



Dave Yost • Auditor of State

**City of Fostoria
Seneca County**

Report on Accounting Methods

Local Government Services

City of Fostoria - Seneca County

Report on Accounting Methods

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Dave Yost • Auditor of State

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 Fostoria was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The control deficiencies and instances of non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to Section 118.10 of the Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Quentin Potter, Chairman of the Financial Planning and Supervision Commission of the City of Fostoria, Eric Keckler, Mayor of the City of Fostoria, and Steve Kauffman, President of Council.

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

Dave Yost
Auditor of State

October 2, 2018

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City of Fostoria - Seneca County

Report on Accounting Methods

Purpose

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

Accordingly, this report centers upon the following: (1) whether the current accounting system fulfills the needs of the City and (2) whether the current accounting system is in compliance 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 Fostoria. 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.

City of Fostoria - Seneca County

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Governance Overview

The City of Fostoria (the City) is located in northwest Ohio in Seneca 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 current Charter, which provides for a council-mayor form of government, was adopted on November 7, 2006, and has subsequently been amended. Legislative authority is vested in a seven-member Council and a President of Council. Council members and the President of Council are elected for four year terms. The Mayor is the chief executive and administrative officer who is elected for a four year term. In addition to policies outlined in the City Charter, the City must comply with all State laws governing city government for which there are no provisions within the Charter.

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

The Mayor supervises the administration of the City and has the right to make recommendations to Council, to introduce resolutions and 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 until a successor is elected. The mayor has the power to veto ordinances or resolutions.

The following departments are established by City Charter:

1. Department of Finance
2. Department of Public Service
3. Department of Public Safety
4. Department of Law

The City Auditor serves as the elected chief fiscal officer of the City and performs the powers, duties, and functions given to city auditors and treasurers under the general laws of Ohio to the extent those laws are not in conflict with the City's Charter. The City Auditor is required to administer the fiscal affairs of the City, including the supervision and maintenance of records and accounting procedures which conform to the general laws of Ohio; compile the estimates for the budget and all departments of the City; exercise financial budgetary controls over appropriations made; keep custody of funds, investments, and other property of the City; collect utility and other fees, assessments, and tax revenues; pay the public debt; and perform other duties as may be required by the Charter and/or as the Mayor may impose consistent with the Finance Department. The City Auditor shall make reports, in the form and at such intervals as may be requested by the Mayor, showing the financial standing of the City or any department or agency thereof.

The Director of Public Service and Safety is appointed by the Mayor, subject to the approval of the majority vote of Council. In case of the temporary absence of the Director of Public Service and Safety, all powers and duties shall be assigned to the Mayor or the Mayor may designate an employee to serve as Acting Director. If the absence exceeds thirty consecutive days, the Mayor's designation is subject to approval of the Council by a majority vote. The Director of Public Service and Safety may be removed at the discretion of the Mayor and is not subject to Council approval.

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Report on Accounting Methods

Governance Overview

(continued)

The Director of Law serves as the elected chief legal advisor of the City.

On May 26, 2016, the City was declared to be in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Revised Code Section 118.05. Commission membership is as follows:

1. The Director of the 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 who are residents of the City, or principal place of professional or business activity is in the City.

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

1. Review all tax budgets, tax levy ordinances, bond and note resolutions or ordinances, appropriation measures, and certificates of estimated resources to ensure they are consistent with the financial recovery plan;
2. Inspect and secure copies of pertinent documents of the City;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the City;
4. Review, revise, and approve determinations and certifications affecting the City made by the County Budget Commission or the County Auditor;
5. Bring civil actions to enforce fiscal emergency provisions;
6. Approve the amount and purpose of any debt obligations;
7. Implement steps necessary to bring accounting records, accounting systems, and financial procedures and reports into compliance with rules established by the Auditor of State;
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 the President of the 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.

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Report on Accounting Methods

Governance Overview

(continued)

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

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

Section 118.31 of the Revised Code provides the procedures for legal action to dissolve a municipal corporation. Upon petition of the financial supervisor, 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.

City of Fostoria - Seneca County

Report on Accounting Methods

Budgetary System

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and type of financial resources that will be raised and how those financial resources will be spent. Annually, a budget consisting of estimated receipts and disbursements for each fund for the next year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of receipts and the programs, activities, and major objects of disbursements. The budget should encompass current operations and maintenance, capital acquisition and replacement, and debt retirement. The budget, once approved by the legislative authority, should be the basis for the appropriation measure. The appropriation measure should identify, by fund, department/activity, and object, the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized receipts and balances available for disbursement.

Statutory Requirements

The budgetary process for the City is prescribed in Chapter 5705 of the Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance.

Tax Budget - The Mayor should prepare an annual tax budget of the estimated receipts and disbursements for all funds of the City for the period of January 1 to December 31 of the following year. The budget must be filed in the City Auditor's office for public inspection ten days prior to adoption by Council. At least one public hearing must be held for discussion of the budget. Notice of such hearing requires at least one publication in the official publication of the City or in a newspaper having general circulation in the City at least ten days prior to the date of the hearing. Council is required to adopt the budget by July 15 and the budget must be submitted to the Seneca County Budget Commission by July 20 of each 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. The Budget Commission then prepares and submits to the City the Resolution Accepting Rates for Council's consideration. Council must accept or reject the rates outlined in the Resolution and file the Resolution with the Budget Commission. On or about October 1, Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

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 Budget Commission issues an official certificate of estimated resources on or about September 1 based upon information provided in the tax budget and other information available to the Budget Commission.

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Report on Accounting Methods

Budgetary System

(continued)

On or about January 1, the City Auditor certifies the actual year end balances for all funds to the Budget Commission. Upon receipt of the information, the Budget Commission issues an amended official certificate of estimated resources that includes the unencumbered fund balances as of December 31. Further amendments may be made during the year if the City Auditor determines that the revenue to be collected by the City will be greater than or less than the amount included in the amended official certificate of estimated resources.

Appropriation Ordinance - Section 5705.38 of the Revised Code requires that on or about January 1, the 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 must 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 total of any fund appropriation or alter the levels adopted by Council must be approved by Council. The City may pass supplemental appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

The Clerk of Council is required to certify a copy of each appropriation ordinance to the County Budget Commission. No appropriations are effective until the County Auditor provides a certificate indicating the appropriations, by fund, are within the estimated resources.

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

Section 705.19 of the Revised Code provides that no money shall be drawn from the treasury of a municipal corporation, except in pursuance of appropriations made by the legislative authority, and whenever an appropriation is so made, the clerk shall forthwith give notice 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

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.

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Report on Accounting Methods

Budgetary System

(continued)

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

City Charter Requirements

Section 5.02(B) of the City Charter requires the City Auditor to prepare and submit the budget and appropriation matters of the City.

Methods Used by the City

The Seneca County Budget Commission requires the City to submit a tax budget by July 20 each year. The tax budget is prepared by the City Auditor based on prior year receipts and disbursements, giving consideration to non-recurring receipts, and known factors relating to the upcoming budget year. The Budget Commission uses the tax budget to determine the financial needs and the corresponding tax rates to be charged on behalf of the City. The Budget Commission then prepares and submits to the City the Resolution Accepting Rates for Council's consideration. Council must accept or reject the rates outlined in the Resolution and file the Resolution with the Budget Commission by October 1.

The City submits a Certificate of the Total Amount from All Sources Available for Expenditures, and Balances to the County Auditor after year end closing. The Certificate identifies the actual year end fund balances for each fund of the City. The County Auditor then returns to the City an Amended Certificate of Estimated Resources.

The City begins preparing the budget for the upcoming year in August or September. A spreadsheet summarizing materials and supplies and contractual services expenditures for the current year to date along with each of the prior three years in total is prepared and sent to each department head who then uses it to project the upcoming year's budget based on history, trends, and other known factors. In addition, each department head prepares a list of anticipated capital related expenditures for the upcoming year identifying the item or project and the estimated cost. For payroll related expenditures, a separate spreadsheet is prepared by the Finance Department summarizing current year data for salary and benefits along with payroll taxes and insurance. This spreadsheet is used to project the budget for the following year by applying planned salary increases and expected increases in health care rates along with other factors. Once the department heads have completed their portions of the budget, all of the information is compiled into a spreadsheet for review by City Administration (Mayor, Safety-Service Director, and City Auditor). Follow up meetings with department heads may occur until the departments and the administration arrive at a consensus on the final budget for each department. Once finalized, the budget is submitted to Council for approval. Once approved, the appropriation ordinance is submitted to the Budget Commission and appropriations are recorded to the accounting system. The Budget Commission verifies that appropriations, by fund, do not exceed estimated resources and returns a certificate indicating that total appropriations from each fund do not exceed the estimated resources.

