



Dave Yost • Auditor of State

**City of East Cleveland
Cuyahoga County, Ohio**

Report on Accounting Methods

Local Government Services Section

**City of East Cleveland, Cuyahoga County
Report on Accounting Methods**

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CERTIFICATION

In compliance with the requirements set forth in Section 118.10(A) of the Ohio Revised Code, an assessment of the methods, accuracy, and legality of the accounts, records, files, and reports of the City of East Cleveland was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The control deficiencies and non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to Section 118.10 of the Ohio Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Quentin Potter, Chairman of the Financial Planning and Supervision Commission of the City of East Cleveland; Brandon King, Mayor of the City of East Cleveland and Joie Graham, President of Council.

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

David Yost
Auditor of State

November 8, 2018

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Purpose

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

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

This report is intended solely for the use of the Financial Planning and Supervision Commission of the City of East Cleveland. We were not engaged to, nor did we perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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Governance Overview

The City of East Cleveland (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 June 6, 1916 and became effective January 1, 1918. Legislative authority is vested in a five-member Council. Two members are elected at large and three members are elected by wards for four year staggered terms. The Council elects one of its members to serve as council president. The Mayor is the chief executive and administrative officer who is elected for a four-year term.

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

The Mayor exercises supervision and control over all administrative departments of the City. The Mayor appoints all officers and employees of the City, except the other elected officials of the City and the employees in those departments. 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 Service shall have charge of the construction and maintenance of all public works such as repairs to and cleaning of streets, sidewalks, alleys, bridges, etc.; maintenance of all City buildings and property. The Director of Service shall have charge of the collection and disposal of garbage and rubbish and shall perform such other duties as may be assigned by council.

The Building Commissioner shall approve all plans for buildings, houses, garages, etc., before issuing a permit and shall have charge of inspection of all buildings, houses, garages, etc., under constructions and see that all conditions of the City Building Code are complied with.

The Director of Law shall act as the legal advisor to, and attorney and counsel for, the City and for all officers in matter relating to their official duties. The Director of Law shall prepare all contracts, bonds and other instruments in writing in which the City is concerned and shall endorse on each their approval of the form and correctness thereof, and no contract with such City shall take effect until the approval of the Director Law is endorsed thereon.

The Finance Director serves as the chief fiscal officer of the City. The Finance Director shall collect all taxes, assessments, and monies due; disburse funds as authorized; select depositories; invest funds; maintain an efficient general accounting system; specify and supervise departmental accounting; and represent the City with other governmental fiscal agencies. The Finance Director shall serve as fiscal advisor to the Council and Mayor and assist the Mayor in the preparation of the yearly budget, appropriation ordinances or resolutions and statements of anticipated income. The Finance Director is responsible for establishment of the accounting procedures necessary to comply with the administrative rules adopted by the Auditor of State.

All contracts let by competitive bid are first approved by the department director who then makes a recommendation to the Mayor. If the Mayor approves, a recommendation is made to Council who then makes the final decision to award the contract.

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The City Charter establishes the following departments and divisions:

Department of Law
Department of Public Service
Department of Public Safety
 Police Division
 Fire Division
Department of Finance
Department of Public Health

On January 5, 2012, the City was declared in a state of fiscal caution by the Auditor of State in accordance with Revised Code Section 118.025(A). The declaration was based on a review of fund financial data at November 30, 2011. The City had deficit fund balances which exceeded two percent of the estimated revenues of those funds.

On May 23, 2012, the City was declared in a state of fiscal watch under Revised Code Section 118.025(E). Revised Code Section 118.025(C) requires the municipal corporation declared to be in fiscal caution to provide a written proposal to the Auditor of State for discontinuing or correcting the fiscal practices or budgetary conditions that prompted the declaration and for preventing the municipal corporation from experiencing further fiscal difficulties. Upon review of the written proposal submitted to the Auditor of State's office, the Auditor of State determined that the City had not provided an acceptable proposal for correcting the conditions that prompted the declaration of fiscal caution.

On October 9, 2012, the City was declared in a state of fiscal emergency under Revised Code Section 118.023(C). Revised Code Section 118.023(B) requires that within 120 days after a declaration of fiscal watch that the Mayor of the municipal corporation declared to be in fiscal watch submit to the Auditor of State a financial recovery plan that identifies the actions to be taken to eliminate the City's fiscal watch conditions. Upon review of the financial recovery plan submitted to the Auditor of State's office, the Auditor of State determined that the City had failed to submit a feasible financial recovery plan.

A Financial Planning and Supervision Commission (the Commission) was established under Section 118.05 of the Ohio Revised Code. The Commission membership is as follows:

1. The director of the State office of Budget and Management or a designee;
2. The Mayor of the City;
3. The President of City Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals appointed by the Governor with knowledge and experience in financial matters whose residency, office, or principal place of professional or business activity is situated within the City.

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;

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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 is required to adopt a financial recovery plan for the City within one hundred twenty days of its first meeting. By State statute, the City must operate within the provisions of the recovery plan.

This Commission initially adopted a financial recovery plan on September 23, 2014. The financial recovery plan has been amended several times. The most recent amended financial recovery plan was adopted on July 18, 2018. By State statute, the City must operate within the provisions of the recovery plan.

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

1. 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."

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

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of the Office of Budget and Management, and the County Budget Commission; the Commission will be terminated.

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Budgetary System

Description of an Effective Budgetary System

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

Charter Requirements

Section 60 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 Finance Director, 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) A detailed estimate of the expense of conducting each department, as submitted by the department over the signature of the director thereof.
- (b) Expenditures for corresponding items for the last two fiscal years.
- (c) Expenditures for corresponding items for the current fiscal year including adjustments due to transfers between appropriations, plus an estimate of expenditures necessary to complete the current fiscal year.
- (d) Reasons for proposed increase or decrease in such items of expenditure compared with the current fiscal year.
- (e) A detailed inventory of supplies and material on hand and the value thereof at the date of the preparation of the invoice.
- (f) A separate schedule for each department showing the things necessary for the department to do during the year, and which of any desirable things it should do if possible.
- (g) Increase or decrease of requests compared with corresponding appropriations for the current fiscal year.
- (h) A statement from the Finance Director of the total probable income of the City from taxes for the period covered by the Mayor's estimate.
- (i) An itemization of all anticipated revenue from services other than tax levy.
- (j) The amounts required for interest on the City's debt and for sinking funds as required by law.
- (k) The total amount of outstanding City debt with a schedule of maturities of bond issues.
- (l) Such other information as is required by the Council or that the Mayor may deem advisable to submit.

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(m) The recommendation of Mayor as to the amounts to be appropriated with reasons thereof in such detail as the Council may direct.

Statutory Requirements

The Tax Budget: As authorized by Revised Code Section 5705.281, the Cuyahoga County Budget Commission requires an alternative tax budget containing levy information for all funds that receive property tax revenue to be submitted to the County Fiscal Officer 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 Fiscal Officer.

The County Budget Commission may, by an affirmative vote of a majority of the Budget Commission, waive the requirement that Council adopt a tax budget as provided under Section 5705.28 of the Revised Code, but shall require Council to provide such information to the Budget Commission as may be required by the Budget Commission to perform its duties under Chapter 5705 of the Revised Code, including allocating inside millage to each subdivision or taxing unit.

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 County Budget Commission. Section 5705.36 of the Revised Code requires that on or about January 1, the Finance Director certifies the actual year end balances along with total amount available for all services for all City funds to the County Budget Commission. Upon receipt of the information, the County Budget Commission issues an amended official certificate of estimated resources that includes the unencumbered fund balance at December 31. Further amendments may be made during the year if the Finance Director determines that the revenue to be collected by the city will be greater than or less than the amount included in the official certificate.

Appropriations Ordinance: Section 5705.38 of the Revised Code requires that on or about January 1, an annual appropriation ordinance must be enacted by Council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the City until April 1. The appropriation ordinance, by fund must be within the estimated resources as certified by the County Budget Commission. Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department and division, and within each, the amount appropriated for personal services. Any revisions that alter the appropriations at the level adopted by Council must be approved by Council. The City may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

As required by Section 5705.39, Revised Code, no appropriation measure shall become effective until the County Fiscal Officer 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 Fiscal Officer shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure.

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

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

Administrative Code Requirements

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

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

Methods Used by the City

The annual budget process begins in July with the preparation and filing of the alternative tax budget with the County Budget Commission, including property tax levies, estimated receipts for all funds, inside millage for debt service, voted millage, and any tax anticipation notes. Estimated receipts for the ensuing year are based on five years of historical data and current year to date information. 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 2018 alternative tax budget was adopted by Council on July 18, 2017.

Council adopted a resolution to authorize the rate of the tax for the levies to be collected in 2018 on September 19, 2017, and certified it to the County Fiscal Officer. The County is required to provide the City with a certificate of estimated resources based on the alternative tax budget, by September 1. The original certificate of estimated resources was received from the County on December 5, 2017.

