



CITY OF WELLSTON

JACKSON COUNTY

SPECIAL AUDIT REPORT

OCTOBER 1, 1996 THROUGH SEPTEMBER 30, 1999

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**SCHEDULE OF ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL
AS OF SEPTEMBER 30, 1999**

ELECTED OFFICIALS	TERM OF OFFICE	SURETY	AMOUNT	PERIOD
<u>City Council Members</u>				
Larry Newman, President	01/01/98 - 12/31/99	(A)		(D)
Chris Brenner	01/01/98 - 12/31/99	(A)		(D)
Tom Clark	01/01/98 - 12/31/99	(A)		(D)
Chris Dupree (E)	01/01/98 - 12/31/99	(A)		(D)
Randy Dupree (F)	01/01/98 - 12/31/99	(A)		(D)
David McWilliams	01/01/98 - 12/31/99	(A)		(D)
John Stabler	01/01/98 - 12/31/99	(A)		(D)
Keith Woolum	01/01/98 - 12/31/99	(A)		(D)
<u>Mayor</u>				
Edgar Hayburn	01/01/96 - 12/31/99	(A)		(D)
<u>City Auditor</u>				
Doug Glass	01/01/96 - 12/31/99 (G)	(B)	\$50,000	(D)
Steve Matthews	Appointed to Unexpired Term 06/02/99 - 12/31/99 (H)	(B)	\$50,000	(D)
Tim McWilliams	Appointed to Unexpired Term 09/15/99 - 12/31/99	(B)	\$50,000	(D)
<u>City Treasurer</u>				
Cecile Geitz	01/01/98 - 12/31/01	(B)	\$50,000	(C)
<u>Statutory Legal Counsel</u>				
Kyle Gilliland, Law Director	01/01/96 - 12/31/99			
P.O. Box 284, 23 East Broadway - Wellston, Ohio 45692				

ADMINISTRATIVE PERSONNEL	SURETY	AMOUNT	PERIOD
<u>Deputy Auditor</u>			
William (Todd) Dennis	(I)	\$25,000	(D)

- (A) \$1,000,000 Public Official Liability Insurance purchased through First Mercury Insurance Company
- (B) Public Official Bond purchased through State Automobile Mutual Insurance Company
- (C) Bond Period is the term of office
- (D) Bond or Liability Insurance is renewed each year
- (E) Resigned October 21, 1999
- (F) Resigned August 5, 1999
- (G) Resigned May 29, 1999
- (H) Resigned September 3, 1999
- (I) Deputy Auditor Bond issued through Fidelity and Deposit Company of Maryland

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STATE OF OHIO
OFFICE OF THE AUDITOR

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REPORT OF INDEPENDENT ACCOUNTANTS

Honorable John R. Stabler
Mayor
City of Wellston
203 East Broadway
Wellston, Ohio 45692

Dear Mayor Stabler:

Pursuant to our Letter of Arrangement dated August 18, 1999, and subsequent amendment dated November 17, 1999, we have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report", which were agreed to by you, for various periods for each specific procedure occurring between October 1, 1996 through September 30, 1999. These procedures were performed to determine: a) if contracts were awarded in accordance with the Ohio Revised Code; b) whether leave accrual, usage, and payments were made in accordance with City policies or union contracts; c) whether the City Auditor's compensation was in accordance with the salary established by Council; d) whether a complete set of City Council minutes was maintained and public meeting laws were followed; e) if the purchasing process had controls in place; f) whether pool receipts were deposited in accordance with State statute; g) whether payments to the pension funds and Bureau of Workers' Compensation were made for the correct amount; h) whether City employees performed contract work during regular working hours; and i) the accounting treatment of monies raised through fund raising activities and whether fund raising receipts were deposited in accordance with State statute. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed the contracts awarded by the Council for the period January 1, 1998 through June 30, 1999 to determine, whether or not the Council and/or Mayor awarded contracts in accordance with Ohio Revised Code Sections 715.18, 735.05, 735.051, 735.052, and 735.053. For contractors receiving awards below the competitive bidding requirement of \$10,000 (\$15,000 effective March 30, 1999), we determined the procedures followed for those contracts, and whether the departments of the City involved in contracting followed those procedures.

2. We reviewed procedures followed by City departments for the period January 1, 1998 through June 30, 1999 for leave (including compensatory time, vacation leave, and sick leave) accrual, usage, and the payment of unused leave and also reviewed leave accruals, usage, and payments of unused leave to determine if the procedures followed by the City were in accordance with City policies or the union contracts.
3. We reviewed the salaries paid to the two former City Auditors for the period January 1, 1999 through September 3, 1999 to determine if the salary paid was in compliance with the salary established by Council, prorated based on number of days in office.
4. We compared the meeting date schedule of City Council for the period January 1, 1998 through June 30, 1999 to the Council minute record, resolutions, and ordinances to determine the completeness of those records as maintained by the Council Clerk. We also reviewed the Council minute record to determine if the purposes for entering into executive sessions complied with the Open Meetings Act.
5. We reviewed the City's operational policies and procedures relating to the purchasing of goods and/or services for the period January 1, 1998 through June 30, 1999 to determine the practices followed to ensure that purchases are authorized, goods/services are received, and payments are accurate and timely.
6. We obtained an understanding of the operations of the City's swimming pool to determine the types of receipts received. We reviewed the swimming pool collections for the period June 3, 1998 through August 16, 1998, and June 5, 1999 through August 15, 1999, to determine if the receipts were deposited in tact and in a timely manner in accordance with Ohio Rev. Code Section 9.38.
7. We reviewed all payments to the Public Employees' Retirement System (PERS), the Police and Firemen's Disability and Pension Fund (PFDPF) and the Ohio Bureau of Workers' Compensation (BWC) for the period January 1, 1998 through June 30, 1999 and recalculated the monies due to determine if the proper amount was remitted to each agency.
8. We reviewed contracts under \$10,000 awarded by the Mayor and Service Director for the period January 1, 1998 through September 30, 1999 for possible conflicts of interest. We also reviewed leave records to determine whether or not City employees performed contract work during regular working hours.
9. We reviewed contracts under \$10,000 awarded by the Mayor and Service Director for the period January 1, 1998 through September 30, 1999 for possible conflicts of interest. We also reviewed leave records to determine whether City employees performed contract work during regular working hours.

10. On May 22, 2000, we held an Exit Conference with the following Officials and Administrative Personnel:

Penny Green	Auditor
Cecile Geitz	Treasurer
Larry Newman	Council President
David McWilliams	Council Member
Chris Brenner	Council Member
Jason Holzapfel	Council Member
Todd Dennis	Deputy Auditor
Melissa Fitch	Mayor's Assistant

The attendees were given five days to respond to this Special Audit. We did not receive a response from the current elected officials. We received an affidavit from former City Auditor J. Douglas Glass attesting to the validity of the compensatory time earned and used by Deputy Auditor Todd Dennis, as well as the vacation leave used by Mr. Dennis. These matters are discussed in Issue No. 2 of this report. We also received information from Mr. Steve Matthews, former City Auditor supporting his repayment of the overcompensation discussed in Issue No. 3 of this report. These responses were reviewed and evaluated, and changes were made where we deemed appropriate.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report". Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion on the District's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the City, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

JIM PETRO
Auditor of State of Ohio

May 22, 2000

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SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

BACKGROUND INFORMATION

On June 12, 1999, we received a letter from Mr. Steven J. Matthews, who served as Wellston City Auditor from June 2, 1999 through September 3, 1999, expressing concerns with the condition of the City's records and requesting a Special Audit. On July 8, 1999, we met with Mr. Matthews at his office to discuss his concerns. Mr. Matthews expressed concerns related to the following:

1. Contracts awarded to friends of the Mayor;
2. Accrual and usage of leave in opposition to the Union contracts and City policies;
3. Payments made for leave to the Deputy Auditor;
4. Salary paid to the former City Auditor;
5. Timeliness of preparation of the ordinances and resolutions by the Clerk of City Council;
6. Control procedures, including the utilization of purchase orders;
7. Timely deposit of City pool receipts; and
8. Payments made to the pension funds and the Ohio Bureau of Workers Compensation.

On July 13, 1999, the Special Audit Committee voted to initiate a special audit. We began our work on August 11, 1999. On October 20, 1999, Mr. John Stabler, Wellston City Mayor, who was a Councilman at the time, notified us that he, along with Councilmen Mr. Chris Brenner, Mr. David McWilliams, and Mr. Art Wilson, wanted us to perform additional procedures, which we agreed to on November 17, 1999. The additional procedures included a review of contracts under \$10,000, and a review of fund raising activities.