City of Fostoria - Seneca County

Report on Accounting Methods

Budgetary System

(continued)

Auditor of State Comments

- The City had deficit fund balances contrary to Section 5705.10 of the Revised Code. The City Auditor, as well as Council, must review the financial and budgetary activity to ensure compliance with Ohio budgetary law. This review should be ongoing and documented.
- Section 5705.39 of the Revised Code requires that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure, as certified by the Budget Commission. The City Auditor should document the comparison of appropriations to estimated resources. This comparison should be presented to Council upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.
- The City does not adequately compare expenditures plus encumbrances to available appropriations prior to certifying purchase obligations and/or to determine whether adjustments are needed to amounts appropriated during the year. Section 5705.41(B) of the Revised Code states that no expenditure of money may be made unless it has been appropriated. City officials (Safety-Service Director, City Auditor) must review appropriations to ensure amounts appropriated are sufficient prior to the approval and/or certification of any purchase obligation.

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Chart of Fund and Account Codes

Description of an 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 and 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 the individual funds. Receipt and disbursement codes should allow the transactions to be summarized by major revenue source or disbursement program. Major object codes for disbursements should be used consistently throughout the various program/activity codes.

The City should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established.

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 balance for budget stabilization, for the payment of claims under a self-insurance program, and for 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, by ordinance, establishes funds as outlined in the Revised Code. The Finance Administrator assigns each fund a fund number that reflects its fund type classification and uses account codes that classify and summarize receipt and disbursement transactions according to management needs and annual reporting requirements. Account codes consist of twelve digits.

For receipt codes, the first three digits represent the fund, the next three digits represent the department and program (for example: department; police, fire, park and program; security of persons and property, leisure time activities), and the last six digits represent the receipt source (for example: taxes, charges for services, intergovernmental revenues).

For disbursement codes, the first three digits represent the fund, the next three digits represent the department and program (for example: department; police, fire, park and program; security of persons and property, leisure time activities), the next three digits represent the object (for example: personal services, contractual services, materials and supplies), and the final three digits identify the specific disbursement type (for example: PERS, workers compensation).

City of Fostoria - Seneca County

Report on Accounting Methods

Chart of Fund and Account Codes

(continued)

Auditor of State Comments

- The City's chart of accounts identifies a specific formula for the creation of an account code for both receipt and disbursement accounts. However, for a number of the City's current accounts, for both receipts and disbursements, there is inconsistency in the naming convention and relevance of account titles as well as accounts not being reported within the appropriate object classification. The City should evaluate and modify its account codes to provide consistency throughout the account code system.

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Report on Accounting Methods

Accounting Journals and Ledgers

Description of Effective Accounting Journals and Ledgers

The accounting journals and ledgers of the City should provide ongoing and timely information on estimated and actual receipts, disbursements, and encumbrances compared to the appropriation authority and available cash balances for each fund. The information captured for each transaction should allow the transaction to be traced throughout the journals and ledgers and back to the document that originated the transaction.

Administrative Code Requirements

Ohio Administrative Code Section 117-2-02(A) 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 117-02-02(C)(1) of the Ohio Administrative Code requires that all local public offices 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 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 Department. The cash journal presents receipts deposited to and checks drawn against the City's treasury and the fund to which the receipts and checks were recorded. Entries to the cash journal are posted sequentially by date from source documents, such as pay-in-orders and checks. The related pay-in-order or check 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 to be recorded.

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

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Report on Accounting Methods

Accounting Journals and Ledgers

(continued)

Appropriation Ledger - The appropriation ledger is used to summarize appropriations, disbursements, and encumbrances by fund and account. In addition, the ledger should reflect the encumbering of obligations of the City, identify the check issued for the payment of the obligation, and accommodate any adjustments to an appropriation account. The ledger also facilitates budgetary control by enabling the City to keep the City's disbursements and encumbrances within the amounts appropriated by Council. The unencumbered appropriation balance provides information on the amount available for disbursement. At the end of each month, month to date totals and year to date totals are to be recorded.

Methods Used by the City

The City uses fund accounting software from Civica CMI. The software incorporates estimated receipts and appropriations by fund and account. The software allows for the accumulation and aggregation of budget and actual information. Detailed receipt, disbursement, and encumbrance information is accumulated by fund, department, and receipt source, and by expenditure program, department, and object code. The software provides month to date and year to date information for receipts and disbursements as well as accumulates detailed and summary information for receipts and disbursements.

The reconciliation process is generally completed within fifteen days after month end. The City has a written procedures checklist to follow for closing a month. Monthly reports are downloaded and saved as pdf files to the City's network drive. Software is backed up nightly to the "cloud" by the City's computer software company. The Finance Department receives a confirmation in the morning on a daily basis that a backup was completed.

At finance committee meetings (before each council meeting), the City Auditor provides a MTD/YTD Fund Report (includes by fund the beginning fund balance, month to date and year to date revenues and expenses, and unexpended fund balance), a Wage Report (includes employee, position, hire date, base amount, overtime amount, contract obligations, and total wages), and an Income Tax Receipts Comparison (includes prior years/months income tax collections, current monthly income tax, change column between prior year and current year, and percentage of increase or decrease). The City Auditor also provides a Monthly Distribution Report from the Regional Income Tax Agency. Finally, the City Auditor provides a YTD Bank Report (includes list of banks, balances for each bank, and total that ties to the MTD/YTD Fund Report).

Auditor of State Comments

- The City currently averages fifteen days to reconcile and perform month end closing. The City should complete the bank reconciliation and month end processing within the first week of the subsequent month. The City Auditor needs to assess the distribution of activities among staff or whether there is adequate staff to perform its duties in a timely manner.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded, and deposited in accordance with State statute. The receipt or pay-in-order form should be a multi-part form that is pre-numbered and issued consecutively. The receipt should identify the name of the entity and reflect the date received, the payer, the amount, the purpose or nature of the receipt, the account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payer. Departmental receipts should be summarized and remitted to the finance department daily. The finance department should issue pay-in-orders to those departments depositing daily collections to the finance department and for any payments received from the public. The pay-in-order forms should be a multi-part, pre-numbered form that reflects the name of the entity, the date received, the payer, the amount, the purpose or nature of the receipt, 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. All receipts or 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, depositing of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38 of the Revised Code provides that a person who is a public official, employee, or agent shall deposit all public monies 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 monies 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 monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies 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.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

Methods Used by the City

Finance Department

General Receipts -

General receipts are processed by the Finance Administrator. Receipts are received over the counter, in the mail, by direct deposit, wire transfer, or from other City departments. In general, the Finance Department collects receipts for all services invoiced by the City and makes the majority of the bank deposits. The Income Tax Department and Utility Department also make bank deposits.

The Finance Department does not have a receipt book but provides a receipt from the City's software (CMI) after posting the receipt if the customer requests a receipt.

Receipts received from other City departments by the Finance Administrator are usually accompanied with a pay-in slip prepared by the department. If not, the Finance Administrator will prepare one at the time of delivery. The pay-in slip includes the revenue account names and account numbers related to the department making the pay-in. At the time the receipt is received, the Finance Administrator will post the activity into the City's CMI software and print a receipt for the department. The CMI software assigns a finance batch number for the pay-in. The number of finance batch numbers per day will vary depending on the volume of pay-in receipts per day. The Finance Administrator prints a Receipt Journal for every finance batch generated in the CMI software and files them by date.

The City makes a daily bank deposit that is picked up by a courier with First Federal Bank. The courier picks up the current day's locked bank bags ready for deposit and leaves the previous day's locked bank bag that has the bank receipts for the prior day's deposit. The bank receipts are attached to the corresponding pay-in receipt.

ACH (Automated Clearing House) Receipts -

Periodically throughout the month and also at month end, the Finance Administrator will print a report from the First Federal General Account for ACH activity. First Federal also sends a remittance email to the Finance Administrator notifying that the account had ACH activity. These emails are printed and stapled to the pay-in receipt documenting the revenue account and amount used to post the transaction into the CMI software. Any other documentation received, if any, will be stapled with the pay-in.

Income Tax Receipts -

The Finance Administrator receives three types of pay-ins from the Income Tax Administrator. One pay-in is for the semi-monthly receipts from the Regional Income Tax Agency (RITA) that are deposited into the First Federal General Account. The pay-in identifies the gross taxes collected and any fees for collection. The Income Tax Administrator prepares this pay-in near the 1st and 15th of the month and gives it to the Finance Administrator which the Finance Administrator records into the CMI software.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

The second type of pay-in is for the receipt of funds (delinquent collections) collected by the Ohio Attorney General (OAG) and deposited into the First Federal Tax Collection Account. The Finance Administrator prints the bank statement for the First Federal Tax Collection Account and gives it to the Income Tax Administrator. The Income Tax Administrator retrieves a report from the OAG's website with detailed information for the activity in the bank account. The Income Tax Administrator prepares a pay-in for the receipts in the First Federal Tax Collection Account. At any time during the month and at month end, the Finance Administrator uploads the income tax receipt information into the CMI software. At month end, the balance of the First Federal Tax Collection Account is transferred to the First Federal General Account. A proof of transfer is printed and kept with the monthly reconciliation documentation.