Once 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 year's actual receipts and expenditures, current year actual 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 October. Salaries and benefits are set based on bargaining agreements approved by Council. Between mid-October and December, the proposed departmental budgets are reviewed with the Finance Director, the Mayor, the Mayor's Chief of Staff and Council. Annual appropriations for 2018 were adopted by Council on November 21, 2017. Council establishes the legal level of control for all funds at the object level within each fund and department. Any increase or decrease in appropriations at the object level must be approved by Council through resolution. During 2017, the City had expenditures plus encumbrances that exceeded the Council-adopted appropriations in the COPS universal grant fund.

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 City submitted the 2017 year end fund balances to

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the County on January 5, 2018. The 2017 year-end fund balances included three funds with deficit cash balances that have persisted in 2018. There are numerous amendments to the certificate of estimated resources throughout the year.

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

Certified copies of the appropriation measures are filed by the Finance Director with the County Fiscal Officer upon adoption. The City would then receive from the County Fiscal Officer a certificate that the total appropriations from each fund did not exceed the official or amended certificate of estimated resources.

Auditor of State Comments

- Pursuant to Section 5705.10, Revised Code, the City should credit money levied and collected to the proper fund. During 2018, the City had deficit fund cash balances in several funds. The City should not use the money from one fund to pay the obligations of another fund with a deficit.
- Pursuant to Section 5705.41(B) Revised Code, the City should not make any expenditure of money unless it has been appropriated. During 2017, the City had expenditures plus encumbrances that exceeded the Council adopted appropriations. The City should only spend and encumber money within the amount of adopted appropriations.
- During 2017, the City had several funds that had appropriations which exceeded estimated receipts plus unencumbered cash, contrary to Section 5705.36 (A)(2), Revised Code.

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Chart of Fund and Account Codes

Description of Effective Chart of Fund and Account Codes

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

Charter Requirements

The City Charter has no requirements related to the chart of fund and account 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, including approval by Council through ordinance or resolution. The Finance Director assigns the new fund numbers. The fund numbers are assigned based on a chart of funds that reflects its fund type. The current fund structure includes: 1000's – General; 2000's – Special Revenue; 3000's – Debt Service; 4000's – Capital Projects; 5000's – Proprietary; 7000's – Agency. Account codes are assigned and entered into the computer system by the Finance Director based on a chart of accounts. Each account code consists of twelve digits. The first four digits designate the fund, the fifth and sixth digits designate transaction type (revenue, expenditure), the seventh and eighth digits indicate operating or other income for receipts and program for expenditures and the last four digits indicate the specific type of revenue or expenditure object code.

Auditor of State Comments

None

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Accounting Ledgers

Description of Effective Accounting Ledgers

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

Charter Requirements

The City's Charter does not address accounting ledgers.

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

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

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

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Methods Used by the City

The City uses Creative Microsystems, Incorporated (CMI), a fund accounting software package to maintain its accounting records. The City uses four of the software's module systems: the Budget Control System, the Budget Preparation System, the Accounts Payable System and the Purchasing 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 CMI user manual which references the processing of transactions and closing procedures using the software is available online and can be downloaded. 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.

The City uses the Automatic Data Processing (ADP) payroll system to process payroll. ADP prints and delivers the payroll paper checks to the City. Employees that receive direct deposit can view their earnings statement by logging into their account on the ADP I-Pay website page. After the payroll has been processed, the CMI accounting system is updated to account for the payroll activity.

The City's accounting system files and all other program files, such as Microsoft Word and Excel, are backed up by the City on servers located in the Information Technology department. Every day the files from the servers are backed up to a tape. The IT department has a tape for each work day of the month. Each morning, the IT Director takes the previous day's tape to the bank and puts it in the safety deposit box. At least one week of tapes is kept in the safety deposit box at all times. At the beginning of each week, the tapes from over a week ago are taken out of the safety deposit box and brought back to the IT department. The daily tapes are reused every month. The server itself holds financial data for a period of at least a decade.

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.

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Revenue Activity

Description of an Effective Method for Recording Receipts

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

Statutory Requirements

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

Section 733.40 of the Revised Code requires all fines, forfeitures, and costs in ordinance cases, and all fees that are collected by the Mayor that in any manner come into the Mayor's hands, or that are due the Mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all monies received by the Mayor for the use of the municipal corporation shall be paid by the Mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the Mayor shall submit a full statement of all monies received, from whom and for what purposes they were received, and when they were paid into the treasury.

Administrative Code Requirements

Section 117-2-02(D)(1) of the Ohio Administrative Code requires the date, amount, receipt number, account code, and any other information necessary to properly classify the receipt transactions be recorded in the cash journal. Section 117-2-02(D)(2) of the Ohio Administrative Code requires the amount, date, name of the payer, purpose, receipt number, and other information required for the transaction to be recorded in the receipts ledger.

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Methods Used by the City

Finance Department

All departments, except for the Court, remit their daily receipts along with a pay-in summary to the Finance Department. The daily receipts and pay-in summary are given to the Accounts Receivable Clerk who adds all checks, counts the cash and verifies that actual receipts match the total amount found on the pay-in summary. The department employee writes in the amount of the deposit in a deposit sign-in book and signs his or her name. The Accounts Receivable Clerk also signs the deposit sign-in book sheet to verify the amount to be deposited. There is a separate deposit sign-in sheet for each department. The receipts are secured in a locked box in the safe located in the Finance Department.

The Finance Department receives property taxes, homestead and rollback monies, special assessments, income taxes, utility billings, ambulance services and most Federal, State and local grants by wire transfer to the City's general checking account. The Finance Director reviews the online daily activity report for the general checking account to view wire transfers that have been received. The Finance Director will identify the proper account codes and prepare a summary for each wire-transferred receipt. The Finance Director gives the summary to the Accounts Receivable Clerk who will book net receipts to the proper revenue account. The City is working on transitioning to posting such receipts at gross.

The Finance Department directly receives payments for the sale of capital assets, fire prevention licenses, fines for property damages, cell tower fees, and various reimbursements. Typically, these payments are received through the mail or by individuals coming to the Finance Department. All mail received by the Finance Department is sorted and distributed by the Accounts Receivable Clerk.

Each day the Accounts Receivable Clerk prepares a three part deposit slip for each type of receipt. The Accounts Receivable Clerk also prepares a Daily Deposit Summary which totals all receipts to be deposited. The Daily Deposit Summary is reviewed by the Assistant Finance Director before the receipts are posted to the system. Each receipt type along with the white copy of the deposit slip is put in an envelope. The yellow copy is stapled to the supporting documentation. The pink copy of the deposit slip is filed in the Finance Department. All envelopes are placed into a BRINKS plastic bank bag. The top strip from the plastic bank bag is torn off and stapled to the Daily Deposit Summary. Once a day, BRINKS picks up the bank bag and delivers it to the bank. The following day the Assistant Finance Director logs onto the bank's website to verify that the bank deposit matches the amount on the Daily Deposit Summary.

After the amount of the deposit has been verified, the Accounts Receivable Clerk uses the pay-in summaries to post receipts to the appropriate accounts in the system. The Accounts Receivable Clerk prints out a yellow receipt journal sheet for each system receipt and files it in a binder. The Accounts Receivable Clerk also prints out a System Cash Receipt that is given to the department for their records. If the receipt was received directly by the Finance department the System Cash Receipt is filed and kept in the Finance Department.

Receipt of Income Taxes: The City levies a municipal income tax of two percent on all salaries, wages, lottery winnings, commissions and other compensation, and net profits earned within the City as well as income of residents earned outside of the City. The City does not allow a credit for the tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA). 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.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

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.

The Regional Income Tax Agency (RITA) collects the City's income tax and assists with the collection of delinquent accounts. Semi-monthly, the City receives a distribution report, an electronic funds transfer (EFT), and a report of the amounts collected by RITA. The gross income tax receipts and expenditures for collection are booked to the general fund.

Utility Receipts – The City contracts with the City of Cleveland for refuse utility service billing and collection. Utility receipts are deposited electronically by the City of Cleveland into the City's checking account. The amount deposited is net of billing fees. The City receives a monthly distribution report from the City of Cleveland reflecting the amount collected during the month as well as the bill for their collection fee. The Accounts Receivable Clerk records the net receipts for utility service charges collected in the accounting system. Refuse service charges are recorded in the general fund.

Ambulance Service Receipts – The City contracts with Life Force Management for ambulance service billing and collection. Ambulance service receipts are deposited electronically by Life Force Management into the City's checking account. The amount deposited is at gross. The City receives a monthly distribution report from Life Force Management reflecting the total amount collected during the month. The Accounts Receivable Clerk records the gross amount of ambulance service charges collected in the accounting system. Life Force Management also sends a bill to the City for a collection fee which represents 7 percent of the monthly collections. The Accounts Payable Clerk processes the collection fee payment and records the disbursement. Ambulance service charges and disbursements are recorded in the emergency medical services fund.