Within this report we refer to various Ohio Revised Code Sections relating to competitive bidding requirements of municipalities. A summary of these requirements follows:

Ohio Rev. Code Section 715.18 states that "Any municipal corporation may establish and furnish the necessary equipment for a department of purchase, construction, and repair. Such department shall be under the management of the director of public service, who shall purchase all material, supplies, tools, machinery, and equipment, and shall supervise all construction, alterations, and repairs in each of the municipal departments whether established by law or ordinance.

No such purchase, construction, alteration, or repair shall be made except upon requisition by the director, the officer at the head of the department for which it is to be made or done, or upon the order of the legislative authority of the municipal corporation, nor shall any purchase, construction, alteration, or repair for any of such departments be made or done except on authority of the legislative authority and under sections 735.05 to 735.09 of the Revised Code, if the cost thereof exceeds ten thousand dollars."

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Ohio Rev. Code Section 735.05 states that “The director of public service may make any contract, purchase supplies or material, or provide labor for any work under the supervision of the department of public service involving not more than fifteen thousand dollars. When an expenditure within the department, other than the compensation of persons employed therein, exceeds fifteen thousand dollars, such expenditure shall first be authorized and directed by ordinance of the city legislative authority. When so authorized and directed, except where the contract is for equipment, services, materials, or supplies to be purchased under division (D) of section 713.23 or section 125.04 or 5513.01 of the Revised Code or available from a qualified nonprofit agency pursuant to sections 4115.31 to 4115.35 of the Revised Code, the director shall make a written contract with the lowest and best bidder after advertisement for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the city.”

Ohio Rev. Code Section 735.051 states that “In the case of a real and present emergency arising in connection with the operation and maintenance of the department of public service, including all municipally owned utilities, the department of public safety, or any other department, division, commission, bureau, or board of the municipality, the legislative authority of the municipality may by a two-thirds vote of all the members elected thereto, authorize the director of public service, director of public safety, city manager, board of public affairs, or other duly authorized contracting officer, commission, board, or authority, to enter into a contract for work to be done or for the purchase of supplies or materials without formal bidding and advertising.”

Ohio Rev. Code Section 735.052 states that “The legislative authority of any city or village may authorize, by ordinance, the director of public service, director of public safety, mayor, city manager, board of trustees of public affairs, village administrator, or other duly authorized contracting officer, commission, board, or authority to enter into a contract, without advertising and bidding, for the purchase of used equipment or supplies at an auction open to the public, or at a sale at which such used equipment or supplies are to be sold upon submission of written bids to the vendor thereof where the vendor has invited the public to submit written bids or when more than one bid is submitted. The ordinance authorizing such contracts shall: (A) Designate the officer, commission, board, or other contracting authority authorized to make such contract; (B) Set forth the maximum amount that may be bid as the purchase price for such used equipment or supplies; (C) Describe the type of used equipment or supplies that may be purchased; (D) Appropriate sufficient funds to meet the maximum amount that may be bid as the purchase price for such used equipment or supplies, unless funds have previously been appropriated and remain unencumbered for such purpose.”

Ohio Rev. Code Section 735.053 states that “The legislative authority of any city or village may authorize, by ordinance, the director of public service, director of public safety, mayor, city manager, board of trustees of public affairs, village administrator, or other duly authorized contracting officer, commission, board, or authority to enter into a contract, without advertising and bidding, for services or the purchase of materiel, equipment, or supplies from any department, division, agency, or political subdivision of the state, or with a regional planning commission pursuant to division (D) of section 713.23 of the Revised Code. The ordinance authorizing such contracts shall: (A) Designate the officer, commission, board, or other contracting authority authorized to make such contract; (B) Set forth the maximum amount that may be paid as the purchase price for such services, materiel, equipment, or supplies; (C) Describe the type of services, materiel, equipment, or supplies that may be purchased; (D) Appropriate sufficient funds to meet the maximum amount that may be paid as the purchase price for such services, materiel, equipment, or supplies, unless funds have previously been appropriated and remain unencumbered for such purpose.”

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
CITY OF WELLSTON**

SUMMARY OF RESULTS

ISSUE 1 - AWARDING OF CONTRACTS
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We determined through a review of the contracts awarded by the Council for the period January 1, 1998 through June 30, 1999 ("the Period"), whether or not the Council and/or Mayor awarded contracts in accordance with Ohio Revised Code Sections 715.18, 735.05, 735.051, 735.052, and 735.053. For contractors receiving awards below the competitive bidding requirement of \$10,000 (\$15,000 effective March 30, 1999), we determined the procedures followed for those contracts, and whether the departments of the City involved in contracting followed those procedures.

PROCEDURES

We performed the following procedures regarding awarding of contracts:

1. We reviewed the work performed by the Independent Public Accountant during the previous audit period ended December 31, 1998, pertaining to the awarding of contracts for City projects, to obtain an understanding of the process utilized by the City. We documented this review in a narrative.
2. We interviewed the Mayor and the Mayor's Secretary to obtain an understanding of the process followed when awarding contracts, including contracts competitively bid and those not competitively bid.
3. We identified all contracts awarded during the Period through scanning the minutes and discussions with City personnel.
4. We reviewed each of the contracts and determined if the contract was required to be bid.
 - A. If the contract was competitively bid, we ensured the contract was awarded in accordance with the Ohio Revised Code Sections disclosed above;
 - B. For those contracts not required to be competitively bid, we determined if the City obtained quotes and who was awarded the contract. We determined if the party awarded the contract provided the best quote.

RESULTS

1. In reviewing the contracts section of the Independent Public Accountant's working papers for audit of the City of Wellston for year ended December 31, 1998, there was no narrative description or flowchart of the process utilized by the City when awarding contracts. The testing performed was compliance testing in accordance with the Ohio Compliance Supplement. The only control procedures documented were that Council and the Service Director approve contracts, but there was no testing of these control procedures. The Independent Public Accountant selected three City contracts and tested them according to the suggested audit procedures in the Ohio Compliance Supplement, such as proper bidding, change order approvals, and contractors certifying personal property taxes were paid. The only error noted was that one of the change orders was not approved.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
CITY OF WELLSTON**

2. A. On August 20, 1999, we spoke with Mayor Edgar Hayburn. He stated the Mayor's Secretary handled all of the procedures regarding contracts, such as advertising the contract for bid, recording bid amounts on the bid tabulation sheets, and reporting the lowest bidder. He stated that Council then approves the contract.
- B. We interviewed Melissa Fitch, the Mayor's Secretary, regarding the process followed when competitively bidding contracts. Ms. Fitch stated:
 - I. All purchases over \$10,000 (\$15,000 effective March 30, 1999) are advertised for bid;
 - II. If the project involves an engineer, the bid specifications are prepared by the Project Engineer. If the project involves machinery, Councilman Tom Clark prepares the bid specifications because he is knowledgeable in this area;
 - III. Bid advertisements are prepared by Ms. Fitch and published in the local Wellston and Jackson newspapers;
 - IV. On the bid opening date, the Mayor, Service Director, Engineer (if applicable), and Mayor's Secretary gather in the Service Director's office. Larry Walburn, Service Director, opens all bids received and reads them aloud. Ms. Fitch records who the bids are from, the amount of each bid, and the lowest bid is marked. The lowest bid is reviewed by either the Engineer or Mr. Clark to determine the bid price includes all required specifications;
 - V. The Mayor submits the lowest and best bid to Council for approval;
 - VI. Council prepares a resolution or ordinance that includes accepting the contract and appropriating funds for the project.

Ms. Fitch stated that when a contract on a project is not subject to competitive bidding requirements, requests for bids are not always advertised, but rather parties that perform the work desired or those who have performed work for the City in the past are contacted. In these situations, the interested parties submit bids and the bid opening is the same as that described above, and Council approves the lowest and best bid.

3. There were 15 contracts disclosed in the minutes during the Period. One contract, relating to the 14th Street Sewer Main, was not started as of the end of the Period. Ordinances were passed by Council for 11 of the contracts which were for machinery and equipment purchases, water mains, building renovations, and sewer improvements. Resolutions were passed by Council for two of the contracts relating to street paving. The other two contracts, which were for sludge removal and the clearing of a creek, were under the \$10,000 competitive bidding limit, and therefore no Ordinance or Resolution was passed.
4. We compiled a schedule of the contracts awarded during the Period using contract files, minutes, ordinances, and resolutions. There was one contract listed on the schedule that was not disclosed in the minutes. It dealt with a water main that was a joint project between the County and the City. It was awarded by the County, and paid jointly by the County and the City. The total cost of the 16 scheduled contracts amounted to \$1,419,145.
 - A. Nine of the contracts were required to be bid. Of these, all were advertised and bid, and the lowest bid was accepted;
 - B. Three contracts related to either engineering services or computer software and equipment, and were not required to be bid;

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

- C. Two contracts were purchased through the Department of Administrative Services Cooperative Purchasing Program; and
- D. Two were under the competitive bidding requirements.