The third type is for all other receipts, such as cash payments for taxes, cash received from taxpayers that are on payment plans with the City, or other amounts received from the Ohio Department of Taxation. For these receipts, the Income Tax Administrator prepares a pay-in receipt which is given to the Finance Administrator to record into the CMI software.

Utility Receipts -

The Utility Department prepares several pay-ins each day that correspond to utility batch numbers that are generated from the cash register. The daily pay-in receipt and related support are provided to the Finance Administrator every one to two days. However, the pay-in file is available to the Finance Administrator daily.

Credit card payments may be made in person in the Utility Department or online. For credit card payments made online, the Utility Department receives an email for each online payment made. For credit card payments made in person, the Utility Clerk enters the payment into the credit register. At the end of each month, the Utility Clerk submits two summary sheets for credit card payments to the Finance Administrator, one identifying the batch number, date, and amount for all credit card payments taken in person in the Utility Department and one identifying the batch number, date, and amount for all payments made online.

At any time during the month and at month end, the Finance Administrator uploads the utility receipt information into the CMI software. Also, at month end, the balance in the Water/Sewer Credit Account (see Utility Department discussion) is transferred to the First Federal General Account. A proof of transfer is printed and kept with the monthly reconciliation documentation.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

EMS Receipts -

The City contracts with EMS Billing Management for the billing of EMS services. The City receives EMS receipts in three ways. The first is by ACH in the City's First Federal Fire and EMS Account. The second is by check from a collection agency (Interstate Credit Collections) that is received in the mail by check by the Finance Administrator. The third is by ACH in the First Federal EMS Collections Account that is used for the collection of receipts from the OAG's Office for delinquent collections. The Finance Administrator posts the revenue monthly into the CMI software using the bank statements or the pay-in receipt for the amounts received by check. The Finance Administrator then does a bank transfer from the First Federal Fire and EMS Account and the First Federal EMS Collections Account to the First Federal General Account. A proof of transfer is printed for each of these bank accounts and kept with the monthly reconciliation documentation.

Any checks that the Fire Department or the Finance Department receives from insurance companies or from the customer is mailed to the bank lock box by the Finance Administrator. The bank deposits the checks and these deposits become part of the ACH receipts posted to the City's First Federal Fire and EMS Account.

OAG Court Receipts -

The City uses the OAG's Office for the collection of delinquent court fees. The OAG's Office deposits these amounts into the City's First Federal Bank Court Collections Account. At the end of each month, the Finance Administrator prints the First Federal Court Collections Account bank statement. The Income Tax Administrator retrieves a detailed report from the OAG's website and gives it to the Finance Administrator who forwards the report to the Tiffin Clerk of Courts to review for any corrections or discrepancies. The Tiffin Clerk of Courts returns the report with any corrections to the Finance Administrator along with identifying the amount that can be transferred to the First Federal General Account. Once the bank transfer has been made, a proof of transfer is printed and kept with the monthly reconciliation documentation. The Court Collections Account has not been reconciled since August 2017. The Finance Administrator also notifies the OAG's Office of any discrepancies; however, this also hasn't been done since August 2017.

The Finance Administrator maintains a binder for the First Federal Court Collections Account that includes the bank statement, the detailed activity report from the OAG's website, and proof of bank transfer. The Finance Administrator also maintains an excel spreadsheet documenting the activity of the bank statement each month, how much was transferred, and how much remained in the account. This has not been updated since August 2017.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

At month end, the Finance Administrator runs a Combined Receipt By Pay-In Report for the entire month. If there are any discrepancies during the monthly reconciliation, this report is used and compared to the printed receipt journals and to the supporting documentation to research any differences.

Deposits are prepared daily. The deposit slip is two-part. The top part goes to the bank along with the cash and checks. The bottom part is stapled with the pay-in(s) that make up the deposit along with any supporting documentation and filed by month by year.

Income Tax Department

The City levies an income tax of 2 percent on all salaries, wages, commissions, and other compensation earned within the City as well on the incomes of residents earned outside the City. In the latter case, for 2016 and previous years, the City allowed a credit of up to 100 percent of the tax due to the City for taxes an individual paid to another municipality. For tax year 2017, the City allowed a credit of up to 50 percent of the tax due. For tax year 2018 and future tax years, the City will not allow any tax credit. The City has a mandatory income tax filing requirement for all residents and businesses. Businesses are generally required to pay on a monthly basis. Individuals paying estimated taxes are required to pay on a quarterly basis and file a final tax return annually. All others file a tax return and pay annually.

The City has a permanent income tax of 1 percent for general operations which is recorded in the General Fund. The City has a temporary voted income tax of 1 percent which expires December 31, 2021. This portion of the tax is allocated \$30,000 to the Parks and Recreation Fund, \$60,000 to the Community Development Fund, \$5,000 to the Beautification Fund, \$5,000 to the City Cleanup Fund, \$200,000 to the General Capital Fund, \$200,000 to Street Capital Fund, and \$100,000 to the Infrastructure Capital Improvement Fund with any remainder going to the General Fund.

Prior to October 2016, the City administered income tax collection through the City's Income Tax Department. In October 2016, the City entered into a contract with RITA for income tax collection and processing. The majority of income tax payments are to be sent directly to RITA; however, the Income Tax Administrator can collect cash and checks at the City. Credit/debit card payments can be processed by the Income Tax Administrator in the RITA system for year end annual tax return filing only. All other credit/debit card payments are processed directly with RITA over the phone. RITA provides the Income Tax Administrator with a credit/debit card confirmation number that is documented on the taxpayer's receipt. The taxpayer can also receive payment confirmation by phone (text) or email.

For income tax payments made in person at the City, the Income Tax Administrator prepares an Income Tax Receipt Form that documents the name, social security number, date received, time received, amount paid, and form of payment (cash, check/money order, or credit/debit card). The receipt also documents the tax year(s) applicable and their corresponding amount, if the payment is for a past due balance or with a tax return. The receipt also documents amounts for estimated tax payments with the tax year and quarter applied to, as well as any amounts for withholdings remittance for the applicable tax year, month, and quarter. This receipt is signed by the taxpayer. The taxpayer also initials the form if they pay cash. Once the receipt is complete, a copy is made by the Income Tax Administrator. One copy is given to the taxpayer and the original is maintained with the Income Tax Administrator.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

The Income Tax Administrator includes a copy of the receipt generated from in person payments with the checks that are mailed to RITA. The Income Tax Administrator keeps a copy of the mailing receipt which includes a tracking number.

For cash payments received in person by the Income Tax Administrator, a FORM 09 is prepared which documents the name, account number, address, year, amount paid, date, and signature of the taxpayer. The Income Tax Administrator prepares the deposit slip for the First Federal General Account. Deposits are made daily via the First Federal Bank courier process described previously. A fax is sent to RITA listing tax payments received in person, along with a copy of the FORM 09 so RITA can record the payment to the taxpayer's account.

The City receives a payment from RITA twice a month by ACH electronic fund transfer in the City's First Federal General Account. The Income Tax Administrator will access RITA's system on the first business day of the month and again near the middle of the month to review the detailed activity of collections and fees charged that match the bank ACH receipts for RITA collections. After review of the activity, the Income Tax Administrator prepares a pay-in receipt for the Finance Administrator.

The Income Tax Administrator maintains a binder with the monthly distribution report printed from RITA as well as copies of the bi-monthly pay-in receipts and copies of the pay-ins for the payments received in person by the Income Tax Administrator. The Income Tax Administrator also prepares a spreadsheet for each month summarizing tax activity collected by the Income Tax Administrator, payments mailed to RITA for processing, ACH payments from the OAG's Office, and ACH payments received from the Department of Taxation.

The Income Tax Administrator also prepares pay-ins for ACH payments from the OAG's Office that are receipted into three separate bank accounts (Court Collections, EMS Collections, and Tax Collections) as well as for any other amounts (generally for electric excise taxes collected by the State) received from the Department of Taxation.

Utility Department

The Utility Department collects receipts for water, sewer, and storm water. Water and sewer usage is billed together either monthly or quarterly depending on the cycle. Storm water usage is billed annually on April 1st for the prior calendar year. The customer has the option to pay in full or pay one-half by May and the remainder in October.

The City has a bulk water station for bulk water purchases. Customers deposit cash into the bulk water station for gallons of water they want to purchase before the station releases the water. Periodically during the month, the station is emptied of all cash and change and given to the Utility Department. The Utility Clerk prepares a calculator tape of the total cash and enters the total into the cash register which generates a utility batch and a receipt. The receipt is stapled to the calculator tape and filed. The bulk water station does not provide any report or printout of the cash deposited in the station.