Traffic Camera Fines: The City receives payments for traffic camera fines. The traffic cameras are operated by American Traffic Solutions (ATS). Per the contract between the City and ATS, the City receives 69 percent of traffic camera fines and ATS receives the remaining 31 percent, which represents their fee to the City. Individuals who have received traffic camera violations have the option to come to the City to pay the fine or they can pay ATS directly by cash, credit card or electronic payment. The majority of all traffic camera fine payments are made to ATS.

The City currently receives its monthly settlement from ATS through wire transfer to the general checking account. The Finance Director or Assistant Finance Director prints out the account detail for the wire transfer from the bank's website and gives it to the Accounts Receivable Clerk to use for posting those receipts to the system.

For individuals that choose to come to the City to pay their fine, the Accounts Receivable Clerk in the Finance Department collects traffic camera fines at the Registrar window in the Finance Department. The Accounts Payable Clerk and the Payroll Clerk can also collect payments from individuals at the Registrar window for traffic camera fines. Upon receiving payment, the Accounts Receivable Clerk enters the payment amount into the violations processing system provided through ATS. The system generates a receipt which is printed out and given to the individual. At the end of each day, the Accounts Receivable Clerk prints out a payment processing report from the violations processing system. This report shows total payments received/applied, the various cash collection points and the form of payment received at the collection points. The daily payment processing report is used to post traffic camera fines from walk-in customers to the system.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Building and Housing Department

The Building and Housing Department receives payments for all building permits, licenses, inspection report fees and regulated activities under City ordinance. 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 and Housing Department Manager will take the application or registration and enter the information into the computer system. The system will generate a receipt which prints three copies. One copy of the receipt is given to the customer, another copy goes to the Finance Department and the remaining copy is kept by the Building and Housing Department for their records.

At the end of the day, the Building and Housing Department Manager counts the day's collections and prints out a Detail Fees Report summary generated by the system. The Building and Housing Department Manager compares the receipts to this summary. The Detail Fees Report summary along with the daily collections and a copy of each system receipt is given to the Accounts Receivable Clerk in the Finance Department.

Municipal Court Receipts

The East Cleveland Municipal Court services only the City of East Cleveland. The receipting of criminal and traffic monies as well as civil court monies is handled by the deputy clerks. Payments are made with cash, personal checks, credit cards, money orders or cashier's check.

The East Cleveland Municipal Court charges fines and court costs based on cost and fine schedules established by the Court and in compliance with the requirements of the Ohio Revised Code. The deputy clerks and the Clerk of Courts maintain a copy of the current cost and fine schedules. These schedules are also available on the Court's website.

Each day, the police turn over all traffic violations to the court. The deputy clerks or the Clerk of Courts 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 deputy clerks collect and process receipts for traffic violations. The deputy clerk enters the amount received into the system. The system will then print a two part 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 deputy clerk present in the courtroom. The deputy clerk enters the judgment entry into the computer system. If the client is unable to pay his or her fines that day, they sign a "Request for Time to Pay" form, 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 are collected and processed by a deputy clerk. When the receipt is entered, the system prints the two part receipt automatically.

At the end of the day, each deputy clerk counts their receipts for the day and prints out a Daily Cash Book Report from the system. The deputy clerks verify that their receipts match the total amount found on their Daily Cash Book Report. Each deputy clerk will give their receipts and Daily Cash Book Report in a locked zipper bank bag to the Clerk of Courts who locks the receipts in a safe overnight. The Clerk of Courts has the key to the safe.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Every morning, the Clerk of Courts opens the safe and recounts the receipts from the previous day and balances to the Daily Cash Book Reports. The Clerk of Courts also prints out a combined Daily Cash Book Report which shows the detailed receipt activity/distribution for total receipts collected by all Court employees. The Clerk of Courts prepares a Daily Receipts Recap spreadsheet which adds up all cash and coins, checks and credit card receipts and verifies that the total on the Daily Receipts Recap matches the totals from the combined Daily Cash Book Report.

The Clerk of Courts prepares a deposit slip for each of the Court's four accounts which include the criminal traffic account, the civil account, the bail bond account and the escrow account. Each deposit slip has two parts. The white copy of the deposit slips and receipts are placed in an envelope. The yellow copy of the deposit slips are filed in the Court office. Once a day, a court employee takes the deposit to the bank. The next day the Clerk of Courts logs onto the bank's website to verify that the bank deposit matches the amount on the yellow deposit slips.

The Court's previous month receipts are disbursed by check to the City by the 15th of every month. Prior to the receipts being disbursed, the Clerk of Courts prints out and reviews the Month-end Disbursement Report. The receipt monies are disbursed according to this report. The Month-end 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 along with the pay-in summary to the Finance Department. The Accounts Receivable Clerk posts the receipts to the system and prints out a system Cash Receipt that is given to the Court for their records.

Auditor of State Comments

- The City is posting receipts for property taxes, income taxes, traffic camera fines, garbage collection and utility net of billing and collection fees. The City should be posting these transactions gross and deductions should be booked as memo expenditures.
- Reimbursements for reimbursable grants are requested in a timely manner; however, deficit fund balances are left in grant funds while they await reimbursement. Advances should be made to these funds to alleviate the fund deficits while the City awaits reimbursement.
- The Court is to distribute the previous month's receipts to the City by the 15th of the every month. The Court distributed the June 2018 receipts to the City in September. The Court should distribute the monthly receipts to the City by the 15th of every month.

City of East Cleveland – 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 Finance Director'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 65 of the City Charter states 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 the money be issued by the Council, or be authorized by any officer of the City, unless the Mayor and Finance Director shall first certify 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, which certificate shall be filed and immediately recorded. The sum so certified shall not thereafter be considered unappropriated until the City is discharged from the contract, agreement or obligation.

Section 72 of City Charter states that when any expenditure within any department other than the compensation of persons employed therein, exceeds \$2,500 or the amount stipulated by State law, whichever amount is the greater, such expenditure shall first be authorized and directed by ordinance of the Council, and when so authorized and directed the Mayor shall make a written contract with the lowest and best bidder after advertisement for not less than two nor more than four consecutive weeks in a newspaper having a bona fide daily general circulation of 20,000 copies or more within Cuyahoga County, Ohio. All bids shall be sealed and shall be opened at twelve o'clock noon on the last day for filing the same by the Mayor at his office in the City of East Cleveland, Ohio, and be publicly read by him. The Mayor shall report all bids to the Council at its next regular meeting and shall recommend which, if any, bid shall be accepted. The Council regardless of the recommendation of the Mayor may reject any or all bids. No contract shall be entered into by the Mayor until the approval thereof by the Council has been first had and obtained. Where there is reason to believe there is collusion or combination among bidders, the Mayor shall reject the bids of those concerned therein. Whenever it becomes necessary in the opinion of the Mayor in the prosecution of any work or improvement under contract to make alterations or modifications in such contract, such alterations or modifications shall only be made by such Mayor after the same have been authorized by resolution or ordinance of the Council.

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.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

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, the Finance Director, and Law Director, except as otherwise specified by City Charter or State statute.

Bidding – All contracts calling for disbursements in excess of \$50,000 shall be in writing and made to the lowest and best bidder. Revised Code Section 735.06 requires that bids be opened and publicly read by the Director of Public Service at the time, date, and place specified in the advertisement for bids. Council must authorize and direct all such disbursements. 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.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

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.

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

Campaign Financing (HB 694) - Section 3517.13(I) of the Revised Code states any bid or unbid contract, purchase order, or collective bargaining agreement with a value of more than \$500 requires the vendor to certify to the contracting authority that the vendor has not made a contribution to the contracting authority within the two previous calendar years, one or more contributions totaling in excess of \$1,000.

Administrative Code Requirements

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

Methods Used by the City

A City department makes the decision that they need to purchase an item or obtain service from an outside vendor. Each month, the Finance Director sends a copy of financial report to each department head, usually within five to six days at the beginning of the next month, (the deadline is set by the 10th of the month, by City ordinance.) The monthly report informs department heads of their allowed budget and appropriate account codes to be used in future requisitions.

The City has a written purchasing procedure memo. However, the procedures are outdated and have not been presented to Council to be adopted by ordinance.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Departments create, submit, and track requisitions on the Requisitions Routing module of CMI (FINQ). Each department can only access their own section of the module. The department head or an employee approved by the department head enters the necessary information in the system. If a department attempts to create a requisition using an expenditure account that does not have enough appropriations available, a notification appears on the screen requiring them to choose a different account. At this point, the department can submit a request to the Finance Director to reallocate non-salary and fringe benefit appropriations to accommodate the desired requisition amount. Information on the requisition includes department, date, vendor, vendor address, shipping address, contract time frame, item description, purchase order number, quantity, unit price, purchase amount and account number.

