings of the legislative authority, unless authorized by a two-thirds vote of all members, there shall be deducted a sum equal to two per cent of such annual salary. Absence for ten successive regular meetings shall operate to vacate the seat of a member, unless such absence is authorized by the legislative authority.

Methods Used by the City

All full and part time employees are compensated biweekly. There are 222 full time employees and 110 part time employees within the City. For all hourly and part time employees as well as full time Service Department employees, the pay period begins on Monday and ends on Sunday two weeks later. For Police and Fire employees, the pay period begins on Wednesday and ends on Tuesday two weeks later. The pay period for all remaining employees begins on Saturday and ends on Friday two weeks later. Pay checks are distributed to employees every other Friday. 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 Finance Department. 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 information kept in the Finance Department. The Payroll Administrator has access to change employee records in the payroll system.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Payroll Processing

(Continued)

The City's hourly employees use timecards or timesheets to track hours worked. Hourly employees include nutrition aids, school guards, cleaning personnel, switchboard operators, seasonal and recreation employees, law clerks and service department personnel. The timecards and timesheets show the dates, arrival time, departure time, hours worked each day and accumulated hours for the pay period. The timecards and timesheets are signed and approved by the department head and submitted to the Payroll Administrator.

The City's salaried employees do not use timecards or timesheets for regular hours worked. Their regular pay is based on salary divided by 26 annual pays. Each department head will prepare an overtime summary for approved overtime hours worked by salaried department employees. These overtime summaries are submitted to the Payroll Administrator.

Non-Bargaining Unit Employees - City Ordinances 06-2006, 44-2004 and 71-1998 establish the rates and ranges of pay for all positions, vacation accruals, and benefit packages 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 Garfield Heights' bargaining unit employees are associated with one of five negotiated agreements, depending on the department, as follows:

Police Sergeants and Above - The Police Sergeants are covered by a negotiated agreement between the City of Garfield Heights and the Fraternal Order of Police Lodge 67. The current contract covered the period of January 1, 2006 to December 31, 2008. The contract contains detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Police Sergeants are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Police Patrolmen - The Police Patrolmen are covered by a negotiated agreement between the City of Garfield Heights and the Fraternal Order of Police Lodge 67. The current contract covered the period of January 1, 2006 to December 31, 2008. The contract has detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Police Patrolmen are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Police Full-Time Dispatchers, Jailers and Chief Dispatcher - The full time Police Dispatchers/Record Clerks, Jailers and the Chief Dispatcher's salaries and benefits are governed by a negotiated agreement between the City of Garfield Heights and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of June 1, 2006 to May 31, 2009. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Police Dispatchers/Record Clerks, Jailers and the Chief Dispatcher are eligible to earn overtime compensation.

Fire Fighters - The fire fighters are covered by a negotiated agreement between the City of Garfield Heights and the International Association of Fire Fighters, Local 340. The contract covered the period of January 1, 2006 to December 31, 2008. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Fire fighters are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Payroll Processing

(Continued)

Service and Clerical - The non-administrative service and clerical employees' salaries and benefits are governed by a negotiated agreement between the City of Garfield Heights and the American Federation of State, County and Municipal Employees Council 8 and Local 2729. The contract covered the period of April 1, 2005 to March 31, 2008. 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. The current contract will continue in effect until negotiations are finalized on a new contract.

Elected Officials - City Ordinance 36-2005 establishes that the Mayor's salary shall increase by 2.5% annually over the four-year term. City Ordinance 1-2007 establishes the annual salary for the Council President and Council Members at \$16,000. The Mayor's and Council's salaries are paid bi-weekly.

Overtime and Compensatory Leave - Employees work overtime in all the departments at the discretion of the department head. Non-bargaining unit employees who are members of the executive branch, directors and professionals do not qualify for overtime pay. The overtime rate paid is time and a half. An overtime summary sheet is prepared and submitted for salaried employees that worked overtime. The overtime summary sheet shows the dates and hours of overtime worked. For hourly employees, overtime is documented on the employee's timecard or timesheet. Police, fire and municipal court employees can accumulate overtime to be paid in the future. Accumulated overtime is submitted to the Finance Manager once a year for use in the calculation of the compensated absences liability. Compensatory time is earned in place of paid overtime at time and a half for all eligible employees. Compensatory time is tracked by each department but is not reported to the Payroll Administrator. The overtime budget is discussed by the Finance Director, the Mayor and the respective department heads, to try and keep overtime within budget.