There are five customers that are billed monthly on a separate invoice for sludge removal. The sewer treatment plant provides documentation on the number of gallons of water used by the customer to the Utility Department so an invoice can be prepared and mailed to the customer.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

Each new utility customer is required to fill out an information form when requesting utility service, which the Utility Clerk enters into the computer system to establish an account. A \$75 utility deposit is required prior to service being activated if the customer is new to the City's Utility Department or the customer previously had a poor payment history with the City. The deposit is applied to the Water Fund. For customers who pay a deposit, after twenty-four months of timely payments, the deposit is applied to the customer's current utility bill. Non-homeowners (tenants) do not have the deposit applied to their bill until their final bill, with any balance being refunded at the time service is discontinued.

A delinquent fee of 5 percent is charged to an account the day after the due date. If the bill is not paid by the end of the month, service is shut off. A delinquent account must have a minimum charge of \$60 past due before the account is shut off. Once shut off, a \$30 shut off fee is applied to the customer's account. Customers who become delinquent receive an automated phone call stating they are past due. No written notice is provided. For locations where the billing address and the service address are different (rental properties), a red card is left at the service address to notify the occupant of the delinquency. Delinquent accounts are certified to the County Auditor once a year.

The City has approximately 5,500 metered utility customers and four billing cycles. Cycles 1, 2, and 3 are read quarterly and cycle 4 is read monthly. Hand-held meter reading units are loaded with the account information for the routes to be read. Once the meter reading is completed, the current reading information is downloaded to the utility software. The Utility Clerk prints a Readings by Book Report documenting the account, address, and reading date from the downloaded meter readers. The Utility Clerk also generates an Inactive Accounts with Consumption Report and a Meter Reading Exception Report. Both reports are reviewed and corrections are made, if necessary. Once the Utility Clerk determines the meter readings are ready to be processed, the meter reading information is finalized and updated. A Utility Billing Journal-Final Report and a Utility Billing Consumption Journal Report are printed and filed by cycle.

The meters are read from the 1st through the 10th of the month. Utility bills are usually sent out between the 18th and 20th of the month. Bills are due the 15th of the next month unless the 15th falls on a Wednesday or weekend, then it is due the next business day.

Payment may be made at the Utility Department, through the mail, placed in one of two drop boxes located at the Utility Department, online with a credit card, or with a direct deposit.

For all payments received in person, the customer receives a receipt. If the customer pays by cash, check, or money order, the Utility Clerk uses the cash register. If the customer only brings in the payment stub, the customer receives the bottom part of a two-part receipt generated by the cash register as proof of payment. The Utility Clerk keeps the top part of the two-part receipt and the payment stub and files by date.

For payments received in the mail or in the drop boxes, the payments are entered into the cash register and a receipt is generated. The top part of the two-part receipt is kept with the payment. The bottom part of the two-part receipt is thrown away.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

If the customer pays with a credit card, a credit register is used. The Utility Clerk swipes the customer's credit card and the credit register generates a statement requiring the customer's signature that is kept by the Utility Clerk and filed by date. The credit register also generates a receipt for the customer. If the payment stub is brought in by the customer, the Utility Clerk will staple the signed receipt to the payment stub.

Customers can also pay by direct deposit to the City's First Federal General Account from the customer's bank account. The customer fills out a form and provides the Utility Department with a blank voided check. Once a month, the Utility Clerk runs a Proof Report For Direct Payment. Once the report is reviewed and any changes or corrections are made, the Utility Clerk prepares a transmit file. The Utility Clerk logs onto First Federal Bank and uploads the transmit file that is pending final approval by the Finance Administrator or City Auditor on the bank's website. Once approved on the bank's website, a bank confirmation is printed. Once the Utility Clerk has the bank confirmation, a utility batch is generated, customer accounts are credited, and a pay-in receipt is prepared. The pay-in receipt is given to the Finance Administrator.

At the end of each business day, the Utility Clerk reconciles the cash register and credit register (see reconciliation process discussed below). Both systems are connected to the City's CMI software which automatically generates a utility batch number. For each utility batch number, the Utility Clerk prints a Cash Journal By Distribution Report that lists the revenue account, revenue description, and amount for that utility batch. The Utility Clerk also prints a Summary Cash Receipts Journal for each utility batch that lists the customer account number, name, date, type of payment, and amount applied. These two printouts are reconciled to the cash and checks from the cash register and the credit card payments from the credit register.

For the cash register, the Utility Clerk runs a calculator tape totaling up the register receipts that were printed and stapled to the payment stub. This total is compared to the City's Utility software. If the totals match, the Utility Clerk processes and closes the utility batch. The calculator tape and the payment stubs are banded together and the batch number assigned by the City's software is written on the calculator tape.

For the credit register, the Utility Clerk runs a Batch Inquiry Report that provides a total for the credit card payments received. The Utility Clerk runs a calculator tape totaling all the credit card slips for that day. The Utility Clerk makes sure the total on the Batch Inquiry Report matches the total on the calculator tape. Once they match, the Utility Clerk runs a Settlement Report that lists each transaction with a grand total. The calculator tape, the Batch Inquiry Report, and the Settlement Report are banded together. The Utility Clerk will then process and close the utility batch. The utility batch number assigned by the City's software is written on the calculator tape.

Once utility batches are processed and closed, customer accounts are credited for payments received.

At the end of the business day, the bank deposit for the day is prepared that will be taken by the First Federal courier the next business day for deposit. The deposit is kept in a safe in the Utility Department until picked up by the courier. When the bank deposit receipt is returned by the courier, it is stapled to the deposit book with a copy of the deposit slip.

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Report on Accounting Methods

Receipt Transactions

(continued)

For each utility batch that is generated, the Cash Journal By Distribution Report is used to generate a daily utility batch pay-in that is given to the Finance Administrator so the utility batch can be posted to the Finance software.

At the beginning of each business day, the online credit card payments are processed for the prior day (in order to include all payments received through midnight). The Utility Clerk receives email notification when a payment is received online from the City's credit card processing firm (Infintech). A calculator tape is generated summarizing the totals for the payments received. The Utility Clerk runs a Web Payment Journal and compares this total to the calculator tape. If the totals match, the Utility Clerk processes and closes the utility batch.

At the end of each month, the Utility Clerk prints an online report for the month's deposits into the City's First Federal Water/Sewer Credit Account. Each deposit transaction reflected on the bank statement is traced back to the corresponding utility batch number and the utility batch total for accuracy.

Using the report from the Water/Sewer Credit bank account, the Utility Clerk prepares two monthly summary reports. One is for the credit register and the other is for online payments. The monthly summary report lists all the utility batch numbers, the date, amount, and a grand total. The monthly summary report also lists the bank charges for credit card processing. The summary supports are submitted to the Finance Administrator.

Police Department

The Police Department collects receipts for copies, parking violations, finger printing, alarm permits, false alarm payments, and other miscellaneous payments. Payments may be received in person, in the mail, or by drop box.

The Police Department prepares a pre-numbered two-part receipt for in person payments, if requested by the customer. The Police Department maintains a ledger that illustrates the date of payment, the reason for the payment, and if the payment was received in cash or check. This ledger documents all money received by the Police Department.

The Police Department maintains an excel spreadsheet for parking tickets issued. The Police Department updates the excel file when payment is received at the department.

Approximately once a month, the Police Department prepares a pay-in documenting the revenue account and amount for payments collected for the month. The cash, checks, and pay-in receipt are given to the Finance Administrator for deposit and for recording the receipts in the City's accounting software. The Police Department keeps a copy of the pay-in receipt in a folder. Until the money is paid into the Finance Department, the money is kept in the police clerk's desk drawer.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

The dispatcher on duty at the Police Department may accept payment for bonds or waivers. However, if the Court is open, the customer is sent to the Court and payment is not accepted. If the Court is not open, the dispatcher will accept payment (only cash or bond from authorized bond agent). The dispatcher will prepare a pre-numbered three-part receipt. The top copy is given to the customer, the middle copy is placed in an envelope with the cash or bond with a copy of the warrant and placed in a locked box that can only be opened with a key by the Tiffin Clerk of Courts. The remaining copy stays in the receipt book.

The dispatcher also records the receipt in a Bond Money Ledger documenting the date payment was received, the name of the defendant the bond is applied to, the amount paid, and the initials of the dispatcher who accepted the payment. Receipts are collected daily by the Tiffin Clerk of Courts.

Fire Department

The Fire Department collects receipts for copies of incident reports made at the Fire Department. The receipt is recorded in a two-part pre-numbered receipt book. The customer receives the top copy and the bottom copy remains in the receipt book. The cash is kept in an envelope in the Captain's desk which is not locked or secured in any manner. The cash is randomly taken to the Finance Department; the money may be held in the Fire Department for months before taken to the Finance Department. The pay-in for these receipts is prepared by the Finance Department.

The Fire Department provides EMS services to the City's residents. The City uses a third-party billing and collection service, EMS Billing Management, to bill for EMS runs.