A vendor list is maintained by the Finance Department within the Creative Microsystems, Inc. (CMI) system. For new vendors, individual department heads contact the vendors and gather all the required information which includes a vendor application and an IRS form W-9. The Finance Director and the Assistant Finance Director can add new vendors to the system. The vendor list includes many vendors that are no longer used by the City. The City does not check the Auditor of State's Findings for Recovery database when adding a new vendor.

FINQ tracks the name of the individuals that create and approve requisitions. The requisitions are approved first by the Accounts Payable Clerk, followed by the Assistant Finance Director and then, finally, the Finance Director. Each individual in the approval process receives an email notification that there are requisitions awaiting their approval. All requisitions in FINQ require an electronic quote, proposal, or other support to be attached. The Finance Director certifies the availability of appropriations against the monthly budget reports, verifies that the correct account codes have been used and signs the requisition. The requisition is then forwarded to the Mayor for final approval. In an effort to go paperless, requisitions that are originated in the Finance Department are not printed as part of the voucher packet, but are maintained in the system.

Since the City is in fiscal emergency, requisitions that have received the final approval of the Finance Director are listed in an Excel spreadsheet each day and submitted to the Fiscal Supervisors for approval to generate purchase orders. The system automatically assigns purchase order numbers. Once the purchase order information is saved, the system validates whether or not there are available appropriations. The posting of the purchase order automatically records an encumbrance in the system.

The purchase orders are printed out by the Accounts Payable Clerk. The names of the Assistant Finance Director and the Mayor automatically appear on the purchase order when it is printed. The Assistant Finance Director gives the printed purchase orders to the Finance Director to approve and sign. The CMI system does not have the capability to print electronic signatures; therefore the Finance Director must manually sign each purchase order. In the absence of the Finance Director, the Chief of Staff is authorized to approve the purchase order on the Finance Director's behalf.

If an error is noticed after the purchase order is generated, the Finance Director instructs the Assistant Finance Director to close the purchase order and generate a new one with the correct information. If a department originally submits a requisition that is approved by the Finance Director and Mayor, and later decides to change the order (the item, amount or the vendor) the purchase order is closed and the department has to start the approval process from the beginning.

The Finance Department distributes two copies of the purchase order form. The white (original) copy of the purchase order is to be sent to the vendor. Typically, vendors do not request a copy of the purchase order so usually this copy is discarded. The yellow copy of the purchase order is filed with the Accounts Payable Clerk in the Finance Department. The purchase order is emailed to the department where the requisition originated.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Blanket purchase orders are used for items such as salt, car washes and gasoline for the police department. City Council has not established a maximum amount for blanket purchase orders to be issued by the Finance Director. Super blankets are not utilized.

“Then and Now” purchase orders are to be prepared for purchases without prior approval. The City’s purchasing police states that the Finance Director is to approve the use of “Then and Now” purchase orders if the purchase was necessary and appropriations are available. If not, the employee will be liable for the payment of the obligation and will be disciplined accordingly. However, the purchasing manual is not specific about what the disciplinary and remediation process entails. According to statutory law, if the amount exceeds \$3,000, the City Council has thirty days from receipt of such certificate to approve payment by resolution. The City does not have “Then and Now” purchase orders over \$3,000.

Contracts which exceed \$50,000 go through a formal bidding process. Council authorizes the City departments to advertise for bids. Bids are submitted 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 ten percent of the contract bid amount and is part of the bid specification to provide a bond.

Bids are received at a set date at a bid opening and a list of vendors and bid amounts is created. The department head makes a recommendation to the Mayor. If the Mayor approves, a recommendation is made to Council who then makes the final decision to award the contract. The Auditor of State Findings for Recovery database is not is not utilized prior to entering into bid contracts. Minutes are taken at the meeting.

The department sends the company awarded the bid a notification that they have been awarded the contract. The bids and bonds of the unsuccessful bidders are returned along with a letter notifying them of the successful bidder. The four copies of the contract go to the Finance Department, the Law Department, the department originating the contract and the successful bidder. If the contract is for a street project, the City engineers also receive a copy of the contract. Purchase orders are created for contracts that are bid based on a copy of the signed requisition, the contract and Council resolution.

The Municipal Court for the City of East Cleveland should do their purchasing through the City and be processed in the same manner as the other City departments. There are some instances when purchases are made without a requisition and purchase order. In these instances, the purchases are authorized by the Judge and considered necessary for Court operations. The Court will issue a manual check, signed by the Judge, to pay for the purchase. Court purchases are oftentimes made outside of the City’s purchasing process.

Auditor of State Comments

- The purchasing manual has not been presented to City Council to be adopted by ordinance and has not been updated for many years. The purchasing manual should be revised to ensure it is relevant to the City’s current procedures and adhered to by all departments. The revised purchasing manual should be presented to City Council for adoption by ordinance.
- The purchasing manual addresses unauthorized purchases, but is not specific about the remediation process. The manual should be updated to include a more specific remediation process for when unauthorized purchases occur.
- The City’s vendor list includes many vendors no longer used. The vendor listing should be updated periodically and also flagged for vendors that become inactive or no longer in use. This will help to eliminate some of the purchase order errors that slow down the purchasing process. The City should adopt a policy that addresses vendor file requirements and how the City adds new vendors.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

- The City does not perform a search of the Auditor of State’s Findings for Recovery database. The City should perform a search of the Auditor of State’s Findings for Recovery database and keep a printed copy of the results of the search on file as proof of verification of vendors.
- The original purchase order is not sent to the vendor automatically and is only sent upon request by the vendor. The purchase order should always be mailed, faxed, or emailed to the vendor.
- The City Council, per Section 5705.41(D), Revised Code, should establish, by resolution or ordinance, the maximum amount for blanket purchase orders to be issued by the City Finance Department. Blanket purchase orders used without the City Council having set a limit are not valid because the City does not have the authority to use blanket purchase orders without the action by City Council.
- The City should prepare “Then and Now” purchase orders for purchases without prior approval. Section 5705.41(D) of the Revised Code, allows the fiscal officer to certify and pay obligations of less than \$3,000 and Council, by resolution, to authorize payment for amounts greater than \$3,000.
- The Municipal Court for the City of East Cleveland makes purchases outside of the City’s purchasing process. The Municipal Court should follow the purchasing procedures and policies of the City.

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

Charter Requirements

Section 64 of the City Charter states that no warrant for the payment of any claim shall be issued by the Finance Director until such claim has been approved by the director of the department for which the indebtedness was incurred and by the Mayor. And such officers and their sureties shall be liable for all loss or damage sustained by the municipality by reason of the corrupt approval of any such claim against the municipality. Whenever any claim shall be presented to the Finance Director he shall have power to require evidence that the amount claimed 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 the municipality, or any other person, and examine him upon oath or affirmation relative thereto.

Statutory Requirements

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

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

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

No Certification - If no certificate is furnished as required, upon receipt by the City of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the City may authorize the drawing of a warrant in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than \$3,000, the fiscal officer may authorize it to be paid without such affirmation of the taxing authority of the subdivision or taxing unit, if such expenditure is otherwise valid.

Administrative Code Requirement

Section 117-2-02(C)(3) of the Ohio Administrative Code states “vouchers may be used as a written order authorizing the drawing of a warrant in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information.”

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Methods Used by the City

The Accounts Payable Clerk is responsible for processing cash disbursements with the Finance Director making the determination of when 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 Finance Department. The Finance Department contacts the department that requested the materials and supplies to verify the contents to the packing slip and the gold (receiving) copy of the purchase order. Once the goods or services have been verified as received, the gold copy of the purchase order is marked “ok to pay” by the department head or the department head’s designee and given to the Accounts Payable Clerk in the Finance Department.

The yellow copy of the purchase order and the requisition waiting to be matched to the invoice are filed in a separate alphabetical vendor file known as the “open purchase order file” in the Finance Department. When the invoice is received, it is filed with the corresponding documents.

Most invoices are received by the Finance Department, while some others are received by various departments. The invoices received by other departments are forwarded to the Accounts Payable Clerk in the Finance Department through inter-office mail. The Accounts Payable Clerk will verify with the departments that the invoice is okay to pay.

Upon receiving the invoice, the Accounts Payable Clerk matches it to the receiving order signed by the department head to make sure that everything invoiced was actually received and compares the items, quantities, and unit price on the receiving order to the invoice. If an invoice is wrong, the Accounts Payable Clerk will notify the Assistant Finance Director and the department who requisitioned the goods to investigate why there is a difference and contact the vendor to resolve any discrepancies.