We concluded that all the contracts required to be competitively bid were appropriately advertised for bid and awarded according to the requirements of the Ohio Revised Code. Those not required to be bid were either advertised for bid or awarded to a contractor who had done the same or similar work for the City in the past.

MANAGEMENT COMMENT

Policy and Procedures Manual

The City does not have a policy and procedures manual governing the control of the activities of the City. A policy and procedures manual clearly outlines the specific authority and responsibility of individual employees, thus providing the essential foundation needed for establishing employee accountability. It also serves as a reference tool for employees seeking guidance on the less frequently encountered transactions and situations. In addition, a policies and procedures manual lessens the threat to continuity posed by employee turnover.

We recommend the City adopt a policy and procedures manual which includes policies and procedures over areas such as disbursements, awarding of contracts, hiring, promoting, evaluating and terminating of employees, and administering fund raisers. The manual could also include other topics that would benefit the City such as prohibited political activity, civil rights, equal employment, conflicts of interest, incompatibility of public offices, records commission, investment practices, sexual harassment, background checks, and job descriptions for all employment positions.¹

¹This comment is also addressed in Issue 8.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
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ISSUE 2 - LEAVE ACCRUAL, USAGE, AND PAYMENT

We reviewed procedures followed by City departments for the period January 1, 1998 through June 30, 1999 ("the Period") for leave (including compensatory time, vacation leave, and sick leave) accrual, usage, and the payment of unused leave and also reviewed leave accruals, usage, and payments of unused leave to determine if the procedures followed by the City were in accordance with City policies or the union contracts.

PROCEDURES

1. We obtained the union contracts in effect during the Period, and determined the types of leave and how that leave was earned and accrued.
2. We obtained a list of union employees from which we selected twenty employees for payroll compliance testing in the following manner: ten employees under the Ohio Civil Service Employees Association (OCSEA) union contracts, seven employees under the Police Department union contract, and three employees under the Fire Department union contract.
3. We reviewed the Employee Time Records maintained by City employees, and the payroll Master Control sheets of Automatic Data Processing (ADP), the company that processes the City's bi-weekly payroll, to determine the amount of leave accrued, and whether accrual of leave was in accordance with the union contracts and in compliance with the City's payroll policy. Additionally, we selected employees' bi-weekly payrolls from those selected in Procedure No. 2 to test for payments of leave requested, such as a compensatory time pay-out or vacation pay-out, or leave requested for time-off during the payroll periods to determine whether the payments were in accordance with the union contracts in effect at that time and in compliance with the City's payroll procedure.
4. We reviewed the "Management Letter" from the Independent Public Accountant that performed the City audit for the year ended December 31, 1998. The letter addresses the issue of approving payroll time records and overtime pay.
5. We reviewed the process utilized by each of the departments to document leave requests and the usage of leave by the employees. We selected ten leave requests from different departments and verified the leave used was removed from the employee's leave balance reflected on the Master Control sheets of ADP.
6. We reviewed the "Employee Time Records" for the Police Chief during 1999 to determine the type of leave used by the Police Chief while off work with a broken ankle.

RESULTS

1. A. We obtained copies of three union contracts:
 - I. Agreement between the City and the OCSEA, Local 11, approved by Council on December 22, 1997 under Ordinance #3184, approved by the Mayor on December 29, 1997, and effective January 1, 1998 through December 31, 2000.
 - II. Agreement between the City and the Fraternal Order of Police, Ohio Labor Council, Inc., effective January 1, 1998 through December 31, 2000.

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III. Agreement between the City and the Wellston Fire Department, signed by representatives of the Fire Department and the City in February 1998, and effective January 1, 1998 through December 31, 2000.

B. The types of leave and the rates of accrual are as follows:

I. Vacation

OCSEA employees earn 5 days of vacation after one year of service, 10 days after two years of service, 15 days after five years of service, 20 days after ten years of service, 25 days after fifteen years of service, 30 days after twenty years of service, and 35 days after twenty-five years of service.

Police Department employees earn 10 days of vacation after one year of service, 15 days after five years of service, 20 days after ten years of service, 25 days after fifteen years of service, and 30 days after twenty years of service.

Fire Department employees earn 5 days of vacation after one year of service, 10 days after two years of service, 15 days after five years of service, 20 days after ten years of service, 25 days after fifteen years of service, and 30 days after twenty years of service. Their vacation is based on a 56 hour work week.

II. Sick Leave

OCSEA and Fire Department regular full-time employees earn 4.6 hours of sick leave per 80 hours in pay status.

Police Department employees earn 4.6 hours of sick leave for each completed 80 hour pay period in active pay status. Active pay status shall be defined as hours worked, hours on approved paid leave, and hours on paid sick leave.

III. Personal Leave

OCSEA, Police Department, and Fire Department employees earn 4 personal days each year.

IV. Funeral Leave

OCSEA and Police Department employees are granted 3 days of funeral leave in the case of death in the employee's immediate family.

Fire Department employees are granted one working shift leave with pay in the case of death in the employee's immediate family.

V. Compensatory Time

OCSEA employees may elect to take compensatory time off in lieu of overtime pay. Compensatory time earned must be used within 180 days, or the employee will be paid for the overtime worked in the next following pay period.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

Police Department employees may accumulate up to 48 hours of compensatory time at the rate of one and one-half hours for each hour worked. At the employee's option, accumulated compensatory time shall be paid on June 1st and December 1st of each year.

Fire Department employees are not entitled to receive overtime or compensatory time.

VI. Special Types of Leave

OCSEA employees are entitled to union leave, education leave, military leave, and jury duty leave.

Police Department employees are entitled to jury duty leave, military leave, examination leave to take civil service tests or to take a required examination pertinent to their City employment, and injury leave up to 90 working days.

Fire Department employees are entitled to educational leave, military leave, and jury duty leave.

2. We obtained a list of union employees and selected twenty employees for payroll compliance testing. These 20 employees consisted of ten employees under the Ohio Civil Service Employees Association (OSCEA) union contracts, seven employees under the Police Department union contract, and three employees under the Fire Department union contract.
3. Of the 20 employees tested for leave accrual, we determined that:
 - A. Vacation leave was accrued in accordance with the union contracts for 19 of the 20 employees. One employee, Harry Downard, should have had 30 days of vacation accrued, but only 29 days were reflected on the ADP Master Control sheets. We recommend that the City review Mr. Downard's vacation accrual and adjust his leave balance accordingly.
 - B. Personal Leave was accrued for all of the employees tested.
 - C. Sick Leave was properly accrued for all of the employees tested. However, we noted that ADP accrues sick leave by multiplying .0575 by the total number of hours paid, which includes any overtime worked during the pay period. The contracts provide that sick leave is to be accrued at 4.6 hours for every 80 hours in active pay status (i.e., .0575 for each hour) but is silent on the maximum number of hours for which sick leave may be accrued during any one pay period.
 - D. Compensatory time was accrued properly for all selected employees tested with the exception of William T. Dennis who credited his compensatory time balance with hours which were not approved by either the City Auditor or Service Director.

Although the City lacks any written procedure for the approval of leave accrual, we found that the *defacto* process required that each employee of the City complete an "Employee Time Record". At the end of a pay period, each employee submits the Record to their department head, who reviews, signs, and submits them to the Service Director's office. The Service Director reviews and signs each Record and forwards them to the Auditor's office for processing.² Our testing indicated these controls are functioning for all departments, except the Auditor's office with respect to Mr. Dennis as described below:

² The City has no written policies or procedures outlining these practices. This understanding of the payroll process was obtained through interviews with the Department Heads and Deputy Auditor, as well as, a review of the payroll documentation.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
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- I. Mr. Dennis, Deputy Auditor is responsible for compiling payroll information for all the City departments, and inputting that information into the ADP software program for processing of the City's bi-weekly payroll. There is no monitoring or oversight conducted with this function to ensure that only approved payroll information is entered.
- II. In total, we reviewed 39 "Employee Time Records" of William T. (Todd) Dennis³, Deputy Auditor and noted the following:
 - a. 14 were signed only by the City Auditor;
 - b. 25 were not signed by either the City Auditor or the Service Director;
 - c. Overtime was recorded on 37 of the 39 "Employee Time Records" totaling 267 hours.⁴ Of these hours, 80.25 were approved by the Auditor, but not by the Service Director. The remaining 186.75 hours were neither approved by the Auditor, nor the Service Director. Although the City does not have a formal written policy requiring approval by the department head and Service Director, we noted during our interviews with City personnel and review of various departmental Employee Time Records that the *de facto* procedure required the signatures of the department head and/or the Service Director.