After an EMS run, information is sent immediately to EMS Billing Management through a program called ESO Solutions. Payment for all EMS services are sent to the City's First Federal Fire and EMS Account. Any checks received by the Fire Department or the Finance Department for EMS runs are mailed to the City's First Federal Fire and EMS Account. The Fire Department does little to no verification that all EMS charges are being billed by EMS Billing Management or that the City receives all of its collections. This is due to staff limitations. EMS Billing Management notifies Interstate Credit Collections of all unpaid bills that are over ninety days old. Interstate Credit Collections pursues all collection of delinquent accounts. The City receives a check from Interstate Credit Collections for delinquent collections.

Prior to hiring Interstate Credit Collections, the City's delinquent EMS accounts were collected by the Ohio Attorney General's Office. These collections were deposited in the City's First Federal Fire and EMS Account. At the end of each month, the Finance Administrator accesses the two EMS bank accounts and transfers the balance into the City's First Federal General Account and records a receipt for the EMS revenue in the CMI software.

Mayor's Office

The Mayor's Office collects payments for permits and licenses (building, zoning, contractor registrations, other permits, marriage licenses) and park shelter rentals.

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Report on Accounting Methods

Receipt Transactions

(continued)

For park shelter rentals, a \$25 deposit is required along with a \$125 shelter rental charge. The customer fills out a shelter rental form and receives a key from the Mayor's secretary. The deposit is kept in the Mayor's office until the key is returned. When the key is returned, the deposit is returned to the customer.

The Mayor's Office uses a two-part pre-numbered receipt book with the date, name of the customer, address, reason, amount, and customer's signature. The customer receives the top copy and the bottom copy stays in the receipt book.

The Mayor's secretary then prepares a pay-in receipt with the revenue account and amount. Cash and checks along with the pay-in receipt are given to the Finance Administrator. The Finance Administrator records the payment in the City's CMI software. A copy of the receipt journal page is printed and given to the Mayor's secretary who files it in a folder.

Cemetery Receipts

The Cemetery Manager receives payments in person at the Fountain Cemetery for the purchase of grave plots, cornerstones, deeds, and the opening and closing of gravesites. Payments must be made by cash or check; credit card payments cannot be accepted at the Cemetery office.

The Cemetery Manager prepares a receipt in the pre-numbered receipt book. The receipt documents the date, customer name, payment type (cash or check with check number), and the purpose. The white copy is given to the customer and the duplicate is kept in the receipt book.

The Cemetery Manager prepares a pay-in receipt which lists the date, receipt number from the pay-in book, customer name, and purpose. The pay-in receipt is given to the Finance Administrator along with the cash and checks. The Finance Administrator enters the pay-in in the City's CMI software and prints a pay-in receipt and gives it to the Cemetery Manager who keeps them in a file by year.

For lot sales, the Cemetery Manager also records the sale in a two-part pre-numbered deed book. The top copy is given to the Mayor's secretary so a deed can be prepared and mailed to the customer. The duplicate remains in the deed book in the Cemetery's Manager's office.

Auditor of State Comments

- Section 9.38 of the Revised Code requires the deposit of all public monies the next business day next following the day of receipt or, if the amount is less than \$1,000, the legislative authority may adopt a policy permitting a different time period not to exceed three business days next following the day of receipt for making such deposits. The City is not consistent in following the requirements of Section 9.38 of the Revised Code. Several departments that collect money do not deposit the money with the Finance Department within the provisions of Section 9.38. The City must establish policies to ensure that every department collecting money is properly paying the money into the Finance Department within the time constraints of the policy.

City of Fostoria - Seneca County

Report on Accounting Methods

Receipt Transactions

(continued)

- Cash from receipts collected is not adequately secured in all City departments. Cash may be accessible to unauthorized City employees and/or the public. Receipts must be kept in a secure location with limited access to those employees involved in taking receipts and/or making change. The City should establish a cash management and handling policy.
- The Finance Department is not recording receipts in a timely manner. Receipts are generally recorded monthly or bi-monthly into the accounting software. An analysis of the City's revenue status can only be evaluated after month end closing. The City Auditor needs to assess the distribution of activities among staff and whether there is adequate staff to process receipts timely.
- The Fire Department uses a third-party administrator to process and collect receipts for EMS runs. There is not currently a review made by the Fire Department that amounts billed match the services provided or that the City actually receives all of the amounts collected by the third-party administrator. Procedures should be put in place to ensure that the City is receiving the correct amount for services billed and collected.
- The City receives assistance from the Ohio Attorney General's (OAG) Office for the collection of delinquent court receipts. These receipts are deposited by the OAG into a separate bank account maintained by the City. The City has not reconciled this account since August 2017. The City needs to ensure that this bank account is reconciled monthly and that the OAG's Office is notified of any discrepancies.

City of Fostoria - Seneca 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 that the purchasing process be integrated with the budget. The process should include a justification of need and selection of the vendor with the best price, as well as authorization by an appropriate individual. In addition, authorization must include the City Auditor's certification of the availability of funds and that the amount has been appropriated and is free from previously encumbered obligations. All purchase orders should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements

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

Certification of the Fiscal Officer - Each contract or order for the disbursement of monies 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 purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer.

Blanket Certification of the Availability of Funds - The subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that does not extend beyond year end in an amount established by resolution of 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 disbursements 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 per appropriation line 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 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 disbursements 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, utilities, and any purchase exempt from competitive bidding under Revised Code Section 125.04, and any other specific disbursement that is a recurring and reasonably predictable operating expense.

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Purchasing Process

(continued)

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 that, 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, Council has thirty days from the 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 made by Council and executed in the name of the City by the Mayor, Safety-Service Director, or as otherwise specified by State statute or City Charter. All contracts are signed by the Mayor and/or Safety-Service Director as required.

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 a real and present emergency exists;
4. The purchase of used equipment and supplies at a public auction or at a sale where bids are required by all parties wishing to purchase;
5. Purchases from other political subdivisions and agencies; and,
6. Goods purchased under the State Cooperative Purchasing Program.

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

Per Auditor of State Bulletin 2004-006, a contract for purposes of Section 9.24 of the Revised Code is awarded when a written agreement is executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to Revised Code Section 9.24. For purchases made from 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 from 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.

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Report on Accounting Methods

Purchasing Process

(continued)

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 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 in an amount that exceeds the limits provided by law.

Administrative Code Requirements

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

Methods Used by the City

With the exception of the police department, purchase requisitions are primarily generated by department heads. Within the police department, purchase requisitions are generated by the Police Chief, certain captains and/or sergeants, and the police clerk. However, the Police Chief approves all purchase requisitions before they are submitted to the Safety-Service Director.

Purchase requisitions are created in the software system and include the vendor number, department, date, amount, name of person requesting the purchase order, and the purpose. The requisition also includes a description of the item, quantity, unit price, and account number. Once the purchase requisition is completed, the system will indicate whether or not there are sufficient appropriations in place for the purchase. If there are insufficient appropriations, the system will generate a warning message. Departments have the ability to override the warning.

City of Fostoria - Seneca County

Report on Accounting Methods

Purchasing Process

(continued)

All purchase requisitions are to be approved by the Safety-Service Director prior to generating a purchase order. The Safety-Service Director should ensure that there are sufficient appropriations prior to approval of the purchase requisition. However, there are frequent occasions in which the City Auditor receives invoices for payment without a purchase order being generated. Therefore, the purchase requisition process is not being consistently followed. For purchases made in emergency situations, the City could use then and now certificates; however, the City does not follow this practice.

Each day, the Finance Administrator runs a Requisition Routing Status Report. The report lists all pending purchase requisitions. The report identifies which requisitions have been approved. The Finance Administrator generates purchase orders for all of the approved purchase requisitions. If there are insufficient appropriations for any purchase order, the system generates a warning message. The Finance Administrator notifies the department that the purchase order cannot be prepared due to insufficient appropriations.

Once the purchase order is created, the system automatically sends a notification to the department head that the purchase order has been established. Purchase orders are printed in duplicate and they are signed by both the Safety-Service Director and the City Auditor. One copy is given to the department who files them and one is kept by the Finance Administrator who files them until the invoice is received.

If a purchase order needs to be closed or cancelled or if the amount of the purchase order needs to be increased, the department head notifies the Finance Administrator who takes the appropriate action in the system.

The Finance Administrator maintains the vendor list. Prior to adding new vendors, all vendors are required to complete a form W-9.

Auditor of State Comments

- The City has not established, by ordinance of Council, an amount for blanket purchase orders.
- Purchase requisitions are frequently approved although there are insufficient appropriations from which to make the purchase. The Safety-Service Director needs to review appropriations prior to the approval of purchase requisitions.
- Invoices are frequently submitted to the Finance Department for payment; however, no purchase order was prepared for the purchase. Department heads must ensure that purchase requisitions are submitted to the Safety-Service Director prior to making a purchase.
- The City does not use then and now certificates when purchases are made without prior approval and certification. Purchase orders may be certified at the time of payment, but the certification must indicate that, both at the time the order was placed and at the current time (time of payment), a sufficient sum was appropriated and in the treasury or in the process of collection. Then and now certificates for amounts in excess of \$3,000 must be approved by Council resolution within thirty days.