If the invoice amount exceeds the purchase order by seven percent or less, the purchase order is marked complete by the Accounts Payable Clerk and the invoice is paid in full. However, if the invoice exceeds the purchase order by more than seven percent, the Accounts Payable Clerk notifies the Assistant Finance Director and then contacts the vendor to determine why the invoice is higher. If the discrepancy resulted from an error by the City, the Assistant Finance Director will increase the purchase order amount to match the invoice and initial the changes on the purchase order. Only the Assistant Finance Director is authorized to adjust purchase orders when the invoice exceeds the purchase order by more than seven percent. However, the accounting system allows the Accounts Payable Clerk to adjust a purchase order by more than seven percent without flagging it.

The Accounts Payable Clerk enters the information from the invoice to create a voucher in the system. To enter the invoice, the Accounts Payable Clerk selects the corresponding purchase order in the system which pulls the purchase order information, such as the vendor address, quantity, and price into the invoice screen. The invoice screen can be updated to adjust the quantity or price if the entire purchase order amount was not used on the single invoice. Additional information, such as the invoice due date, account number and the check sort code, are entered. Once all invoices in a batch are entered, the batch is processed.

During batch processing, the Accounts Payable Clerk generates several reports. A voucher log summary report is run that lists the date, voucher number, vendor number, vendor name and amount for each voucher in the batch. An open batch report is generated which lists more detailed information including the corresponding purchase order number for each voucher and a brief description of the items or services listed on the invoice. The last report generated is the voucher journal report which lists the account code or codes charged for each voucher in addition to all detailed information found on the open batch report. The Accounts Payable Clerk forwards these reports to the Finance Director who approves them and verifies that sufficient funds are available to pay the invoices. The Finance Director signs the accounts payable check

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register after his review. Upon the Finance Director's approval, the batch is closed and checks are processed. In the absence of the Finance Director, the Assistant Finance Director has the authority to approve the processing of checks.

The Accounts Payable Clerk selects the "prepare checks" option in the accounts payable system which creates an individual check for each entry in the batch. The Accounts Payable Clerk enters the date of the checks and the first check number into the system. A check proof report is ran which shows all information that will appear on the checks. After reviewing the check proof report, the Accounts Payable Clerk prints the checks. Blank checks are stored in a safe located in the Finance Department, accessible only to employees within the department.

After the checks are printed, the Accounts Payable Clerk gives the Finance Director the printed checks, a check register report, and the purchase orders that match the checks. After signing the checks, the Finance Director gives the checks and documents back to the Assistant Finance Director to upload the checks to positive pay. The checks and documents are then given to Accounts Payable Clerk who then mails the checks along with the remittance form and removes the voucher packet from the "open purchase order file" and attaches a copy of the check to the front of it.

All checks have one original copy. The original copy of the check is mailed to the vendor. The check stub is attached to the front of the voucher packet and filed in the Finance Department.

The voucher packet includes the check stub, the invoice, the yellow copy of the purchase order, and the requisition. All voucher packets are kept in a filing cabinet in the Finance Department. The voucher packets are filed chronologically by check number.

If a check is voided, the Accounts Payable Clerk handwrites "VOID" on the check. The transaction is then voided in the system. The voided checks are filed numerically in a folder kept in the Finance Department. The check is also indicated as voided on the daily cash flow statements.

Checks are written at various times during the month, whenever the Finance Director determines there is sufficient cash in the treasury to pay them. Priority is given to the oldest invoices that haven't been paid. Utilities are paid monthly and any checks related to payroll liabilities are also paid as they come due.

Auditor of State Comments

- The City should document and periodically review and update the procedures for cash disbursements including the timely payment of obligations, the approval process, and the segregation of duties. This document should also include procedures for invoices exceeding the purchase order and when partial orders are received. The document should be kept on file in the Finance Department.
- The Finance Department allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the Finance Director should request, by resolution, Council approval of an advance from the General Fund. The resolution should identify the anticipated resources from which the advance will be repaid and when the resources are expected to be received.
- The Accounts Payable Clerk has the ability within the system to adjust a purchase order by more than seven percent without flagging it. Only the Assistant Finance Director should have the ability to adjust a purchase order by more than seven percent. The City should contact CMI, its accounting system company, to change user access so that the Accounts Payable Clerk will no longer have the ability to do this.

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- Blank checks are accessible to all employees in the Finance Department. The blank checks should be stored in such a way that access is restricted only to employees directly involved in the check distribution process.

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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, authorize pay rates, process payroll, generate and distribute pay checks, and reconcile the bank accounts.

Charter Requirements

Section 101 of the City Charter provides that each member of Council, except the President, shall receive a salary of \$4,500 per year and the President of Council shall receive a salary of \$6,000 per year, payable in equal monthly installments.

Section 110 of the City Charter provides that Council shall fix by ordinance, the salary, rate or amount of compensation of all officers and employees of the City, except as otherwise provided in the Charter. The Council may establish minimum employment qualifications not otherwise in conflict with the general State Law for any officer or employee, except for the Mayor and the members of Council and as is otherwise provided in the Charter or required by law. The Council may require any officer or employee to give a bond for the faithful performance of his duty in such an amount as it may determine and it may provide that the premium thereof shall be paid by the City. The Council shall establish and require that the Finance Director give a bond for the faithful performance of his or her duties, in such amount as determined appropriate by Council and shall provide that the premium thereof shall be paid by the City.

Section 113(B) 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 and their assistants. All persons appointed by the Mayor, except those whose terms are fixed by this Charter or by law, may be promoted, demoted, transferred, or removed by the Mayor, subject however, to the Civil Service 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 percent of such annual salary. Absence for ten successive regular meetings shall operate to vacate the seat of a member, unless such absence is authorized by the legislative authority.

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

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Methods Used by the City

All full and part time employees are compensated biweekly. There are 93 full time employees and 33 part time employees within the City. The pay period for all employees begins on Monday and ends on Sunday two weeks later. Members of City Council are to be paid in equal monthly installments. However, they are being paid bi-weekly with the other employees. 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 earnings, withholdings (year-to-date and for the pay period), leave usage during the pay period, and leave balances as of the end of the pay period.

New hires must fill out a packet that includes a W-4, IT-4, direct deposit authorization, Ohio Public Employees Retirement System (OPERS) or Ohio Police and Fire Pension System (OP&F) enrollment, and health insurance enrollment (for employees working at least 30 hours a week) or a waiver if the employee is declining coverage. The OPERS and OP&F documentation must be sent by the City to the respective pension system within 30 days of hire. In some cases, these forms are not being sent in a timely manner, leading to fines for the City.

Personnel files are kept in the Human Resources 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. In practice, many of the personnel files are missing or have improper approval of payroll authorization forms along with other missing or inadequate documentation. The City is currently reviewing the process of keeping and updating personnel files to ensure that all documentation is present and accurate. The employee record in the Automatic Data Processing (ADP) payroll system used by the City also contains the information kept in the Human Resources Department. The employee record is updated by the Human Resources Director or the Payroll Administrator when an employee submits new forms. The Human Resources Director, Payroll Administrator, Assistant Finance Director and Finance Director have the ability to enter wage information into ADP.

All City administrators, including members of the executive branch, directors and assistant directors, use ADP's Time and Attendance electronic timecard module to enter their time worked. The police and fire departments use internal schedules to track hours worked. Total hours worked in a pay period for each employee in the Police and Fire departments are added to separate files. These files are emailed to the Payroll Clerk who uploads the files separately into ADP's payroll module.

All non-administrative employees, excluding police and fire, use electronic swipe cards which are punched into a time clock to track hours worked. The electronic swipe cards and time clock are operated through ADP. At the end of each pay period, each department head, or their designee, accesses ADP's Time and Attendance module to review and make any necessary corrections to their department's electronic timecards. After the timecards are verified, a file of the total hours worked and leave used is emailed to the Payroll Clerk and the Assistant Finance Director. The Payroll Clerk or Assistant Finance Director compares the files submitted by each department to ADP's module to ensure that they match. If they do not, either the department head or designee is contacted for an explanation and required to correct the discrepancy in their timecard files or in ADP's module.

Non-Bargaining Unit Employees - City Ordinance 101-11 establishes the rates and ranges of pay for all employees not covered under a union contract. All non-bargaining unit employees, except for members of the executive branch, directors, and assistant directors, are eligible to earn overtime compensation. The City's employee handbook contains detailed information regarding vacation accruals and benefit packages for non-bargaining unit employees, but has not been updated since June of 2005.

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

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Police Sergeants and Above - The Police Sergeants are covered by a negotiated agreement between the City of East Cleveland and the Fraternal Order of Police Lodge 39. The current contract covered the period of July 1, 2014 to June 30, 2017. 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.