Although several of Mr. Dennis' Employee Time Records were not signed by the City Auditor or the Service Director during the Period, we were subsequently provided with an affidavit from former City Auditor Doug Glass attesting that during his tenure as Auditor, he reviewed Mr. Dennis' time sheets and all overtime which was recorded was earned.

- E. We also noted that for the pay period ended February 19, 1999, Mr. Dennis requested, and was paid for 192 hours of vacation. Like the leave accrual process, the City lacks any written procedure for the approval of leave requested. We found that the *de facto* process required that each employee of the City complete an "Employee Time Record". At the end of a pay period, each employee submits the Record to their department head, who reviews, signs, and submits them to the Service Director's office. The Service Director reviews and signs each Record and forwards them to the Auditor's office for processing.⁵ Mr. Dennis' vacation leave payment was neither approved by the Auditor or the Service Director as is required by the City's leave request procedure nor paid at the required contract rate.

³ Mr. Dennis was one of the original ten OCSEA employees selected for testing.

⁴ The Employee Time Record for pay period 01/10/98 - 01/23/98 indicated there were 7.25 hours approved by the City Auditor; however, only 6.5 hours were posted to the computerized payroll system.

⁵ The City has no written policies or procedures outlining these practices. This understanding of the payroll process was obtained through interviews with the Department Heads and Deputy Auditor, as well as, a review of the payroll documentation.

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Although several of Mr. Dennis' "Employee Time Records" were not signed by the City Auditor or the Service Director during the Period, we were subsequently provided with an affidavit from former City Auditor Doug Glass attesting that during his tenure as Auditor, he reviewed Mr. Dennis' time sheets, including all leave used (personal, vacation, sick, and compensatory). Mr. Glass attests that all leave used was properly recorded and deducted from Mr. Dennis' leave balances.

The OCSEA agreement under Article XVII, Section 2, provides that any unused vacation entitlement for that year should be paid at his "base rate of pay". Mr. Dennis' base rate of pay was \$9.65 per hour. He was compensated for his vacation entitlement at \$10.20 per hour which included his longevity pay for years of continuous employment at \$.55 per hour. We will recommend that Council review the negotiated OSCEA union contract with regard to payment of leave and clarify what is intended by "base rate of pay". If "base rate of pay" is not intended to include longevity pay for years of continuous employment, the City's computerized payroll system should be reprogrammed.

- F. For the pay period ended January 9, 1998, City employees were paid for the New Year's holiday. Mr. Dennis recorded 79.5 hours of regular hours worked, .5 hours of sick leave, and 8 hours of holiday pay in the ADP payroll program. However, his Employee Time Record reflects 71.5 regular hours, .5 hours sick leave, and 8 hours holiday pay for a total of 80 hours. Therefore, he was over compensated for 8 hours during this pay period. At his hourly rate of pay of \$9.90 for 1998, Mr. Dennis was over compensated a total of \$79. Mr. Dennis has since repaid the City \$79 for this overpayment.⁶
 - G. We reviewed the leave payments for selected employees tested in Procedure No. 2 to determine if the leave requested on the "Employee Time Record" agreed to the amount posted to the ADP Master Sheet. We noted no exceptions, other than the leave requests for William T. Dennis which were not approved by the City Auditor.
- 4. We obtained a copy of the Management Letter dated August 13, 1999, from Jerry L. Uhrig, the Independent Public Accountant that conducted the audit of the City for the year ended December 31, 1998. Mr. Uhrig recommended that both the Auditor and the Service Director approve the time sheet of the Deputy Auditor for each payroll of the year. He also recommended the Service Director set up a checklist to keep track of the Employee Time Records that are turned in by each department, and that he prepare the overtime reports and submit them to Council for their review.
 - 5. The City employees record leave taken on the "Employee Time Record" for each pay period. Upon review of leave requests from ten employees, we noted that all but one had approval of the Department Head and the Service Director. We noted the reason for not having both approval signatures was because the employee broke his ankle and was unable to complete his Employee Time Record. The Service Director completed it for him and was the only individual to sign, approving 40 hours of sick leave for the pay period.

⁶ We were provided with a receipt issued by the City Treasurer indicating Mr. Dennis has since repaid the City \$79.

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After confirming the Employee Time Records were approved, we compared the hours of leave submitted to the ADP Master Control sheets. In all ten cases, the balances of leave were reduced to reflect the amounts of leave taken. Some requests for leave reflected more than one type of leave requested, such as vacation and personal leave. On these requests the Department Head and Service Director signed twice, approving both types of leave used.

6. Beginning with the pay period ended March 5, 1999, the Chief of Police, Mark Jacobs, drew 40 hours of sick leave. Then for the next six pay periods, Mr. Jacobs used 80 hours of sick leave through pay period ended May 28, 1999, paid on June 4, 1999. This is supported by Mr. Jacob's Employee Time Records, and ADP Master Control sheets. Therefore, he was utilizing sick leave for the time that he was off with a broken ankle.

MANAGEMENT COMMENTS

1. Union Contracts

The union contracts state that sick leave be accrued at 4.6 hours per 80 hours worked in active pay status. The City's payroll processing company, Automatic Data Processing (ADP), accrues sick leave at the number of hours worked multiplied by .0575. Although using this factor equals 4.6 hours when multiplied by 80 hours, it is also used for additional hours over and above a normal 80 hour pay period. This factor is multiplied by the total number of hours paid. Therefore, additional sick leave is accrued on overtime earned, compensatory time used, and vacation, personal leave and compensatory time requested for pay. Also, since compensatory hours worked are multiplied by a factor of 1.5 when entered into the ADP system in order to pay compensatory time at time and one-half, sick leave is earned on the total 1.5 factored hours rather than just the actual number of hours worked.

The employee contracts are not specific to prevent accrual of sick leave above and beyond the 4.6 hours per 80 hours worked. We are unable to determine if this was the intent of the parties to the union agreement. We recommend the parties review and address this issue. Upon determination of the correct calculation of sick leave, the City should contact ADP to ensure the sick leave is processed accordingly.

2. Inputting Payroll

The Deputy Auditor is responsible for inputting payroll information into the software program for transmittal to ADP. However, the City Auditor does not review the information entered prior to transmission. This could result in errors in payroll not being detected until after payroll is processed or not being detected at all.

We recommend that someone, other than the person entering payroll data into the system, check the information entered against the approved Employee Time Records prior to submission to ADP.

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3. Segregation of Duties

The Deputy Auditor has sole responsibility for processing payroll of all City employees. He also prepares the Overtime Reports for Council. Although the City has limited staff in the Auditor's office, an employee inputting the City's payroll, including his own, and compiling the Overtime Reports without anyone reviewing the work performed, does not provide for a desired level of segregation of duties.

Segregation of duties could be improved by having the Auditor reconcile the payroll information entered into the ADP payroll program to the Employee Time Records of each employee. This would reduce the risk of incorrect postings or unauthorized entries into the system. The Auditor should also be trained to process the payroll so that not only one person has knowledge of this responsibility.

4. Employee Time Sheets

The Auditor's office is the only department in the City not having Employee Time Records approved by the Department Head and the Service Director. Approvals are not obtained for hours worked, overtime worked, and leave taken.

We recommend that both the Auditor and Service Director approve the Employee Time Records of the Deputy Auditor for each bi-weekly payroll. We also recommend that any overtime worked and leave taken be approved by the Auditor and Service Director.

5. Master Control Sheets

During our testing, we noted that one employee should have had 30 days vacation accrued, but only 29 days were reflected on the ADP Master Control sheets.

The Auditor's office should review the Master Control sheets to determine that leave is accrued based on the negotiated contract agreements in place.

6. Payout of Vacation

When an OSCEA employee requests to be paid out for unused vacation leave, the computerized payroll system is programmed to pay-out based upon the employee's base rate of pay plus any longevity pay for years of continuous employment. The OCSEA union agreement states that vacation is to be paid out at an employee's base rate of pay.

We recommend that Council review the negotiated OSCEA union contract with regard to payment of leave and clarify what is intended by "base rate of pay". If "base rate of pay" is not intended to include longevity pay for years of continuous employment, the City's computerized payroll system should be reprogrammed.

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ISSUE 3 - SALARY PAID TO CITY AUDITORS

We reviewed the salaries paid to the two former City Auditors for the period January 1, 1999 through September 3, 1999, to determine if the salary paid was in compliance with the salary established by Council, prorated based on number of days in office.