Leave - Vacation, personal and sick leave is credited to each employee at the appropriate accrual rates indicated in the negotiated agreement or City Ordinance. The Department Secretary for each department uses a standard annual form to track employee leave balances. A separate form is used for each individual employee. The front of the form displays an annual calendar with a box for each day of the year. The type and amount of leave is recorded in the box representing the date the leave was taken. The back of the form summarizes the beginning monthly leave balances, leave earned, leave usage and the ending monthly leave balances. After the end of the year, the leave balance forms are sent to the Payroll Administrator to be filed in the Finance Department. The Finance Manager will use these forms to calculate the City's compensated absences liability for GAAP financial reporting purposes.

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

Payroll deductions for OPERS, Ohio Police and Fire Pension System and Medicare are processed through the payroll system. After the last pay period in each month, a report is run for OPERS and the Ohio Police and Fire Pension System to determine the employer's share for each retirement system. The OPERS report and payment are due the thirtieth of the following month and the Ohio Police and Fire Pension System report is due the thirtieth of the month following the last month of the quarter. Employee contributions for OPERS and the Ohio Police and Fire Pension System are due monthly.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Payroll Processing

(Continued)

Payroll Processing – The Payroll Administrator processes payroll every two weeks on Monday. The Payroll Administrator uses Tekcom’s Municipal Payroll System for processing. Timecards, timesheets and overtime summaries are due to the Payroll Administrator no later than noon on the Monday of payroll week. The Payroll Administrator checks the mathematical accuracy of the hourly employees’ timecards and timesheets and enters the regular hours worked and any overtime hours worked. The Payroll Administrator will also check the overtime summaries for salaried employees and enter the overtime hours worked. When the payroll information is entered into the system, an edit report is produced. The edit report totals are checked against the timecards, timesheets and overtime summaries received from the departments to verify that the amounts match.

On Tuesday of the pay week, the payroll checks are printed and ran through a check-signing machine. The check-signing machine prints the names of the Finance Director and Mayor on the checks. The payroll checks and pay stubs are picked up on Friday by the department heads who distribute them to the employees.

The gross payroll total is transferred into the payroll checking account by the Finance Manager on Thursday of the pay week. From the payroll checking account, electronic fund transfers are made for direct deposit and federal and state taxes when due. Checks are 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.

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

The department head will send a sheet to the Finance Department showing the leave balances the department has recorded for the employee. The Finance Manager recalculates the leave balances for police and fire employees and the Payroll Administrator recalculates the leave balances for all other employees. The Finance Manager or Payroll Administrator review the employee’s annual leave balance forms and check for any mathematical errors. The employee’s annual leave balances are summarized on a spreadsheet and the employee’s final pay is calculated. If the amount of leave balance varies significantly from what the department head had recorded, the Finance Manager or Payroll Administrator will have the department head and employee come in for an explanation of the difference. The Finance Director will approve and sign the final pay computation.

Auditor of State Comments

- The City does not have written procedures regarding the payroll process. The Finance Director should document its payroll procedures and maintain them in the Finance office.
- 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.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Payroll Processing

(Continued)

- The City assigns employees into one of three payroll groups. All payroll groups have the same pay date; however, each payroll group has a different pay period. In addition, the number of days between the end of the pay period and the pay date differs for all three groups. Due to the lack of sufficient time between the end of the pay period and the pay date, the City is forced to pay overtime in the following pay period instead of the current period in which it was earned. The City should adjust its pay periods so that all employees are on the same pay period. In addition, employees should receive compensation 13 days following the end of the pay period which will allow sufficient time to process overtime in the same pay period that it is earned. The establishment of the same pay period and number of days between the end of the pay period and the pay date for all employees will allow for consistency in payroll processing.
- The City does not track employee leave balances within the payroll system. Employee leave balances are only tracked by each department on an annual leave balance form. After the end of each year, the annual leave balance forms are sent to the Finance department where the Finance Manager uses the forms to calculate the City's compensated absences liability. The City should track employee leave balances in the payroll system. The earnings statement received by employees with each pay should indicate leave earned and used in the current pay period as well as total remaining leave balances.