Basic Police Officers - The full-time basic police officers are covered by a negotiated agreement between the City of East Cleveland and the Fraternal Order of Police, Ohio Labor Council, Incorporated, Lodge 39. The current contract covered the period of July 1, 2014 to June 30, 2017. The contract has detailed information pertaining to fringe benefits, absences, leave accruals and conditions of employment. Basic police officers are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Police Patrolmen - The full-time police patrolmen are covered by a negotiated agreement between the City of East Cleveland and the Fraternal Order of Police, Ohio Labor Council, Incorporated, Lodge 39. The current contract covered the period of July 1, 2014 to June 30, 2017. 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 Dispatchers - The full-time police dispatchers are covered by a negotiated agreement between the City of East Cleveland and the Fraternal Order of Police, Ohio Labor Council, Incorporated. The contract covered the period of January 1, 2017 to December 31, 2017. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Police dispatchers are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Corrections Officers - The full-time corrections officers are covered by a negotiated agreement between the City of East Cleveland and the Fraternal Order of Police, Ohio Labor Council, Incorporated. The contract covered the period of January 1, 2011 to December 31, 2013. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Corrections officers are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Fire Fighters - The fire fighters are covered by a negotiated agreement between the City of East Cleveland and the International Association of Fire Fighters, Local 500. The contract covered the period of January 1, 2013 to December 31, 2015. 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.

Skilled Laborers and Parks/Recreation - The non-administrative skilled labor and parks/recreation employees' salaries and benefits are covered by a negotiated agreement between the City of East Cleveland and the American Federation of State, County and Municipal Employees. The contract covered a period through December 31, 2015. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. Non-administrative skilled labor and parks/recreation employees are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Foremen and Laborers - The foremen, laborers and repairmen are covered by a negotiated agreement between the City of East Cleveland and the Municipal Foremen and Laborers Union, Local 1099. The contract covered the period of January 1, 2011 to December 31, 2015. The contract has detailed

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information pertaining to compensation, fringe benefits, absences and leave accruals. Foremen, laborers and repairmen are eligible to earn overtime compensation. The current contract will continue in effect until negotiations are finalized on a new contract.

Service and Clerical - The non-administrative service and clerical employees' salaries and benefits are governed by a negotiated agreement between the City of East Cleveland and the Service Employees International Union, District 1199. The contract covered the period of January 1, 2008 to December 31, 2010. The contract has detailed information pertaining to compensation, fringe benefits, absences and leave accruals. 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 – Section 101 of the City Charter as well as City Ordinance 101-11 establishes the annual salary for the Council President at \$6,000 and Council Members at \$4,500. City Ordinance 101-11 sets the Mayor's minimum annual salary at \$40,000. The Mayor and Council 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 assistant directors do not qualify for overtime pay. The overtime rate paid is time and a half. Overtime is recorded on an employee's timecard or on the department Punch Detail Report. All overtime has to be approved by the employee's supervisor each pay period. The Payroll Administrator verifies the mathematical accuracy of the timecards and Punch Detail Reports and enters the overtime amount for each employee into the ADP payroll system. Compensatory time is earned in place of paid overtime at time and a half for all eligible employees. Compensatory Time is tracked by the Finance Department in ADP. In cases where the employee or their department disagree about the proper balance, the issue is investigated on both sides to see where the variance occurred. The overtime budget is discussed by the Finance Director, the Mayor, the Mayor's Chief of Staff 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. Vacation, sick and personal leave usage is posted in the ADP payroll system by the Payroll Administrator according to the amount of time recorded on the timecards and written on the Punch Detail Reports.

The ADP system does not reflect the correct leave balances for employees. The correct leave balances for employees are maintained on spreadsheets prepared and updated by the Finance Department., with the exception of holiday leave for the police and fire departments, which is tracked by the respective departments. The individual departments track leave balances as well, and any variances between the departmental balance and the Finance Department balance are investigated by both sides to determine where the problem arose.

Payroll Deductions - Payroll, tax and retirement forms are distributed to each new employee to be completed and returned to the Human Resources Department. The Human Resources Director enters the employee's demographic and salary information into the ADP system. The Human Resources Director 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, OP&F, and Medicare are processed through the payroll system. After every pension period, a report is run for OPERS and OP&F to determine the employer's share. The OPERS and OP&F reports and payments are due the thirtieth of the following month. Employee contributions for OPERS and OP&F are due monthly. The payment is made by automatic clearing house (ACH) payment. Employee contributions for OPERS and OP&F are also due monthly.

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Payroll Processing – The Payroll Administrator processes payroll every two weeks on Monday and Tuesday. The Payroll Administrator uses the ADP payroll system for processing. The Assistant Finance Director and Finance Director are also trained to run payroll and are able to do so if the Payroll Administrator is unable. Electronic files with total hours worked and paid time off are emailed from each department and are due to the Payroll Administrator no later than noon on the Monday of payroll week. The Payroll Administrator compares the files to timesheets in ADP's module for accuracy and checks for any mathematical errors. When the payroll information is uploaded into the system, a payroll preview report is generated. This report is reviewed and approved by the Finance Director and the Auditor of State before continuing. A batch report is then produced. The batch report totals are checked against the electronic file received from the departments to verify that the amounts match. The Payroll Administrator will also email the batch report for each department to the department head or their assistant who reviews it for accuracy. The department head signs and returns a payroll authorization sheet verifying that the batch report is correct. Once the ADP reports have all been generated, the Finance Director reviews the documents and signs off on them.

The payroll is submitted to ADP on Tuesday afternoon or Wednesday afternoon. After payroll is submitted, the City wires the required funds from its main account into its payroll account. Once the City's payroll has been accepted by ADP, the payroll clerk enters the payroll information into the CMI accounting system. ADP automatically deducts the gross payroll less any payroll deductions paid directly by the City from the City's payroll account. ADP then distributes and mails checks to the appropriate government agencies on the City's behalf for City payroll deductions including Federal and State taxes, local taxes, Medicare and wage garnishments.

On Wednesday or Thursday of the pay week, the City receives the printed payroll checks from ADP. The payroll checks are picked up on Friday by the department's authorized representative who distributes them to the employees. Employees are able to review earning statements and stubs through ADP's website. Checks to employees are kept to a minimum. If direct deposit is unavailable, then an ADP card is used.

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

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 and OP&F are sent notification of the employee's last working day and payroll information.

The department head will send a sheet to the Human Resources Department showing the leave balances the department has recorded for the employee. The Human Resources Department will verify that the leave balances are correct with the Finance Department and will send the leave balance information to the Payroll Administrator who calculates the employee's final pay. The Finance Director will approve the final pay computation.

Auditor of State Comments

- According to City Charter Section 101, the members of Council are to be paid in equal monthly installments. The City is not following Charter but instead pays the Council bi-weekly. The City should pay Council members according to its Charter or take the steps necessary to change the City Charter.
- OPERS and OP&F documentation for new employees are not consistently being sent to the respective pension systems within the time frame required, resulting in fines. All required documentation should be sent timely.

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- The City's Employee Handbook has not been updated since June 2005. The handbook should be revised and updated to verify existing policy or to reflect any changes in policy.
- Many of the City's personnel files are missing payroll authorizations and other documentation necessary to support payroll deductions and leave balances. Personnel files and the process for maintaining them need to be updated so that they are complete and accurate.
- Holiday time for police and fire and tracked by the respective departments. All leave time and balances should be tracked on the ADP system.
- The ADP system does not reflect the correct leave balances for employees. The Finance Department tracks leave balances for all employees. However, individual departments also track their own leave and, in some cases, employees do not agree with the balances the Finance Department maintains. Leave balances should be reconciled and tracked on the ADP system.
- The Police and Fire Departments submit their payroll through separate spreadsheets that are uploaded into the system by the Payroll Clerk. All departments should track and submit their payroll on the ADP module.
- Eight of the City's nine negotiated agreements have been extended beyond their original contract period. The three negotiated agreements between the City and The Fraternal Order of Police for police sergeants, basic police officers, and full-time patrolmen covered the period July 1, 2014 to June 30, 2017. The negotiated agreement between the City and The Fraternal Order of Police for corrections officers covered the period January 1, 2011 to December 31, 2013. The negotiated agreement between the City and the International Association of Fire Fighters, Local 500 covered the period January 1, 2013 to December 31, 2015. The negotiated agreement between the City and the American Federation of State, County and Municipal Employees for skilled laborers and parks and recreation covered a period ending December 31, 2015. The negotiated agreement between the City and the Municipal Foreman and Laborers Union Local 1099 covered the period January 1, 2011 to December 31, 2015. The negotiated agreement between the City and District 1199 of the Service Employees International Union for service and clerical employees covered the period January 1, 2008 to December 31, 2010. The City and its various bargaining units have continued to extend their contracts yearly until new negotiated agreements are in place. When possible, the City should work with its various bargaining units to agree to new negotiated agreements.