City of Fostoria - Seneca County

Report on Accounting Methods

Purchasing Process

(continued)

- The City does not use the Auditor of State Findings for Recovery Database when entering into contracts. Section 9.24 of the Revised Code prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State if that finding is unresolved.
- When awarding contracts, the City does not obtain a statement ensuring that the successful bidder does not have unpaid delinquent taxes. Section 5719.042 of the Revised Code provides that after the award of any contract let by competitive bid, and prior to the time the contract is entered into, a statement must be submitted indicating that the successful bidder has no delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory.

City of Fostoria - Seneca 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. Vouchers should be approved for payment by an appropriate official. A check should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data), and a properly executed certification by the City Auditor. All checks should be signed by the City Auditor and recorded in the cash journal and appropriation ledger. Vouchers should be filed numerically or by vendor.

Statutory Requirements

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

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

Restrictions - Monies are drawn from the City treasury only for appropriations enacted by Council. Disbursements from each fund may be used only for the purposes of such fund and to the extent that cash exists in the fund.

Certification - If no certificate of the City Auditor is furnished as required, upon receipt by Council of a certificate of the City Auditor 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 Council may authorize the drawing of a check in payment of amounts due upon such contract, but such resolution shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than \$3,000, the City Auditor may authorize it to be paid without such affirmation of Council if such expenditure is otherwise valid.

Administrative Code Requirements

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 check in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, account code, amount, approval, and any other required information.

City of Fostoria - Seneca County

Report on Accounting Methods

Cash Disbursements

(continued)

Methods Used by the City

Invoices are approved by the department head who receives the goods or services. The invoice, initialed by the department head, is sent to the Finance Department with any supporting documentation. The Finance Administrator enters approved invoices into the system in batches.

The City does a check run once per week. The Finance Administrator selects all invoices for payment. A Voucher Journal is printed which includes the voucher number, vendor name and number, invoice number, invoice date, due date, account, and amount. The Finance Administrator then compares all invoices to be paid to the Voucher Journal to ensure there were no errors in data entry. A Cash Disbursements Report and a Voucher Register are generated to confirm that the two amounts match. Any discrepancies are researched and corrected. Once the reports match, checks are printed and the reports are filed by check run date. A copy of each check with the invoice, purchase order, and supporting documentation are filed in check number order.

The City also makes electronic payments. The Finance Administrator selects the invoices for electronic payment and generates a Run Remittance Report. The Finance Administrator then compares all invoices to be paid to the Run Remittance Report to ensure there were no errors in data entry. Any discrepancies are researched and corrected. When there are no errors a remittance is emailed to the vendor to notify them of payment. The Finance Administrator then generates a transmit file and uploads it to the bank. The bank returns a payment confirmation which is printed and filed with the Run Remittance Report.

After checks are printed and electronic payments are transmitted, the Finance Administrator prints an Accounts Payable Check Register which is given to the Auditor for review and signature. The report is filed with the electronic payment confirmation from the bank and the checks are mailed to the vendors.

Blank checks are kept in an unlocked storage room in the income tax office. The storage room can be accessed through the finance department or the adjoining income tax department. The doors to the finance department and income tax department are locked at the end of each day; however, the storage room is not locked.

Auditor of State Comments

- The City is not sufficiently securing its blank checks as they are kept in an unlocked storage room. The City needs to take measures to secure the blank checks by moving them to a secure location or putting a lock on the storage room.

City of Fostoria - Seneca County

Report on Accounting Methods

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of 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 and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and state and federal taxes should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the City should be authorized by the employee and the authorization should be maintained in a file or by direct deposit to the bank account of the employees. Payment of the net compensation should be by a check signed by the appropriate official. 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 relevant employee information and any other information required by state and/or federal 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.

Statutory Requirements

The following State statutes apply:

Section 705.13 of the Revised Code requires the legislative authority of a municipal corporation to set, by ordinance, the salary of its members so that each 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 thereof, there shall be deducted a sum equal to 2 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 of the Revised Code requires the legislative authority of a City to fix the compensation and bonds of all officers, clerks, and employees of the City except as otherwise provided by law. All bonds shall be made with sureties subject to the approval of the Mayor.

Methods Used by the City

All full and part-time employees are compensated biweekly, including all elected officials. Employees are paid bi-weekly over twenty-six pay periods. Each pay period begins on a Sunday. All employees are paid by direct deposit on Thursday following the pay period end date. All employees receive an earnings statement that is emailed to an email address provided to the Payroll Administrator by the employee the day prior to pay day. The earnings statement indicates gross and net earnings, withholding (for the pay period and the year to date), leave time used during the pay period, and leave balances as of the end of the pay period.

City of Fostoria - Seneca County

Report on Accounting Methods

Payroll Processing

(continued)

Employee personnel files are maintained by the Finance Department in a locked filing cabinet. The files include contracts, hire date, withholding information, voluntary deductions, and other permanent information pertaining to the employee's position such as certificates and licenses. Benefits information is kept in a separate locked filing cabinet. The Payroll Administrator is the only individual with access to the filing cabinets. Employee files for conduct and copies of contracts are located in the Safety-Service Director's office.

Bargaining Unit Employees - The City's bargaining unit employees are associated with five negotiated agreements as follows:

Fire Fighters - The fire fighters salaries and benefits are governed by a negotiated agreement between the City and Local #325 of the International Association of Firefighters, AFL-CIO. The terms and conditions of the current collective bargaining agreement between the parties covers the period of June 1, 2013, to May 31, 2016 (current contract has been extended, currently in negotiations). The contract has detailed information pertaining to compensation, fringe benefits, absences, leave accruals, and overtime compensation.

Dispatch - The dispatch salaries and benefits are governed by a negotiated agreement between the City and the Ohio Patrolmen's Benevolent Association, Dispatchers Unit. The terms and conditions of the current collective bargaining agreement between the parties covers the period of June 1, 2017, to May 31, 2020. The contract has detailed information pertaining to compensation, fringe benefits, absences, leave accruals, and overtime compensation.

Sergeants and Captains - The Sergeants and Captains salaries and benefits are governed by a negotiated agreement between the City and the Ohio Patrolmen's Benevolent Association. The terms and conditions of the current collective bargaining agreement between the parties covers the period of January 1, 2014, to December 31, 2016 (current contract has been extended, currently in negotiations). The contract has detailed information pertaining to compensation, fringe benefits, absences, leave accruals, and overtime compensation.

Police - The police officers and detectives salaries and benefits are governed by a negotiated agreement between the City and the Ohio Patrolmen's Benevolent Association, for regular, full-time patrol officers and detectives. The terms and conditions of the current collective bargaining agreement between the parties covers the period of January 1, 2013, to December 31, 2016 (current contract has been extended, currently in negotiations). The contract has detailed information pertaining to compensation, fringe benefits, absences, leave accruals, and overtime compensation.

Other - Other employees, including non-administrative employees, salaries and benefits are governed by a negotiated agreement between the City and Local #811 of the Ohio Council 8 American Federation of State, County, and Municipal Employees (AFSCME), AFL-CIO. The terms and conditions of the current negotiated bargaining agreement between the parties covers the period of May 1, 2013, to April 30, 2016 (current contract has been extended, currently in negotiations). The contract has detailed information pertaining to compensation, fringe benefits, absences, leave accruals, and overtime compensation.

City of Fostoria - Seneca County

Report on Accounting Methods

Payroll Processing

(continued)

Non-Bargaining Unit Employees - City ordinances are established for positions, salaries, and pay rates for all employees not covered under a union contract. There is also an Employee Policy manual that is followed for non-bargaining unit employees that follows closely to the AFSCME contract.

Elected Officials - City Ordinance 2007-11 establishes salaries for elected City officers, including the Mayor, Council, City Auditor (Director of Finance), and Director of Law.

Overtime and Compensatory Time - Employees work overtime in all departments at the discretion of the department head. Compensatory time may be earned in place of paid overtime.

Leave - Vacation, sick, and personal leave is credited to each employee at the accrual rates indicated in the negotiated agreement or City Ordinance. All departments use a leave form. Leave forms are completed before any employee takes leave time, except sick leave for illness. All leave time is approved by the department head. Leave time is recorded in the payroll system by the Payroll Administrator when timesheets are submitted. The computer system maintains leave balances for all leave types. Leave time used and leave balances are printed on each employee's pay stub. For compensatory time, the police and fire department keep their own record for the employees, it is not recorded in the payroll system.

Payroll Deductions - Payroll, tax, and retirement forms are completed by each new employee. The employee's demographic and salary information are entered into the payroll system. An employee record is created and the appropriate retirement system is notified for each new hire.

Payroll deductions for Ohio Public Employees Retirement System (OPERS), the Ohio Police and Fire Pension System (OPF), and Medicare are processed through the payroll system. At the end of the month, a report is ran for OPERS and for OPF to determine employer contributions and is given to the Finance Administrator to pay from the First Federal General Account. OPERS is processed and paid through ACH online and OPF is processed online and a paper check mailed by the Payroll Administrator. Employee contributions are paid from the First Federal Payroll Account.