City of Garfield Heights – Cuyahoga 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 as well as the purpose of the debt, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of Council and the Director of Finance. Debt proceeds should be receipted into a separate fund and used only for the purpose specified in the authorizing legislation. Money to be used for debt payments may be receipted in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Charter Requirements

Section 21 of the City Charter provides for a levy not to exceed in any one year exceed eight and three tenths (8.3) mills for each dollar of assessed valuation on property in the City without a vote of the people. Council may levy an amount not to exceed six (6) mills, for paying the current operating expenses of the City and for paying any other expenses that may lawfully be included within the general levy for the general fund of the City. Within this amount, Council shall annually levy an amount sufficient to pay the interest and retirement charges on all notes and bonds of the City.

City Codified Ordinances

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

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. Specific statutes relating to cities are found in Chapter 7. The statutory requirements vary depending on the nature of the debt being issued.

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

Methods Used by the City

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

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Debt Administration

(Continued)

The Finance Committee is responsible for making the initial decision to issue debt for a project. Debt instruments are signed by the president or vice president of Council and the Director of Finance. The amount paid down each year on the notes is determined by what the City can afford and more recently by the amount the Bank would like to see paid down. Resources for the payment of debt are set by the City Charter and codified ordinances. The money comes from property taxes levied and collected and seven percent of the income tax collections. The Finance Manager makes all wire transfers to the paying agent related to debt issues. Notes are issued for one year, but the City typically rolls them over each year, for up to five years. At that time, if they are not paid, they are bonded.

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

Debt Issue	Interest Rate	Principal Remaining 12/31/08	Pledged Revenues
General Obligation Bonds			
Justice Center Refunding, 1998	3.65-4.60 %	\$325,000	General
Civic Center Refunding, 1998	3.65-4.60	2,225,000	General
Various Improvement, 1998	3.65-4.60	2,700,000	General
Various Improvement, 2002	1.09-5.55	6,410,000	General
Various Improvement, 2004	4.75	7,988,127	General
Transportation-Antennucci, 2004	4.75	1,193,873	General
Various Purpose Improvement Refunding, 2006	4.00	1,470,000	General
Various Purpose Refunding, 2006	4.00	1,904,753	General
Street Improvement, 2006	4.00	<u>2,660,000</u>	General
<i>Total General Obligation Bonds</i>		<u>26,876,753</u>	
Special Assessment Bonds			
Various Purpose Improvement Refunding, 2006	4.00 %	255,000	Special Assessments
Various Purpose Refunding, 2006	4.00	<u>720,247</u>	Special Assessments
<i>Total Special Assessment Bonds</i>		<u>975,247</u>	
Notes Payable			
Equipment Acquisition, 2008	3.19	1,160,000	General
Recreation Center Improvement, 2008	3.19	1,070,000	General
Various Improvement, 2008	3.68	1,800,000	General
Street Improvement, 2008	3.29	1,100,000	General
Various Purpose, 2008	3.19	<u>378,000</u>	General
<i>Total Notes Payable</i>		<u>5,508,000</u>	
Other			
Police and Fire Pension Accrued Liability	N/A	<u>633,278</u>	General
<i>Total Debt</i>		<u><u>\$33,993,278</u></u>	

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Debt Administration

(Continued)

The general obligation bonds will be paid from the general obligation bond retirement debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The notes payable will be paid from the funds that receive the proceeds. The police and fire pension liability is paid from taxes receipted in the police and fire pension special revenue fund.

Auditor of State Comments

None

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

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

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

Administrative Code Requirements

Section 117-2-02(D)(4)(c) of the Ohio Administrative Code, requires that all public offices should maintain fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

City's Method of Accounting for Capital Assets

The City does not have written policies for capital assets. The Finance Manager maintains the capital asset records. The capitalization threshold generally used is \$1,000. However, in some instances capital assets under the threshold will also be capitalized based on the Finance Manager's discretion. Capital assets that meet the threshold amount or discretion are reported as capital outlay for budgetary and entered into the capital assets inventory. The capital asset inventory is the basis for the amounts reported in the financial statements. Assets which do not meet the threshold amount or discretion are accounted for as expenditures. The classification of capital assets includes land, buildings, improvements other than buildings, vehicles, machinery and equipment, furniture and fixtures, roads, sanitary sewers, storm sewers, water supply lines and construction in progress. All assets are capitalized at cost or estimated historical cost. Maintenance costs are not capitalized. Improvements that will add additional life to the asset or increase the asset's service capacity are capitalized.