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Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before any debt is issued, a resolution or ordinance authorizing the issuance of debt should be passed by the Council. The statute authorizing the issuance should be identified in the ordinance/resolution as well as the purpose of the debt, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of Council and the Finance Director. Debt proceeds should be received into a separate fund and used only for the purpose specified in the authorizing legislation. Money to be used for debt payments may be received in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Charter Requirements

The City's Charter does not address debt administration.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. 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 percent of its tax valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to five and one-half percent of that tax valuation. In calculating the net indebtedness of a municipal corporation, self-supporting securities, certain securities for which there is an agreement with another subdivision to pay to the municipal corporation amounts equivalent to debt charges on the securities, securities that are not general obligations of the municipal corporation, securities that a covenants to appropriate annually municipal income taxes or other municipal excises or taxes, and certain other types of securities are excluded from the net indebtedness.

Methods Used by the City

Debt issuances are authorized by City ordinance. The statute authorizing the issuance is identified in the ordinance as well as the purpose of the debt, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment. The Finance Director monitors debt payments using separate purchase orders which are completed prior to the time the debt payments are due. Payments are made by either check or by automatic ACH.

The City's outstanding debt obligations as of December 31, 2017 consist of Ohio Public Works Commission loans, capital leases, and police and fire pension liability. The City's outstanding debt obligations are as follows:

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	Interest Rate	Maturity Date	Principal Outstanding 12/31/2017
	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:			
OPWC Loans:			
Euclid Avenue Rehabilitation	0.00 %	2044	\$1,759,799
Windemere/ Idlewood/ Knowles Road	0.00	2044	626,322
Water Main Project Phase II	0.00	2044	52,340
Brunswick Road Water Main Improvement Project	0.00	2044	5,628
Forest Hills Water Main Project	0.00	2044	6,743
Belmore Road Waterline Repair Project	0.00	2044	74,340
Coit Avenue Sanitary Sewer Replacement	0.00	2044	57,972
Total OPWC Loans			<u>2,583,144</u>
Capital Leases:			
Backhoe Lease	4.20	2024	14,677
Salt Truck Lease	2.65	2018	52,194
Police Vehicles Lease I	6.74	2018	5,447
Police Vehicles Lease II	6.74	2018	9,543
Total Capital Leases			<u>81,861</u>
Police and Fire Pension Liability	N/A	2035	<u>1,144,341</u>
Total Governmental Activities			<u><u>\$3,891,207</u></u>

The governmental OPWC loans will be paid out of the bond retirement fund. The backhoe lease will be paid from the permanent improvement fund. The salt truck lease will be paid from the community development block grant fund. The police vehicle leases will be paid from the permanent improvement fund. The police and fire pension liability will be paid from the police pension and the fire pension funds.

Auditor of State Comments

- The City does not post capital lease principal and interest payments to their respective account codes. Principal and interest payments are often posted as one amount under supplies or contractual services. Capital lease payments should be posted to the principal retirement and interest and fiscal charges account codes.

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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 Finance Director, 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 physically 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.

Charter Requirements

The City's Charter does not address capital assets and supplies inventory.

Administrative Code Requirements

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

City's Method of Accounting for Capital Assets

The City has no written policy for capital assets. The Finance Director is responsible for maintaining the capital asset records. Historically, the capitalization threshold used has been \$500, and capital assets that meet the threshold amount would be 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 are accounted for as expenditures. However, the capital asset inventory maintained by the City has not been updated, nor have the assets been tracked alternatively, in several years. The classification of capital assets includes land, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Improvements that add additional life to the asset or increase the asset's service capacity are capitalized.

The Finance Director uses a program called AssetMaxx to track capital assets. However, the balance on the AssetMaxx reports does not tie to the City's audited financial report. This is due to the fact that the AssetMaxx system has not been updated since 2011. Therefore, AssetMaxx reports cannot be used in calculating the capital asset balances presented in the financial report. The GAAP converter starts with the prior year audited balances, adds the current year additions and subtracts the current year deletions to calculate capital asset balances. Additions are calculated by picking expenditures out of the expenditure report that appear to relate to capital assets and verifying them with the Finance Director.

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Report on Accounting Methods

The City does not do any asset tagging with the exception of the assets in the Finance Department. When equipment is purchased in the Finance Department that exceeds the threshold, the tag number is decided by using a spreadsheet listing the existing assets to determine the next number in the sequence. In practice, these numbers are not always assigned in chronological order. The tag is printed with the name of the City, the tag number, and a barcode for the tag number.

The Finance Director 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 the remaining portion of the 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, any remaining depreciation is taken. Since the AssetMaxx system has not been updated in several years, annual depreciation is calculated by the GAAP converter.

When the City is ready to dispose of capital assets, the department who operates the assets prepares a list of the assets to be submitted to Council. There is no capital asset disposal form to be used. Council then passes a resolution approving the disposal of the assets. Assets are almost always used until they have ceased to function, so the asset is trashed. If the asset has value, the department may include quotes for sale of the asset to Council as part of the disposal process.

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

Consumable Inventory

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

Auditor of State Comments

- The City does not have written policies and procedures for capital assets and the City does not annually verify the existence of capital assets. The City should prepare and adopt a comprehensive capital asset policy that should address such things as valuing donated assets, assigning salvage values, establishing capitalization thresholds, and determining the estimated useful life of an asset. The City should also prepare written capital asset procedures that include documentation for each asset and prescribe how accountability will be maintained. The policies for capital assets should be approved by Council.
- The City does not have written policies and procedures to account for consumable inventory. The City should prepare a policy for consumable inventory. The policy should include an annual year-end physical inventory. Procedures for performing the inventory should also be developed, documented and maintained in the office of the Finance Director.
- The City has a capital asset reporting system, but it has not been properly updated in several years. The AssetMaxx system should be properly maintained to accurately reflect the City's capital asset balance and activities, and to meet the accounting and reporting requirement of the City.
- The City is not using a formal capital asset addition or disposal form. In order to better track asset additions and dispositions, the City should enact a policy that documents these transactions using formal capital asset addition and disposal forms.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

- The City does not complete a physical inventory to verify the existence of capital assets. The City should complete a physical inventory every two or three years to verify the existence of capital assets.
- Physical counts of consumable inventory are not being conducted and reported to the Finance Director. Departments of the City should conduct a physical count of consumable inventory on an annual basis, at minimum, and report their balances to the Finance Director.
- The City does not assign salvage value to depreciable capital assets. In accordance with GASB Statement No. 34, depreciation expense should be calculated by allocating the net cost of depreciable assets over their estimated useful lives. The net cost of depreciable assets is defined as historical cost less estimated salvage value. The City should assign salvage values to depreciable assets and recalculate annual and accumulated depreciation.
- The City does not use asset tags for capital assets outside of the Finance Department. Assets should be tagged in every department and the tag number should be entered on a fixed asset acquisition form as well as in the AssetMaxx capital asset reporting system.
- The City does not have a written capitalization threshold but, in practice, the City generally uses \$500 as a capitalization threshold. The City should formally establish the capitalization threshold value and document the threshold in the City's Capital Asset Policy.

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

Reconciliations should be completed for all accounts on a monthly basis. The reconciliations should be completed immediately after the books are closed for the month and upon receipt of the bank statement. Reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items such as unrecorded deposits and bank charges should be posted upon completion of the bank reconciliation.

Charter Requirements

Section 171.09(c) of the City Charter requires that active or demand deposits shall be made by the Finance Director only with eligible national banks as described in Revised Code Section 135.03 in proportion to their points of ranking in the top ten of all applicants pursuant to Charter Section 171.09B.

Section 171.09(d) of the City Charter requires that interim deposits, those bearing interest for terms of at least thirty days and less than six months shall be made by the Finance Director only with national banks or domestic building and loan associations described in Revised Code Section 135.03 and ranking in the top ten applicants pursuant to Charter Section 171.09B. The Director shall award interim deposits of funds not needed for current expenses to the eligible depository quoting the highest interest rate and shall attempt to award such interim deposits to all eligible depositories in proportion to their points of ranking in the top ten of all applicants pursuant to Charter Section 171.09B as cases of equal interest quotations arise.

Section 171.09(e) of the City Charter provides that the Finance Director shall advertise for applications to establish public depository eligibility and deposit awards respecting the active and interim funds of the City at least thirty days prior to the last regular Council meeting scheduled in August, requiring the filing of such applications to be made at least two weeks prior to such meeting to permit scheduling of applicant meetings pursuant to Charter Section 171.07(g). Declaration of eligibility and awards shall be made by the Finance Director at such August meeting of Council upon motion approved by a majority vote.

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

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

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

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

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

Section 135.12 of the Revised Code requires that the designation period for depositories be five years.

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

Federal Requirements

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

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

Methods as Described by the City

The City’s treasury activities are the responsibility of the Finance Director and the Assistant Finance Director. The City has five accounts with U.S. Bank and one account with KeyBank.