PROCEDURES

1. We obtained the ordinance establishing the salary of the City Auditor.
2. We determined the number of days worked by the two former City Auditors, and verified whether or not each individual received the proper amount of pay for the period January 1, 1999 through September 3, 1999.

RESULTS

- 1 City Ordinance No. 2939 dated February 7, 1991, established the salary of the Auditor to be \$20,000, effective January 1, 1992.
- 2 A. Per review of the payments made to Mr. Glass and Mr. Matthews, we determined the City Auditor was paid on a bi-weekly basis of \$769.23 (\$20,000/26 pays). The pay period begins on a Saturday and ends on the second Friday after the beginning of the pay period. Mr. Doug Glass held the position of City Auditor during the period January 1, 1999 through May 28, 1999. Mr. Steve Matthews was appointed to the position beginning June 2, 1999 until he resigned on September 3, 1999.
 - B. We determined Mr. Glass was paid in accordance with his term of office, with the exception of the pay period ending May 28, 1999. Mr. Glass did not receive compensation for the two-week period May 15 through May 28, 1999 although he did hold the position of City Auditor during that time. According to the City's computerized payroll system, the compensation for this pay period, amounting to \$769.23, was issued to Mr. Steve Matthews, the subsequent City Auditor. A review of the check indicates Mr. Matthews did not cash the check. We will recommend the City compensate Mr. Glass \$769.23 for the pay period May 15, 1999 through May 28, 1999 and issue an amended 1999 Form W-2 to Mr. Glass and to the IRS.
 - C. We determined Mr. Matthews was paid in accordance with his term of office, with the exception of the pay period May 29, 1999 through June 11, 1999. For that pay period, Mr. Matthews received gross compensation of \$769.23 as though he held the position of City Auditor for the entire two-week period. However, Mr. Matthews was not appointed to the position until June 2nd, and therefore was only entitled to receive compensation for 10 of the 14 days of the pay period. As a result, Mr. Matthews received \$219.78 for the period of May 29, 1999 through June 1, 1999 he was not entitled to.⁷ Mr. Matthews has since repaid the City \$219.78 for this overpayment.⁸

⁷ Calculated as follows: $\$769.23/14 \text{ days} = \54.945 per day . $\$54.945 * 4 \text{ days} = \219.78 .

⁸ We were provided with a receipt issued by the City Treasurer indicating Mr. Matthews has since repaid the City \$219.78.

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- D. As noted in Result No. 2 above, Mr. Matthews was issued a payroll check for the pay period ending May 28, 1999, which he appropriately did not cash since he did not hold the position of City Auditor during that two-week period. However, according to Mr. Matthews' 1999 Form W-2, this pay in the amount of \$769.23 was incorrectly included on his W-2. We will recommend the City issue an amended W-2 to the IRS and to Mr. Matthews.

MANAGEMENT COMMENT

1. Payment of Compensation to Mr. Doug Glass

Mr. Doug Glass held the position of City Auditor for the period January 1, 1999 through May 28, 1999. Through our review of City payroll records, we determined Mr. Glass was paid in accordance with his term of office, with the exception of the pay period ending May 28, 1999. Mr. Glass did not receive compensation for the two-week period May 15 through May 28, 1999 although he did hold the position of City Auditor during that time.

We recommend the City compensate Mr. Glass \$769.23 for the pay period May 15, 1999 through May 29, 1999 and issue an amended 1999 Form W-2 to Mr. Glass and to the IRS.

2. Issue Amended 1999 Form W-2 to Mr. Steve Matthews

During our review of 1999 payroll records, we noted a discrepancy of \$769.23 when comparing the total wages reported on Mr. Matthews' Form W-2 and the total payroll checks entitled, issued, and cashed by Mr. Matthews. The difference was the result of the City inappropriately issuing a payroll check in the amount of \$769.23 to Mr. Matthews for the bi-weekly pay period May 15, 1999 through May 28, 1999. As Mr. Matthews was not appointed to the office of City Auditor until June 2, 1999, he was not entitled to receive this compensation and therefore, did not cash the check. This compensation should not have been included on Mr. Matthews' 1999 Form W-2 reported to the IRS.

We recommend the City review the 1999 W-2 for Mr. Steve Matthews and file an amended W-2 to ensure it reflects only the compensation Mr. Matthews received and was entitled to.

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ISSUE 4 - MINUTES, RESOLUTIONS, AND ORDINANCES

We compared the meeting date schedule of City Council for the period January 1, 1998 through June 30, 1999 ("the Period"), to the Council minute record, resolutions, and ordinances to determine the completeness of those records as maintained by the Council Clerk. We also reviewed the Council minute record to determine if the purposes for entering into executive sessions⁹ complied with the Open Meetings Act¹⁰

PROCEDURES

1. We obtained the meeting dates of Council during the Period from the Mayor's Secretary and compared those dates to the corresponding minute record to determine if all minutes were completed and available for review. We also determined if minutes of the executive sessions were maintained.
2. We determined, through a review of the minutes, the number of resolutions and ordinances passed by Council and compared those resolutions and ordinances to those maintained by the Clerk of Council in the Resolution and Ordinance Books to determine all were completed and available for review.
3. We reviewed the minutes to determine when and why City Council entered into executive session. We compared the purpose of the sessions to those allowed under the Open Meetings Act to determine whether each purpose was in compliance with the Act.

RESULTS

1. The Council meeting dates contained on the listing obtained from the Mayor's Secretary agreed to those in the minute record. Upon review of the minute record, we noted the information was vague and not sufficiently detailed to provide the reader with a clear understanding of the discussions and actions taken by Council.
2. According to the minute record, 24 resolutions and 45 ordinances were adopted by Council during the Period. However, two resolutions (i.e., Resolution No. 1010 and No. 1022) contained in the ordinance/resolution book were not mentioned in the minute record. In addition, Resolution No. 1015 was adopted in the minute record, but was not signed in the ordinance/resolution book. A notation was made in the minute record which stated "Not signed, subject to dismissal."
3. According to the minute record, Council entered into the following executive sessions:
 - A. February 5, 1998 to discuss personnel;
 - B. June 2, 1998 to discuss possible litigation;
 - C. August 20, 1998 to discuss possible litigation;
 - D. September 7, 1998 to discuss possible litigation;
 - E. October 1, 1998 to discuss possible litigation and personnel; and
 - F. October 15, 1998 to discuss personnel.

⁹ Legally defined as a portion of a meeting from which the public is excluded and at which only such persons as the board may invite are permitted to be present.

¹⁰ The basic purpose of the Open Meetings Act is to require all public officials to take official actions and to concert all deliberations upon official business only in open meetings, unless the subject matter is specifically excepted by law. The act requires all public bodies to promptly prepare, file and maintain minutes of all public meetings.

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Based on our review of the executive session purposes described in the minute record, the City entered into executive session for proper purposes allowed under the Ohio Meetings Act¹¹.

MANAGEMENT COMMENT

Minute Records

The City does not keep detailed minutes. This leads to confusion in reading the minutes. The minutes represent the official record of City events, and as such should be clear, concise, and detailed to allow a reader to follow and understand the actions taken by Council.

We recommend the City keep more detailed minutes describing ordinances and resolutions adopted by Council, along with a concise description of events and occurrences taking place during the meetings.

¹¹ According to the Open Meetings Act, there are only six valid reasons for a public body to adjourn into executive session. They are to discuss: a) personnel matters; b) the purchase of property; c) pending or imminent court action; d) collective bargaining; e) confidential matters, and f) security arrangements.

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ISSUE 5 - OPERATIONAL POLICIES, PROCEDURES, AND PRACTICES OF THE CITY'S PURCHASING PROCESS

We reviewed the City's operational policies and procedures relating to the purchasing of goods and/or services for the period January 1, 1998 through June 30, 1999 to determine the practices followed to ensure that purchases are authorized, goods/services are received, and payments are accurate and timely.

PROCEDURES

1. We conducted interviews with the Mayor, Auditor, Treasurer, Service Director, Mayor's Secretary, Police Chief, Fire Chief, Cemetery Supervisor, City Clerk, Street Supervisor, Water Superintendent, Sewer Superintendent, Water and Sewer Supervisor, and Recreation Board Treasurer to obtain an understanding of the purchasing procedures followed by each.
2. We obtained a City organizational chart from the Mayor's Secretary in order to verify that we included all department heads in our interviews.
3. We performed a walk-through of the operational procedures, and documented the results of our findings.