American Appraisal compiled capital assets for the City in 1999. Beginning in 2000, the Finance Manager created Excel spreadsheets to track yearly capital asset additions, deletions and depreciation for all assets acquired after 1999. The American Appraisal capital asset reports were kept and used as a basis for all capital assets acquired in 1999 and prior years.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

All capital asset additions, except for infrastructure and construction in progress, are identified by the Finance Manager. After the end of the year, the Finance Manager will review the invoices and copy those invoices for items that will be capitalized. The amounts to be capitalized for infrastructure and construction in progress are provided to the Finance Manager by the City's engineers and architects. The Finance Manager will assign an asset number to each item and then enter all capital asset additions into an Excel spreadsheet. The information entered into the spreadsheet includes asset number and class, asset description, year acquired, department/program, cost, estimated useful life and annual depreciation.

The Finance Manager will physically tag capital assets such as computers, printers, small equipment and some furniture and fixtures with a numbered tag. The asset tag aids in identifying the existence of the asset.

The Finance Manager is also responsible for ensuring that depreciation has been calculated properly for all capital assets. Depreciation is calculated on a straight-line basis. In the year an asset is acquired, depreciation is calculated for a half year. A full year of depreciation is then calculated for the asset each following year up to the last year of the asset's useful life. 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.

The City departments contact the Finance Manager when they want to dispose of an asset. If the asset is unusable, the department will trash it. If the asset is tagged, prior to trashing it, the department will remove the tag and send it to the Finance Manager who uses the old tags to delete items from the capital asset spreadsheets. If the asset can still be used, the department will hold the asset until auction time.

The City holds an announced public auction once a year, usually during the third quarter of year at the Service Garage. Prior to the auction, the Finance Manager will prepare a list of all items to be sold at the auction. A copy of this list is sent to all City departments. If any department wants an item on the list, the asset will be transferred to the requesting department and taken off the auction list. All items remaining on the list will be sold at auction. The Finance Manager will remove the tags from all assets to be sold at auction just prior to the start of the auction.

After the end of the year, the Finance Manager will update the capital asset spreadsheets by removing all deleted assets. The assets to be removed are identified by asset number.

Consumable Inventory

The City does not have written policies or procedures for consumable inventory. In mid to late December, the Finance Manager will give a call to all department heads, reminding them to conduct their annual physical inventory. After conducting the physical inventory, the department heads send a list of their inventory items and totals to the Finance Manager. These inventory lists are the basis for the amounts reported in the financial statements.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

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 City does not have written policies and procedures to account for consumable inventory. The City should prepare a policy for consumable inventory. The policy should include an annual year-end physical inventory. Procedures for performing the inventory should also be developed, documented and maintained in the office of the Director of Finance.
- The City does not have a written capitalization threshold but in practice the City generally uses \$1,000 as the capitalization threshold. Assets that have a value of less than the minimum value are capitalized. The City should adjust the capitalization threshold value or establish some other method for accounting for and tracking capital assets below the minimum threshold.
- The City uses Excel spreadsheets to account for and track its capital assets. The use of spreadsheets does not ensure the integrity of the data and spreadsheets increases the risk that a capital assets record may be deleted and not detected in a reasonable period of time. The City should purchase a capital asset accounting system that meets the accounting and reporting requirement of the City.
- 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.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by the City should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Reconciliations should be completed for all accounts on a monthly basis. The books should be closed at the end of the last business day of the month and processing of transactions for the new month should commence the following business day. The reconciliations should be completed immediately upon receipt of the bank statement. Reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items such as unrecorded deposits and bank charges should be posted upon completion of the bank reconciliation.

Charter Requirements

Section 26 of the City Charter, requires Council, by ordinance, to provide for the custody of all funds of the City and for the deposit of funds in a bank or banks to be determined by competitive bidding. Such deposit shall be made in the bank or banks which offer the highest and best bids therefore, and furnish such proper security as the Council may determine.

All funds received on behalf of the City by any officer, employee, or agent thereof, shall be promptly paid over to the Director of Finance, and by him promptly placed in a depository bank, but the Council may authorize such sums as it deems proper to be kept in cash for the daily operation of any department or office.

The Director of Finance may invest moneys of the City in such manner as is now or hereafter authorized by general laws of the State of Ohio for such investment by cities.