The City has various bank accounts with U.S. Bank and KeyBank. These accounts are as follows:

Bank and Account Description

U.S. Bank	This general checking account is used for the general operations of the City.
U.S. Bank	This investment account received funds from the Attorney General for Medicaid payments of ambulance billings. The City moved the Medicaid payments to the general account.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

U.S. Bank	This checking account is used for the accumulation of fees related to traffic cameras.
U.S. Bank	This checking account is used for accumulations and distributions of funds related to law enforcement activities.
U.S. Bank	This checking account is used for accumulations of the City's share of property seized during the investigation of criminal activity.
Key Bank	This checking account is used for accumulations and distributions of funds related to payroll activities.
STAR Ohio	This account is an investment account for interim monies.

The general account, along with all remaining accounts, is reconciled at the end of each month by the Assistant Finance Director. The various banks provide monthly account statements as well as images of the cleared checks. The Assistant Finance Director prepares an outstanding check list in CMI for all accounts that issue checks. This outstanding check list is updated on a daily basis by the Assistant Finance Director, who checks the online banking each day against their cash flow worksheets. These worksheets are also sent to the Auditor of State's office for review each day. The Assistant Finance Director identifies all timing and non-timing reconciling adjustments. The reconciling adjustments are entered on the reconciliation as well as noted on the supporting documentation. The reconciliation is complete when the total fund cash balances on the books plus all identified reconciling adjustments matches the adjusted bank balance. Journal entries are prepared for any reconciling items that need to be posted to the system, and are included in the reconciliation packet.

Upon completion of the reconciliation and journal entries, it is reviewed and signed by the Finance Director. The Finance Director then closes the books for that month. This process is completed by the second Tuesday of the following month. The Assistant Finance Director keeps all supporting documentation used in the preparation of the monthly bank reconciliation and the signed reconciliation for their records.

The City receives interest on its U.S. Bank Federal Asset Forfeiture account and STAR Ohio. The interest is posted to the general fund. The City has no investment policy. The Finance Director has not attended training on investing offered by the State Treasurer's Office.

Voided checks have "void" written on them. They are filed numerically in a binder in the Finance Department. The signature block is not cut out of voided checks. Any accounts payable checks that have not yet been used are stored in the Finance Department in the vault, which is locked nightly and can only be accessed by Finance Department personnel.

The City sent out a memorandum regarding petty cash in 2002. The City is not aware of any ordinance passed by Council to authorize the establishment of petty cash funds. A petty cash fund is currently in use in the Finance Department in the amount of \$500. The Assistant Finance Director is in charge of monitoring and maintaining the petty cash fund.

The Municipal Court has four accounts with US Bank, a criminal traffic account, a civil account, a bail bond account and an escrow account. Monthly account statements are provided to the Courts. The Clerk of Courts is responsible for reconciling all Municipal Court accounts. However, cash reconciliations for the Municipal Court accounts are not performed. Voided checks are marked "void" and filed in the Court office.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Auditor of State Comments

- The City only receives interest on its community development checking account and its federal asset forfeiture fund checking account. The City should establish an investment policy and begin investing in STAR Ohio, certificates of deposit and other eligible securities. The investment policy should address the allocation of interest. The written investment policy must be signed and filed with the Auditor of State.
- The Finance Director has not completed investment training offered by the Treasurer of State. This training should be completed prior to engaging in any investment activity.
- The City does not post interest to Street Construction and Maintenance or the State Highway special revenue funds as required by Article XII, Section 5a, Ohio Constitution. The City should allocate interest to the required funds.
- The City does not have a resolution authorizing the use of petty cash funds. Council should pass a resolution authorizing the use of petty cash funds. The resolution should list the departments that are authorized to establish a petty cash and the authorized dollar amount.
- The signature block is not cut out of voided checks prior to being filed. Voided checks should have the signature block cut out and shredded.
- Cash reconciliations are not done for the Municipal Court bank accounts. Cash reconciliations should be completed for all bank accounts on a monthly basis to ensure proper accountability for public funds. Since the Court is not under the direct authority of the City, this comment, if not completed, should in no way, keep the City from being released from fiscal emergency.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

Financial Reporting

Description of Effective Method of Financial Reporting

The fiscal officer should monthly 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 Finance Director should prepare and publish within 150 days of year end financial statements prepared in accordance with generally accepted accounting principles (GAAP).

Charter Requirements

Section 67 of the City Charter provides that each month Council shall have furnished to them a monthly balance sheet showing in detail all receipts and expenditures of the City for the preceding calendar month, and the aggregate receipts and expenditures of each department shall be published by the Council in such manner as to provide full publicity.

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.

Section 733.45 of the Revised Code states, "The treasurer of a municipal corporation shall settle and account with the legislative authority, quarterly, and at any other time which it by resolution or ordinance requires. At the first regular meeting of such legislative authority in January, each year, the treasurer shall report to it the condition of the finances of the municipal corporation, the amount received, the sources of such receipts, the disbursements made, and on what account during the year preceding. Such account shall exhibit the balance due on each fund which has come into the treasurer's hands during the year".

Administrative Code Requirements

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

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

Methods Used by the City

The City prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The City filed a copy of its annual financial report to the Office of the Auditor of State for the year ended December 31, 2016 on May 26, 2017. For 2016 and prior years, the City has not published a notice of the availability of the financial statements in the local newspaper.

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

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 ten copies of the City's monthly financial reports. The Finance Department keeps two copies internally for their reference, sends a copy to both the Mayor and the Chief of Staff and the remaining six copies are given to the Council office. A PDF file of the monthly financial reports is emailed to all department heads and their assistants. The monthly financial reports are not made publicly available.

The monthly financial reports consist of the following:

Month-to-Date Fund Report: This report provides the beginning fund balance, the current month's receipts and disbursements, outstanding encumbrances and ending fund balances for all funds.

Year-to-Date Fund Report: This report provides the beginning fund balance, the year-to-date receipts and disbursements, outstanding encumbrances and ending fund balances for all funds.

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

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

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.
- City Charter Section 67 provides that the monthly financial reports should be published in a manner that provides full publicity. The City does not ensure that monthly financial reports are published in a way that is easily accessible to the public.

City of East Cleveland – 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 102 of the City Charter provides that the Clerk of Council shall keep the records of Council and perform such duties as may be required by Charter or Council but within the scope of the Council's daily business.

Section 113E of the City Charter provides that every ordinance and resolution passed by the Council shall be signed by its President or Vice President and shall be presented forthwith to the Mayor by the Clerk. If the Mayor approves such ordinance or resolution, he or she shall sign and return it. But, if the Mayor does not approve an ordinance or resolution, he or she shall return it with a statement of his or her objections to the Council who shall enter the Mayor's objections in its journal. The Council may then reconsider the vote on the passage of such legislation not later than at its next regular meeting. If upon reconsideration, it is approved by the vote of four-fifths (4/5) of all the members of Council, it shall become effective.

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

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

Section 149.39 of the Revised Code creates in each municipal corporation, a records commission composed of the chief executive or his appointed representative as chairman, the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary, who may or may not be a member of the commission, and who shall serve at the pleasure of the commission. The

City of East Cleveland – Cuyahoga County

Report on Accounting Methods

commission may employ an archivist to serve under its direction. The commission shall meet at the least once every six months and upon call of the chairman. The functions of the commission shall be to provide rules for retention and disposal of records of the municipal corporation, to review applications for one-time records disposal and schedules of records retention and disposition submitted by municipal offices.

Section 149.011(G) of the Revised Code defines public records to include any document, device, or item, regardless of physical form of characteristic, including an electronic record as defined in section 1306.01 of the Revised Code, created or received by or coming under the jurisdiction of any public office of the State or its political subdivisions, which serves to document the organization, functions, policies, decisions, operations, or other activities of the office.

Methods Used by the City

The City holds their regular meetings on the first and third Tuesdays of each month. The Clerk of Council or Deputy 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 or Deputy Clerk of Council prepares the minutes of the meeting. The minutes include who is in attendance, reports that are presented by various departments and officials, the detail of topics discussed, resolutions and ordinances by number and description and the votes thereon, and other upcoming events. The minutes are approved, signed and dated at the next council meeting. In some instances, resolutions are not signed by the Mayor. The typed minutes, resolutions and ordinances are kept in files in the Clerk of Council's office. Council holds agenda review meetings to discuss various issues and gather information before each regular Council meeting, typically the Wednesday or Thursday prior to each regular meeting. The Deputy Clerk of Council prepares the minutes of the agenda review meetings.

Auditor of State Comments

- Approved resolutions are not always signed by the Mayor. The Mayor should sign each piece of legislation along with all other required signatures and dates before being filed in the Clerk of Council's office.

City of East Cleveland – 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 East Cleveland 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 East Cleveland 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.



Dave Yost • Auditor of State

CITY OF EAST CLEVELAND

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
NOVEMBER 8, 2018**