RESULTS

1. The departments interviewed stated the same basic procedures were in place: (A) a requisition is completed; (B) the requisition is signed by the Service Director; (C) a purchase order is completed before the purchase is made; (D) invoices are checked by the department receiving the goods; and (E) payment is made by the Auditor from the invoice received.

It was also noted that City departments are not involved with the budget of their department. Department Heads contended they either did not know their budget amount or the budget did not reflect the disbursements of the department. Department Heads also stated that budget figures were not sufficient to operate their department, and the Finance Committee would not make amendments.

2. Based on the organizational chart of the City's elected and appointed officials, we concluded that all relevant departments were included in our interviews.

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3. We tested six vouchers for the attributes listed above. The results of the voucher testing revealed the following:

Attribute	Frequency
Requisition was completed	2
Requisition was signed by the Service Director	0
Purchase order was completed before purchase	4
Invoices verified by department receiving goods	3
Payment of invoice is made by the Auditor	6

Based on the walk-through, the departments did not follow procedures as documented from our interviews. It was noted that voucher packets did not contain all pertinent information. Although invoices were always attached, purchase orders, requisitions, and duplicate check copies were not always included. In four of the six cases, the original purchase order was found in the purchase order file. The vouchers did not contain duplicate check files.

We examined ten purchase orders as part of our testing. Seven of them were blanket purchase orders. There was only one instance where the amount of the disbursement exceeded the purchase order amount. However, there was one disbursement for which there was no purchase order. There were no instances noted where the invoice date preceded the purchase order date. When purchase orders are used, the department ordering the goods does not receive a copy of the purchase order or blanket certificate from the Auditor office.

CITATION

Ohio Rev. Code Section 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated, and is in the treasury or in the process of collection to the credit of the appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate - this exception provides that, if the fiscal officer can certify that both at the time the contract or order was made, sufficient funds were available or in the process of collection, to the credit of the proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the issuance of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The required certification of fund availability was not obtained from the City Auditor prior to incurring obligations for all expenditures. We recommend the City use purchase orders, which reflect the City Auditor's certification for all expenditures. In the event of an emergency, Then and Now Certificates could be used following the requirements listed above.¹²

¹² This citation is also included within Issue 8 relating to City Employees Performing Contract Work.

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MANAGEMENT COMMENTS

1. Purchasing Policy

The City did not have a written purchasing policy outlining the procedures to be followed when purchasing goods/services. This results in different procedures being followed by the departments within the City, no clear chain of command for purchasing approval, lack of required documentation (such as requisitions and purchase orders), and expenditures exceeding appropriations.

We recommend that Council establish a written policy relating to the purchasing of goods/services that is required to be followed by all departments within the City. We further recommend the policy be enforced to avoid further purchasing procedure failures.

2. Purchase Requisitions

Requisitions are not used by all departments. The departments that do use requisitions, do not use them if the purchase is from a vendor for which there is a blanket certificate. The Department Supervisor's and the City Service Director's signatures are not obtained on all requisitions. This results in inconsistent disbursement practices being followed by the departments within the City as well as lack of approval for all disbursements.

We recommend all departments use purchase requisitions for all disbursements, even those from a vendor for which there is a blanket certificate. We recommend all purchase requisitions contain the Department Supervisor's and the City Service Director's signatures indicating their approval of the purchase.

3. Purchase Orders

Purchase orders are not issued for all purchases made by the City. When purchase orders are used, the department ordering the goods does not receive a copy of the purchase order or blanket certificate. This could result in departments making purchases in excess of the amount certified by the Auditor.

We recommend that purchase orders be issued for all purchases based on the completed and approved requisitions. The purchase orders should be certified by the City Auditor, signed by the Department Supervisor, and signed by the Service Director. Furthermore, we recommend the department ordering the goods be given a copy of the purchase order to keep for their records. In the event blanket certificates are used, requisitions still should be completed, approved, and there must still be sufficient balance remaining on the blanket certificate to cover the expenditure.

4. Voucher Packets

Upon review of disbursement procedures, it was noted that voucher packets did not contain all pertinent information. Although invoices were always attached, purchase orders, requisitions, and duplicate check copies were not included. This could result in errors in disbursements, such as purchases exceeding the certified amount, and loss of requisitions and purchase orders. The vouchers were also not signed as approved by the Finance Committee. This could result in expenditures being made without the approval of Council.

We recommend voucher packets contain detailed information such as purchase orders, requisitions, duplicate checks, and invoices.

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5. Departmental Budgets

The departmental budgets within the City are prepared by the Auditor and Finance Committee with little, if any, input from the Department Supervisors. This could result in a budget being prepared and approved that did not accurately reflect the expected revenues and expenditures for that department.

We recommend the Department Supervisors work with the Auditor and Finance Committee to prepare more accurate departmental budgets.

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ISSUE 6 - SWIMMING POOL COLLECTIONS

We obtained an understanding of the operations of the City's swimming pool to determine the types of receipts received. We reviewed the swimming pool collections for the period June 3, 1998 through August 16, 1998, and June 5, 1999 through August 15, 1999, to determine if the receipts were deposited in tact and in a timely manner in accordance with Ohio Rev. Code Section 9.38.

PROCEDURES

1. We interviewed the Recreation Board Treasurer and the City Treasurer to determine the process for collecting and depositing pool receipts with the City Treasurer or depository.
2. We compared receipts recorded on the Pool Director's records to the amounts deposited in the bank to determine if all monies were deposited in tact.
3. We compared the date monies were collected at the pool to the date the monies were given to the City Treasurer and subsequently deposited in the bank, to determine if all monies were deposited with the depository within 24 hours of receipt.

RESULTS

1. On August 23, 1999, we spoke with Ms. Kim Blagg, Recreation Board Treasurer. She stated the Pool Director was responsible for maintaining all records of pool activities and depositing pool receipts with the City Treasurer. We were unable to speak with the Pool Director because he was away at college.
2. We obtained the pool records from the City Treasurer for 1998, and from the Recreation Board Treasurer for 1999. From a review of the records, we determined the Pool Director kept daily receipt records reflecting the number of people (categories of adults, students, pre-school, and non-swimmers since they all paid different prices) who bought pool tickets for the day, as well as, any receipts from aerobics classes, swimming lessons, or pool parties. The total receipts for the day were recorded on daily tally sheets and a receipt ledger. The receipt ledger reflected a breakdown of receipts for each day, along with a daily total, a monthly cumulative total, and a year-to-date total. Also included on the tally sheets were the names of those with pool passes. According to Ms. Blagg, the monies collected were to be remitted to the City Treasurer the day after collection, unless they represented weekend receipts for Friday, Saturday, and Sunday, which were then remitted to the Treasurer the following Monday. At the monthly Recreation Board meetings, the Pool Director reported the total pool receipts deposited with the City Treasurer. At the end of each pool season, the records were given to the City Treasurer for safekeeping.

In 1998, total pool receipts amounted to \$17,559. Of the 70 days tested, we noted 36 instances in which the Pool Director did not remit the pool receipts to the City Treasurer either within 24 hours or on the Monday following a weekend. We also noted one instance where pool receipts of July 14 and July 15, 1998 were deposited on July 17, 1998, yet pool receipts of July 13, 1998, were not deposited until July 21, 1998, a total of 8 days after collection.

In 1999, total pool receipts amounted to \$19,272. Of the 68 days tested, we noted 21 instances in which the Pool Director did not remit the pool receipts to the City Treasurer either within 24 hours or on the Monday following a weekend. We also noted one instance where pool receipts of June 12, 1999 were deposited on that same day, yet pool receipts of June 11, 1999, were not deposited until June 14, 1999.

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3. We noted that in all cases, once the monies were given to the City Treasurer they were deposited into the bank within 24 hours, and pool receipts recorded on the Pool Director's records agreed to the amounts deposited in the bank.

CITATION

Ohio Rev. Code Section 9.38¹³ states that a public official other than a state officer, employee, or agent shall deposit all public monies received by the official with the Treasurer of the public office or with a properly designated depository once every 24 consecutive hours.

Pool personnel collect monies for various services offered at the pool. During our review of 138 days' of swimming pool receipts, we noted the Pool Director did not deposit the monies with either the Treasurer or a depository within 24 hours on 57 occasions.

We recommend the City implement policies and procedures to ensure compliance with this State statute.

MANAGEMENT COMMENTS

1. Night Depository

During our review of the pool receipts we noted that monies collected on Friday and Saturday were not given to the City Treasurer until Monday for deposit. By not depositing these monies the next day, the money is susceptible to theft.

We recommend the monies collected on Friday and Saturday be deposited in a night depository.