Statutory Requirements

Interim cash should be invested according to Section 135.14 of the Ohio Revised Code. The deposits of public money should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes. Cash management and investment activities of a city are additionally governed by Sections 135.01 to 135.22 of the Ohio Revised Code.

Section 135.14(O)(1), Revised Code, state, “Except as otherwise provided in divisions (O)(2) and (3) of this section, no Director of Finance or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the Finance or governing board. The policy shall require that all entities conducting investment business with the Director of Finance or governing board shall sign the investment policy of that subdivision.

Section 135.14(O)(2), Revised Code, states, “if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Director of Finance or governing board of that subdivision shall invest the subdivision’s interim moneys only in interim deposits pursuant to division (B)(3) of this section, no-loan money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision’s fund pursuant to division (B)(6) of this section.”

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Cash Management and Investing

(Continued)

Section 135.14 (O)(3), Revised Code, states, “Divisions (O)(1) and (2) of this section do not apply to a Director of Finance or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the Director of Finance or governing board certifies, on a form prescribed by the Auditor of State, that the Director of Finance or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code.”

Section 135.22, Revised Code, requires the Director of Finance to attend annual training programs of continuing education for directors of finance provided by the Treasurer of State.

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

Federal Requirements

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

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

Methods as Described by the City

The City’s treasury activities are the responsibility of the Director of Finance. The City has five accounts in three banks. The Mayor and Council members receive reconciliations on all the bank accounts to the City’s fund cash balances on a monthly basis, after month-end processes are completed, from the Director of Finance.

Key Bank serves as the primary depository which receives all wire transfers and deposits of the City. Monthly transfers are made from this account to the payroll account and to the bond account when needed. Checks are written against this account for City obligations other than payroll.

Key Bank and Huntington Bank provide monthly account statements. Images of the cleared checks are provided by both banks. The Finance Manager marks the issued checks as cleared in the accounts payable and payroll systems. The Finance Director reconciles the accounts payable and the bond accounts monthly and the Finance Manager reconciles the payroll account monthly. As part of the reconciliation process, the Finance Director reconciles the receipts and disbursements as posted to the books to the deposits and withdrawals on the bank statements and reviews the account codes assigned to the receipts. Any discrepancies found are noted on the bank statement and posted during the reconciliation process. After each account is reconciled, the reconciled balance of all accounts is totaled and compared to

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Cash Management and Investing

(Continued)

the total fund cash balances on the books. If there is a difference the amount will be posted to the system at this time. When the reconciliations are completed, the Finance Director signs off on the reconciliations and the books are closed for that month. This process is usually completed by the 10th of the following month. All reconciliations are filed in the Finance Director's office.

The City receives interest on the balance in the checking account. The City has no investments. The interest is posted to the general fund and occasionally to the motor vehicle license tax and the street construction maintenance and repair funds. The City has no investment policy. The Finance Director and Finance Manager have attended training on investing offered by the State Treasurer's Office.

Voided accounts payable and payroll checks have "void" stamped on them by the Finance Manager and the signature block is cut out. They are filed numerically in Finance Department. Any accounts payable and payroll checks that have not yet been used are also filed in the Finance Department in a secure area.

The Council has authorized, by resolution, the existence of four petty cash funds and ten cash drawers or change funds. These monies do not appear on the monthly bank reconciliations. The Finance Director has been identified as the custodian of the petty cash funds and change funds.

The Municipal Court has two accounts with US Bank, a criminal/traffic account and a civil account. Neither account earns interest. Monthly account statements are provided to the Courts. Cancelled checks are returned to the Courts at no additional charge. The Bookkeeper reconciles both the accounts and the Clerk of Courts reviews and signs them. Voided checks are stamped void and then filed with the rest of the checks as they are returned. Copies of bank statements and reconciliations are provided to the City per their request, usually at year end to assist with the financial statement preparation.