Payroll Processing - Timesheets are used by each employee in each department to track hours worked. Each department has their own timesheets. Timesheets are handwritten by each employee and signed. Timesheets are then given to the department head for approval. For the police and fire departments, the Sergeant/Captain of the shift is responsible for the employees who worked under their shift. In the Police Department, the police clerk prepares a summary sheet of all of the timesheets. For all other departments, the department head prepares a summary sheet of all of their employees listing the hours worked, overtime, or leave time used.

Timesheets are due to the Payroll Administrator Monday of the pay week. The summary sheet for each department along with the individual timesheets are given to the Payroll Administrator. Once the timesheets are received, the Payroll Administrator checks that the timesheet for each employee matches the summary sheet for each department. Employee timesheets are entered into the payroll system from the summary sheets provided by the departments as batches. There are four batches; police, fire, elected officials, and all others. Reports of each batch are printed and double checked to the summary sheets. Any data entry errors are corrected.

City of Fostoria - Seneca County

Report on Accounting Methods

Payroll Processing

(continued)

Once the timesheets are final, various reports are generated. The detail batch report lists each individual, total hours worked, pay rate, and gross pay amount. A detailed work register lists each individual, total deductions, and the total gross amount for the entire payroll. A summary report lists each individual, check number, pay date, deductions, and the employee's bank of deposit. A proof report verifies the direct deposit which the Auditor reviews and approves before the ACH to the banks. The Payroll Administrator then prints and mails all deduction checks. A final payroll report is generated and given to the Finance Administrator to record payroll to the general ledger.

Auditor of State Comments

None

City of Fostoria - Seneca County

Report on Accounting Methods

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. An ordinance authorizing the issuance of debt must be passed by Council. The statute authorizing the issuance should be identified in the ordinance as well as the purpose of the debt, the maturity, the interest rate, and the source of revenue to be used for repayment. Debt proceeds should be recorded in a separate fund and used only for the purpose specified in the authorizing ordinance. Monies to be used for debt payments may be receipted into a separate fund created specifically for debt retirement. Care should be taken to ensure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. The statutory requirements vary depending on the nature of the debt being issued.

Methods Used by the City

The City's debt is described below:

Debt Issue	Issue Date	Interest Rate	Issue Amount	Date of Final Maturity
<u>Special Assessment Bond</u>				
Kelly Addition	7/23/1998	5.95%	\$360,761	12/30/2018
<u>Loans</u>				
OPWC Sandusky Street Sanitary Sewer Pump Station	6/9/2010	0.00	96,946	7/1/2020
OPWC Columbus Avenue Sanitary Sewer Pump Station	1/1/2009	0.00	93,308	1/1/2039
OPWC Culbertson Street Water Tower Cleaning and Painting	1/1/2011	0.00	62,536	1/1/2021
OPWC North Poplar Street Sanitary Sewer and Waterline	7/1/2012	0.00	74,770	7/1/2022
OPWC Zeller Road South Water Tower Clean and Paint	7/1/2012	0.00	196,743	7/1/2022
OPWC Spruce Street Waterline Improvements	7/1/2012	0.00	14,996	7/1/2022
OPWC Jackson Street Waterline Improvements	6/1/2015	0.00	37,309	7/1/2025
OPWC Vine Street and Arbor Street Improvements	12/17/2015	0.00	28,742	7/1/2026
OPWC Central Avenue and Arbor Street Improvements	7/1/2016	0.00	55,058	7/1/2027
OWDA Water Treatment Plant Improvements	1/27/2000	4.66	1,092,854	7/1/2020
OWDA Lime Sludge Press	11/19/2009	0.00	992,857	1/1/2031
OWDA LTCP Sewer Cleaning/Testing	6/24/2010	3.25	1,479,012	7/1/2030
OWDA WWTP Final Clarifiers Improvements	7/25/2013	2.57	4,397,947	1/1/2035
Ambulance	10/22/2013	3.00	252,036	10/22/2018

City of Fostoria - Seneca County

Report on Accounting Methods

Debt Administration

(continued)

The revenue pledged for repayment and the fund from which the debt service payments are to be made are as follows:

<u>Debt Issue</u>	<u>Pledged Revenues</u>	<u>Fund</u>
<u>Special Assessment Bond</u>		
Kelly Addition	Special Assessments	Sewer and Water Extension Fund
<u>Loans</u>		
OPWC Sandusky Street Sanitary Sewer Pump Station	Charges for Services	Sewer Fund
OPWC Columbus Avenue Sanitary Sewer Pump Station	Charges for Services	Sewer Fund
OPWC Culbertson Street Water Tower Cleaning and Painting	Charges for Services	Water Fund
OPWC North Poplar Street Sanitary Sewer and Waterline	Charges for Services	Water Fund and Sewer Fund
OPWC Zeller Road South Water Tower Clean and Paint	Charges for Services	Water Fund
OPWC Spruce Street Waterline Improvements	Charges for Services	Water Fund
OPWC Jackson Street Waterline Improvements	Charges for Services	Water Fund
OPWC Vine Street and Arbor Street Improvements	Gas and License Taxes	Street Maintenance and Repair Fund
OPWC Central Avenue and Arbor Street Improvements	Gas and License Taxes	Street Maintenance and Repair Fund
OWDA Water Treatment Plant Improvements	Charges for Services	Water Fund
OWDA Lime Sludge Press	Charges for Services	Water Fund
OWDA LTCP Sewer Cleaning/Testing	Charges for Services	Storm Water Fund
OWDA WWTP Final Clarifiers Improvements	Charges for Services	Storm Water Fund
Ambulance	Income Taxes	General Capital Fund

The City is not delinquent on any principal and interest payments.

Auditor of State Comments

None

City of Fostoria - Seneca County

Report on Accounting Methods

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets

Capital assets of the City should be adequately safeguarded against loss or theft. The City should have a policy that defines capital assets, establishes capitalization thresholds, useful lives, method of depreciation, methods to be used in tracking capital assets, how to assign assets to programs, and the recording of depreciation. An inventory should be maintained describing each item, cost, serial and/or model number, location, date of purchase, fund purchased from, program used in, asset type, tag number, location, useful life, salvage value, annual depreciation, and accumulated depreciation. The inventory should be updated throughout the year for acquisitions and disposals. Verification of the listed assets should be performed at least annually. The disposal of an asset should be properly authorized and reported to the City Auditor so that any proceeds from the disposal can be properly recorded, the asset can be removed from the capital asset listing, and insurance coverage can be discontinued.

A physical inventory of materials and supplies should be performed periodically to ensure that items purchased are on hand or have been used. In addition, a physical inventory of all material items should be conducted for reporting on the City's financial statements.

Administrative Code Requirements

Section 117-2-02(D)(4)(c) of the Ohio Administrative Code requires that all local public offices 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 may 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.

Methods Used by the City

The City has a capital assets policy that was adopted in December 2004.

A form is prepared for all assets meeting the capital asset criteria when purchased. Forms are submitted to Finance Administrator who assigns a tag number. The Finance Administer enters the relevant information into the fixed asset system.

A physical inventory of supplies is performed annually by departments that keep significant supplies on hand including, the water department, the sewer department, the street department, and the police and fire departments.

Auditor of State Comments

None

City of Fostoria - Seneca 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 Council. Deposits of public monies should be insured and/or collateralized to ensure repayment of public monies deposited with a financial institution. Interest allocated should be in accordance with the Ohio Constitution and State statutes.

A reconciliation between the bank and cash journal should be completed for all accounts on a monthly basis. The reconciliation 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.

Statutory Requirements

Interim cash should be invested according to Section 135.14 of the Revised Code. The deposits of public monies should be insured and/or collateralized to ensure 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 Revised Code.

Section 135.14(O)(1) of the 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".

Section 135.14(O)(2) of the 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 monies only in interim deposits pursuant to division (B)(3) of this section or interim deposits pursuant to Section 135.145 of the Revised Code and approved by the Treasurer of State, 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) of the 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 of the Revised Code requires the Treasurer to attend annual training programs of continuing education for treasurers provided by the Treasurer of State. A Treasurer is not subject to this training if the investments are limited as defined by the Revised Code and an exemption form is certified by the Treasurer of State.

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

City of Fostoria - Seneca County

Report on Accounting Methods

Cash Management and Investing

(continued)

Federal Requirements

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

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

Methods Used by the City

The City's treasury activities are the responsibility of the City Auditor. The City has multiple bank and/or investment accounts.

Bank Account

First Federal Bank General Account -

This checking account is used for the general operation of City.

First Federal Bank Employee Health Benefits Account -

This account is used for insurance and benefits for employees. This account is funded by transfers from the General Account or the Payroll Account. Checks are written from this account for premiums, claims, or for contributions to individual employee flex accounts.

First Federal Bank Money Market -

This account is a money market interest bearing account that is holding inactive City deposits.