2. Ticket Accountability

During our review of the pool receipts we noted that pool personnel used tally sheets to record transactions at the pool. Pool passes are recorded by writing the names on the sheets. By not using pre-numbered tickets, passes and receipts, pool receipts are susceptible to theft because the improper number of tickets, passes and receipts could be recorded.

We recommend that pool personnel utilize two different pre-numbered ticket rolls (one for adults and one for children) and pre-numbered passes, and record the beginning and ending ticket/pass numbers on the tally sheets in order to gain accountability for the number of tickets/passes sold. We also recommend that pool personnel utilize pre-numbered duplicate receipts for pool parties and any other functions for which tickets or passes are not used.

¹³ This section was amended effective November 2, 1999. The amendment now allows public officials (other than a state officer, employee or agent) to deposit all public moneys received with the treasurer of the public office or properly designated depository on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official has the option of either depositing the money on the next business day following the day of receipt or adopting a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the monies until the time of deposit. If, however, the public official is governed by a legislative authority, only that legislative authority may adopt such a policy. This citation was also made in Issue 9 dealing with Fund Raising Activities.

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ISSUE 7 - PENSION FUNDS AND THE OHIO BUREAU OF WORKERS' COMPENSATION

We reviewed all payments to the Public Employees' Retirement System (PERS), the Police and Firemen's Disability and Pension Fund (PFDPF) and the Ohio Bureau of Workers' Compensation (BWC) for the period January 1, 1998 through June 30, 1999 ("the Period") and recalculated the monies due to determine if the proper amount was remitted to each agency.

PROCEDURES

1. We determined what salaries were subject to PERS withholding during the Period and recalculated the amount of monies due to PERS.
2. We compared the recalculated amount to the amount remitted to PERS for any discrepancies.
3. We determined what salaries were subject to PFDPF during the Period, and recalculated the amount of monies due to PFDPF.
4. We compared the recalculated amount to the amount remitted to PFDPF for any discrepancies.
5. We determined what salaries were subject to BWC during the Period and recalculated the amount of monies due to BWC.
6. We compared the recalculated amount to the amount remitted to BWC for any discrepancies.
7. We sent confirmation letters to PERS, PFDPF, and BWC to verify amounts owed by the City.

RESULTS

Prior to determining amounts due the pension funds and the Ohio Bureau of Workers' Compensation, we first gained an understanding of the payroll procedures in place at the City. Employee Time Records are completed by the employees and approved by the Department Head and Service Director. They are then remitted to the Auditor's office, where the Deputy Auditor enters the data into the ADP software program. The data is transmitted electronically to ADP, where it is processed. A report indicating gross payroll is sent back to the Auditor's office. A check is issued from the City's general checking account to the payroll clearing account for the gross payroll plus the employer portion of medicare tax. ADP issues the payroll checks from the payroll clearing account for all employees, and stamps them with the City Auditor's signature. ADP also electronically transmits medicare, and federal, state, and local taxes to the Internal Revenue Service, Treasurer of State of Ohio, and local government agencies.

The City pays the employee and employer portion of PERS and PFDPF for the union employees from the general checking account, since it is not a payroll deduction. The employee portion of PERS and PFDPF deducted from the non-union employees' gross wages is paid from the payroll clearing account, and is also paid by the City. The employer portion of PERS and PFDPF for non-union employees is paid from the general checking account. The pension checks issued by the Auditor's office are signed by the Deputy Auditor.

We recalculated the employee's share and the employer's pickup for all employees contributing to PERS and PFDPF for June 1998 and February 1999. We noted no exceptions in the calculation of the withholdings from employee's checks, the amount reported on the monthly pensions reports as contributions, and the employer's share remitted except for those discussed below.

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PERS

The confirmation letter sent to PERS to verify amounts owed by the City was mailed on August 18, 1999. PERS did not respond. We received a response dated April 4, 2000 from Janet L. Carter, Accounting Manager, with PERS. Ms. Carter performed an audit of the employer account for the City of Wellston. She determined the City was delinquent at June 30, 1999 in the amount of \$25,044 for the employee contributions of PERS for the months of February, March, and April 1999. PERS did not receive payment until July 6, 1999.

Employee Share

We scheduled the employee share of PERS due and paid to the retirement system for the Period. The amounts due and paid are as follows:

	<u>Amount Due</u>	<u>Amount Paid</u>	<u>Variance</u>
Employee Withheld PERS	\$ 21,250	\$ 20,257	(\$ 993)
Employer Pick-Up	<u>\$115,439</u>	<u>\$112,136</u>	<u>(\$3,303)</u>
Totals	<u>\$136,689</u>	<u>\$132,393</u>	<u>(\$4,296)</u>

The City of Wellston paid the June 1999 employee share on July 30, 1999. The amount due was \$7,694 which is included in the above table as Amount Due. The payment is not included in the Amount Paid above as it was not paid as of June 30, 1999. As a result, the City is owed \$3,399 once the June 1999 payment was received (\$7,694-\$4,296). The overpayment of \$3,399 is a result of the City paying the employee portion for the first pay period in December 1998 in the amount of \$536 on January 29, 1999 with payroll account warrant No. 12726, and the employer pick-up of \$2,863 on February 1, 1999 with general checking account warrant No. 18839. Then on June 10, 1999, the City paid the employee portion of PERS for the entire month of December 1998 in the amount of \$987 with payroll account warrant No. 12777, and the employer pick-up of \$5,924 on May 12, 1999 with general checking account warrant No. 19333. These two payments represent the amount due for the two pay periods in December 1998. Therefore, for the first pay period in December 1998, PERS was withheld and paid twice to the retirement system. The City paid \$3,399 more to PERS than required for the employee share of PERS. A copy of this report is being provided to PERS to notify them of this overpayment; however, we recommend the City contact PERS to determine how this overpayment may be settled.

Employer Share

We scheduled the employer share of PERS due and paid to the retirement system for the Period. The amounts due and paid are as follows:

	<u>Amount Due</u>	<u>Amount Paid</u>	<u>Variance</u>
Employer Share of PERS	\$217,896	\$223,314	(\$5,418)
Penalties and Interest	<u>\$ 6,122</u>	<u>\$ 4,302</u>	<u>\$1,820</u>
Totals	<u>\$224,018</u>	<u>\$227,616</u>	<u>(\$3,598)</u>

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
CITY OF WELLSTON**

The City of Wellston paid the employer portion of PERS for the first pay period in December 1998 in the amount of \$5,418 on June 15, 1999 with general checking account warrant No. 19502, and then paid the entire month of December 1998 in the amount of \$11,018 on October 1, 1999 with general checking account warrants No. 20723 and No. 20724. Therefore, for the first pay period in December 1998, the employer portion of PERS was paid twice to the retirement system. The City paid \$5,418 more to PERS than required for the employer share of PERS. However, there are still unpaid penalties owed to PERS for late payments and late filing of reports of \$1,820. Therefore, a net amount of \$3,598 is due to the City for the overpayment of December 1998 employer contributions. A copy of this report is being provided to PERS to notify them of this overpayment; however, we recommend the City contact PERS to determine how this overpayment may be settled.

PFDPF

The confirmation letter sent to PFDPF to verify amounts owed by the City was mailed on August 18, 1999. PFDPF responded on September 21, 1999, stating the City had not filed payroll reports for both Police and Fire since January 22, 1999. They also reported the City will incur penalties and interest against any delinquent employer payroll contribution reports in accordance with House Bill 648. The penalties will be assessed at the rate of 5%, and interest will accrue at the actuarial investment rate of return established by the Board of the PFDPF, which was 8.25% on September 21, 1999.

Employee Share

We scheduled the employee share of PFDPF due and paid to the retirement system for the Period. The amounts due and paid are as follows:

	<u>Amount Due</u>	<u>Amount Paid</u>	<u>Variance</u>
Employee Withheld PFDPF	\$ 673	\$ 673	\$ 0
Employer Pick-Up	<u>\$ 38,014</u>	<u>\$ 27,171</u>	<u>\$10,843</u>
Totals	<u>\$ 38,687</u>	<u>\$ 27,844</u>	<u>\$10,843</u>

During the Period, the employees' share of PFDPF was withheld from employees' gross wages in January 1998 only. A new union contract went into effect after that time which required the City to pick-up the entire amount of the employees' portion of PFDPF.