Auditor of State Comments

- The City does not have written procedures for petty cash and the replenishment of it. The Finance Director is the custodian of all funds. Written procedures should be developed for the petty cash which includes the individual designated as the custodian, and the custodian's duties and responsibilities.
- The City does not include the amount of petty cash and change funds maintained within City offices on the monthly reconciliations. The petty cash and change funds should be included on the City's monthly reconciliation.
- The City only receives interest on the checking account. The City doesn't always post interest to the proper funds. The City needs to establish an investment policy and begin investing in STAROhio, certificates of deposit and other eligible securities.
- The City holds the books open until the completion of the bank reconciliations, which is by the 10th day of the following month. The books should be closed on the last day of the month. Any reconciling items can be posted to the current month.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Financial Reporting

Description of Effective Method of Financial Reporting

The fiscal officer should periodically provide Council with the year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the City. In addition, information concerning the estimated and actual receipts, appropriation and disbursements plus encumbrances should be presented for Council's review. On an annual basis, the Director of Finance should prepare and publish within 150 days of year end financial statements prepared in accordance with generally accepted accounting principals (GAAP).

Statutory Requirements

Section 117.38, Revised Code, requires that an annual financial report be filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year for reports prepared in accordance with the general accepted accounting principles (GAAP). At the time the report is filed with the Auditor of State, the fiscal officer must publish in the newspaper notice of the completion of the report and the fact that the report is available at the office of the fiscal officer.

Administrative Code Requirements

Cities are required by Section 117-2-03(B), Administrative Code, to prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP).

Methods Used by the City

The City prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The City filed a copy of its annual financial report to the Office of the Auditor of State for the year ended December 31, 2007 on May 29, 2008. The Finance Manager typically publishes a notice of completion in the newspaper within ten days after filing.

Monthly reports are generally printed within ten days of month-end upon completing the month-end closing procedures. Each month the Finance Department prints and binds fourteen copies of the City's monthly financial reports, known as the Blue Book. The Finance Department keeps five copies internally for their reference as well as to furnish upon request, sends one copy to the City Court and prepares the remaining eight copies to be given to the Council President and Members at the council meeting.

The monthly financial reports found in the Blue Book are as follows:

Unexpended Budget Report: This report provides the annual budget for each fund, the yearly expenditures to date, and the remaining unexpended budget for each fund.

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

Revenue Analysis Report: This report provides detailed annual budgeted receipts, month-to-date and year-to-date receipts by category for all funds.

Budget Responsibility Report: The report provides detailed annual appropriations, month-to-date and year-to-date expenses, encumbrances and the unencumbered fund balance for all funds.

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Financial Reporting

(Continued)

Auditor of State Comments

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

City of Garfield Heights – Cuyahoga 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.

Charter Requirements

Section 10 of the City Charter provides that Council shall hold at least two regular meetings in each calendar month, except during summer recess. The time and place of the meeting shall be prescribed by ordinance.

Section 14 of the City Charter provides that the Clerk of Council shall keep records of the Council and perform such duties as may be required by Charter or by Council.

Section 15 of the City Charter provides that the affirmative vote of a majority of the members elected to the Council shall be necessary to adopt any ordinance or resolution except changes in zoning which shall require a two-thirds (2/3) vote.

Section 19 of the City Charter provides that any ordinance or resolution passed by the Council shall be signed by the President or other presiding officer and presented forthwith to the Mayor by the Clerk. If the Mayor refuses to sign an ordinance or resolution and returns it to the Council with his objections, the Council shall proceed to reconsider it. If upon reconsideration, the resolution or ordinance disapproved by the Mayor be approved by the vote of two-thirds (2/3) of all members elected to the Council it shall take effect without the signature of the Mayor.

Statutory Requirements

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

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

City of Garfield Heights – Cuyahoga County

Report on Accounting Methods

Recording Official Proceedings

(Continued)

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

Methods Used by the City

The City holds their regular meetings on the second and fourth Mondays of each month from September through May. During the summer months, June through August, the City will hold a regular meeting on the second Monday of each month. The Clerk of Council records and takes notes during the City Council meetings. From those notes as well as an audiotape recording of the meeting, the Clerk of Council prepares the minutes of the meeting. The minutes include who is in attendance, reports that are presented by various departments and officials, a summary of topics discussed, resolutions and ordinances by number and description and the votes thereon, and other upcoming events. The minutes are approved, signed and dated at the next council meeting. The typed minutes, resolutions and ordinances are each kept in a separate black binder and filed in the Law Department.

Auditor of State Comments

None.

City of Garfield Heights – Cuyahoga 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 Garfield Heights 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 Garfield Heights 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.



Mary Taylor, CPA
Auditor of State

CITY OF GARFIELD HEIGHTS

CUYAHOGA 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
DECEMBER 8, 2009**