First Federal Bank Revolving Loan Fund Account -

This account is used to provide revolving loans to local businesses through an application process. This account is funded by State provided resources as well as from principal and interest payments from the loan recipients.

First Federal Bank Fire and EMS Account -

This account serves as a collection account for EMS collections. The City contracts with a third-party billing company who invoices for all EMS runs and all payments are made to this bank account. The balance of this account is transferred monthly to the General Account.

City of Fostoria - Seneca County

Report on Accounting Methods

Cash Management and Investing

(continued)

First Federal Bank Court Collections Account -	This account is used for deposits made by the Ohio Attorney General for delinquent court fee collections which the City has turned over to the Attorney General. The balance is transferred to the General Account.
First Federal Bank Tax Collection Account -	This account is used for deposits made by the Ohio Attorney General for delinquent tax collections which the City has turned over to the Attorney General. The balance is transferred to the General Account.
First Federal Bank EMS Collections -	This account is used for deposits made by the Ohio Attorney General for delinquent EMS collections which the City has turned over to the Attorney General. The balance is transferred to the General Account.
First Federal Bank Payroll Account -	This checking account is used for payroll distribution.
First Federal Bank Tax Deposit Account -	This account is used to pay the City's IRS 941, State, and school district income tax. Resources in this account come from the Payroll Account.
First Federal Bank Water/ Sewer Credit Account -	This account is used by the Utility Department for credit card payments received in the office or made online. The balance is transferred to the General Account.
STAR Ohio -	This account is an investment account for interim monies.

The City has a written investment policy approved by Council. The City filed an investment policy with the Auditor of State in 1996. The City modified its investment policy in 2004; however, the modified policy was never submitted to the Auditor of State.

City of Fostoria - Seneca County

Report on Accounting Methods

Cash Management and Investing

(continued)

The City has a number of petty cash/change accounts maintained in various City departments. None of these amounts are recorded on the City's books.

Finance Department -

The Finance Department maintains a \$100 petty cash fund. This petty cash fund is used by the office for minimal office purchases for postage and office supplies. The money is kept in two separate areas, change is kept in a locked drawer and bills are kept in a money bag in the safe. All three office personnel have access to the fund. To use petty cash, a ticket is filled out stating who used it, the date, the purpose, the department, and the amount. Once the purchase is completed, a receipt is attached to the ticket. The fund is replenished on an as needed basis.

Income Tax Department -

The Income Tax Department maintains a \$100 change fund. This change fund is used to make change for taxpayers who pay in the office. The money is kept in a money bag on the desk or in the cash drawer. At night the money bag is locked in the safe.

Police Department -

The Police Department maintains two petty cash funds, \$200 for the Captains, \$100 for the Chief, and a change fund of \$10 for the police clerk. The Captain and Chief petty cash funds are used for minimal purchases that may be needed within the department. The petty cash funds are replenished as needed. The change fund maintained by the police clerk is used when citizens come to the department requesting reports.

Utility Department -

The Utility Department maintains a \$500 change fund for utility payments received in the office. The drawer is reconciled daily at the end of the day.

Cemetery -

The cemetery maintains a \$100 petty cash fund for small purchases of supplies. The fund is replenished as needed.

Fire Department -

The Fire Department maintains a \$12 petty cash/change fund. The fund is used when citizens come to the department requesting reports or on rare occasions if the department needs to make minimum purchases. The fund is replenished as needed.

There has been no ordinance or resolution passed by Council to establish petty cash/change funds.

City of Fostoria - Seneca County

Report on Accounting Methods

Cash Management and Investing

(continued)

Auditor of State Comments

- The City currently averages fifteen days to reconcile and perform month end closing. The City should complete the bank reconciliation and month end processing within the first week of the subsequent month. The City Auditor needs to assess the distribution of activities among staff and whether there is adequate staff to perform duties in a timely manner.
- The City has a number of petty cash/change funds; however, there has been no ordinance or resolution passed by Council establishing these funds. Council should prepare an ordinance defining each petty cash/change fund, identify the department in which it will be maintained, the purpose, and the amount.
- Not all of the City's petty cash/change funds are properly secured and not all of the accounts are routinely reconciled. The City must establish policies and procedures for maintaining these funds and implement procedures to limit access to and provide security for these monies. Petty cash/change funds are not currently recorded as part of the City's cash balances on the City's books. These monies should be recorded on the City's books.
- The City adopted a revised Investment Policy in 2004. This policy was never submitted to the Auditor of State. The City should review its Investment Policy to ensure it continues to meet the City's investment objectives and to file this policy with Auditor of State.

City of Fostoria - Seneca County

Report on Accounting Methods

Financial Reporting

Description of an Effective Method of Financial Reporting

At least monthly, the City Auditor should provide Council with a report that identifies 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, appropriations, and disbursements plus encumbrances should be presented for Council's review. On an annual basis, the City Auditor should prepare and publish financial statements in accordance with generally accepted accounting principles which demonstrate the City's financial position and results of operations for the year.

Statutory Requirements

Section 117.38 of the Revised Code requires that the annual financial report be filed with the Auditor of State within one hundred fifty days after the close of the year for reports prepared in accordance with generally accepted accounting principles. At the time the report is filed, a notice should be published in the local newspaper that the report is completed and available for public inspection at the office of the City Auditor.

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 requires that local public offices file their annual financial report electronically with the Auditor of State through the annual financial data reporting system (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.

Ohio Administrative Code Section 117-2-03 (B) requires that all cities shall prepare annual financial reports using generally accepted accounting principles.

Methods Used by the City

The City prepares its annual financial report in accordance with generally accepted accounting principles. For the year ended December 31, 2017, the report was filed with the Auditor of State on July 31, 2018. The City published notice of the availability of the financial statements for public inspection as required.

City of Fostoria - Seneca County

Report on Accounting Methods

Financial Reporting

(continued)

At the Council meetings each month, Council is provided a MTD/YTD Fund Summary Report (includes each fund by fund number and name and provides the following information for each fund: the beginning fund balance, month to date and year to date revenues and expenses, unencumbered fund balance, encumbrances, and available fund balance), the MTD/YTD Revenue Report (includes by fund and revenue account the estimated revenue, month to date receipts, year to date receipts, uncollected balance when compared to the estimated revenue, percent remaining to be collected when compared to the estimated revenue), the MTD/YTD Expense Report (includes by fund and expenditure account, the month to date and year to date expenditures, amount encumbered, and unencumbered balance), the Income Tax Receipts Comparison (includes past ten years income tax receipts and the percent increase and decrease from the prior year), a copy of the RITA Monthly Distribution Report, YTD Bank Report, and a Wage Report.

Auditor of State Comments

- Section 117.38 of the Revised Code requires that the annual financial report be filed with the Auditor of State within one hundred fifty days after the close of the year. The City did not meet this filing date for 2013, 2014, 2015, 2016, or 2017. The City must be more timely in the completion and filing of its annual financial report.

City of Fostoria - Seneca 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 bylaw should be limited to one subject, which should be clearly expressed in its title. In the adoption or passage of an ordinance, resolution, or bylaw, the yeas and nays should be entered into the minutes and the ordinance, resolution, or bylaw should be signed by the presiding officer and the Clerk of Council. All Council minutes, ordinances, and resolutions should be maintained as a permanent record of the City.

Statutory Requirements

Section 121.22 of the 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 discussion 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 of the Revised Code address the passage, style, number of subjects, authentication and recording, and publication requirements of Council 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 Clerk of Council 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, and bylaws shall be authenticated by the signature of the presiding officer and clerk. Ordinances and resolutions must be published in an English-speaking newspaper once a week for two consecutive weeks. If no newspaper is published within the municipality, copies of the ordinances and resolutions must be posted in no less than the five most public places in the municipality for not less than fifteen days prior to the effective date of the ordinances or resolutions or by publication in any newspaper printed in the State and of general circulation in the municipality.

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

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 serve to document the organization, functions, policies, decisions, operations, or other activities of the office.

City of Fostoria - Seneca County

Report on Accounting Methods

Recording Official Proceedings

(continued)

Methods Used by the City

Council meetings are held the first and third Tuesday of every month unless a holiday falls on Tuesday, and then the meeting is moved to Wednesday. The Clerk of Council is responsible for recording and maintaining the minutes of all Council meetings. All Council meetings are recorded and the minutes are transcribed by the Clerk of Council the Sunday before the subsequent Council meeting. Minutes are presented to Council at their subsequent meeting for approval. Minutes are maintained in a binder by meeting date.

The last Records Commission meeting was held on February 15, 2018.

Auditor of State Comments

None

City of Fostoria - Seneca County

Report on Accounting Methods

Conclusion

The methods as described by the City and included in this report are based on our inquiries and discussions with City personnel and the related procedures documented from the City's ordinances, administrative rules, and the 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 Fostoria are not completely in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State as disclosed throughout this report.



Dave Yost • Auditor of State

CITY OF FOSTORIA

SENECA 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
OCTOBER 2, 2018