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
CITY OF WELLSTON**

The variance of \$10,843 is a result of: a) the City not remitting the employee share of PFDPF for the period February 1999 through June 1999; and b) the February 1998 remittance being made using the March 1998 statement. Therefore, the March 1998 employees' share was remitted twice, and the February 1998 employee share was not remitted at all. The City did not remit \$10,843 to PFDPF for the employee share of PFDPF. This amount does not include any penalties and interest that may be charged by PFDPF for not filing timely. The schedule below outlines the underpayment:

<u>Month</u>	<u>Amount Due PFDPF</u>	<u>Amount Paid PFDPF</u>	<u>Variance</u>
February 1998	\$1,806	0	1,806
March 1998	2,039	4,079	(2,040)
February 1999	1,952	0	1,952
March 1999	1,949	0	1,949
April 1999	2,889	0	2,889
May 1999	2,083	0	2,083
June 1999	2,204	0	<u>\$ 2,204</u>
Total			<u><u>\$10,843</u></u>

A copy of this report is being provided to PFDPF to notify them of this underpayment; however, we recommend the City contact PFDPF to determine how this underpayment may be settled.

Employer Share

We scheduled the employer share of PFDPF due and paid to the retirement system for the Period. The amounts due and paid are as follows:

	<u>Amount Due</u>
Employer Share for Police	\$ 48,050
Employer Share for Fire	<u>\$ 31,460</u>
Total Due	\$79,510
Total Paid	<u>\$52,885</u>
Variance	<u>\$26,625</u>

The variance of \$26,625 is a result of the City's failure to remit the employer portion of PFDPF for the period January 1999 through June 1999, and for the second pay during December 1998. This amount does not include any penalties and interest that may be charged by PFDPF for not filing timely. A copy of this report is being provided to PFDPF to notify them of this underpayment; however, we recommend the City contact PFDPF to determine how this underpayment may be settled.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

BWC

The confirmation letter sent to the BWC to verify amounts owed by the City was mailed on August 18, 1999. The BWC responded on October 29, 1999, stating the City was current with payments of premiums, and did not have any premium penalties or interest due. The next premium payment will be based on 1999 payroll, and is due on May 15, 2000.

We tested payments made to the Ohio Bureau of Workers' Compensation during the Period. In 1998, the City paid \$18,756 in premiums on the 1997 payroll of \$1,194,202. The total assessed premium was \$75,026; however, BWC allowed a 75% discount during 1998, which reduced the City's amount due by \$56,270. The City elected to make the payment over two installments, with 45% due in May 1998, and 55% due in August 1998. The first installment was paid on May 15, 1998 with warrant No. 17538 in the amount of \$8,440. The second installment was paid on August 7, 1998 with warrant No. 18042 in the amount of \$10,316.

In 1999, the City paid \$72,980 in premiums on the 1998 payroll of \$1,319,579. BWC allowed no discount during 1999. The City again elected to make the payment over two installments. The first installment was paid on May 12, 1999 with warrant No. 19289 in the amount of \$32,841. The second installment was paid on August 31, 1999 with warrant No. 19807 in the amount of \$40,139.

CITATIONS

1. Ohio Rev. Code Section 145.47 requires each fiscal officer to withhold the employee's portion of retirement from their wages or for the employer to pick-up the employee's portion of retirement each pay period, and to transmit the employee's portion along with the employer's portion quarterly.

Employee deductions and employer pick-up contributions for the employee's portion and the employer's portion of PERS were not always remitted in a timely manner in 1998 and 1999. This resulted in penalties assessed for late payment and filing of withholding reports.

The City of Wellston paid the employee portion of PERS for the first pay period of December 1998 in early 1999. The City then paid the employee portion for the entire month of December 1998 in June 1999. This resulted in the first pay period of December 1998 being paid twice to the retirement system, which amounted to an overpayment to PERS of \$3,399.

The City of Wellston paid the employer portion of PERS for the first pay period of December 1998 on June 15, 1999. The City then paid the entire month of December 1998 on October 1, 1999. This resulted in the first pay period of December 1998 being paid twice to the retirement system, which amounted to an overpayment to PERS of \$5,418. However, there are still unpaid penalties owed to PERS for late payments and late filing of reports of \$1,820. Therefore, a net amount of \$3,598 is due to the City for the overpayment of December 1998 employer contributions.

We recommend that all withholdings be paid in a timely manner, and that reports be filed within 30 days of the end of the reporting period. We further recommend the City contact PERS to determine how this overpayment can be settled.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

2. Ohio Rev. Code Section 742.32 states that each fiscal officer shall transmit promptly to the Secretary of the Board of Trustees of the PFDPF, a report of member deductions or employer pick-up contributions, and employer's portions of retirement along with a check covering the total of such remittances.

Employer pick-up contributions for the employee's portion and the employer's portion of PFDPF retirement were not remitted in a timely manner in 1998 and 1999. This resulted in penalties assessed for the late payment and late filing of withholding reports. There have been no reports filed or remittances made since the employee share contribution for January 1999 and the employer share for the fourth quarter of 1998 were remitted on May 12, 1999.

As of the date of this report, the City owes PFDPF \$39,975 which represents \$10,843 of past-due employee contributions and \$26, 625 of past-due employer contributions.

We recommend that all withholdings be paid in a timely manner, and that reports be filed within 30 days of the end of the reporting period. We further recommend the City contact PFDPF to determine how this underpayment can be settled.

MANAGEMENT COMMENTS

1 Payroll Withholdings

Although ADP prepares all payroll checks for net pay, the pension and workers' compensation withholding checks are prepared at the City and are signed by the Deputy Auditor. This could result in checks being issued from the payroll account without the Auditor's knowledge.

We recommend the fiscal officer sign all warrants issued by the City.

2 Payments to Pension Funds and Penalties

The City was late in filing and remitting payment on PERS and PFDPF reports. This resulted in late fees and penalties being incurred.

We recommend the City develop a schedule of amounts due to PERS and PFDPF for each pay period from the amounts listed on the ADP reports. The schedule should include the employee portion withheld, the employer pick-up, and the date the remittances are due. At the end of each month, the total of the employee portion for all pay periods in that month should be paid to PERS and PFDPF, and the amount of the check, the check number, and date the check was issued should be written on the schedule. The schedule should also include the employer portion due for each pay period. At the end of each quarter, the total employer portion for all pay periods in that quarter should be paid, and the amount of the check, the check number, and the date the check was issued should be written on the schedule. This will provide a control to help ensure that all required payments have been made timely, and will help to avoid paying late penalties and interest.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

ISSUE 8 - CITY EMPLOYEES PERFORMING CONTRACT WORK

We reviewed contracts under \$10,000 awarded by the Mayor and Service Director for the period January 1, 1998 through September 30, 1999 ("the Period") for possible conflicts of interest. We also reviewed leave records to determine whether or not City employees performed contract work during regular working hours.

PROCEDURES

1. We reviewed union contracts for a conflict of interest policy. We documented whether or not such a policy existed.
2. We performed an interview with the Mayor and Service Director to determine the process of awarding contracts not required to be bid.
3. We determined if the Mayor and Service Director obtained quotes, and if a file of quotes existed. We also obtained all contracts awarded during the Period from the Mayor and Service Director.
4. We reviewed each of the contracts to see if the contract was awarded to City employees and/or family members of City employees.
5. We performed an interview of City Council members to determine which City employee(s) or family members of City employee(s) were awarded contracts under \$10,000. We documented this interview in a narrative.
6. Once ascertained that contracts were awarded to a City employee, we determined if work was performed during regular working hours. We further verified whether or not vacation or some other form of leave was used while performing the work.
7. We reviewed the purchase orders, vouchers, invoices, and disbursements journal supporting expenditures relating to contracts that were awarded to a City employee or a family member of a City employee.
8. We obtained copies of all canceled warrants issued to the City employee and the family member of the City employee.

RESULTS

1. The City does not have a conflict of interest policy. We also spoke with the Deputy Auditor, who informed us there is no policy and procedures manual for City employees to follow.
2. On November 29, 1999, we spoke with the Mayor Edgar Hayburn and Service Director Larry Walburn. The Service Director stated that contracts are awarded to the lowest and best bidder after contacting area contractors for bids. We asked the Mayor and Service Director to compile a list of all contracts awarded during the Period that were under \$10,000. They provided a list of 16 jobs performed during the Period.
3. We compiled a schedule for 15 of these projects, and obtained canceled warrants to verify amounts paid to the contractors. The one project not included on the schedule involved a housing rehabilitation project where the contractor, Alvis Brown, an employee of the City, performed the work without incurring labor charges. The only disbursement for the job was to a company for windows.

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4. Two of the 15 projects scheduled were awarded to Alvis Brown, an employee of the City, and totaled \$5,262. There were ten projects totaling \$21,735 that were awarded to Larry Brown, a brother to Alvis Brown. Of these 12 projects, each had only one bid, and no additional estimates were received by the Mayor and Service Director. We spoke with the Service Director on December 1, 1999, about no additional estimates being received, and he stated that Mayor Hayburn is good friends with Alvis and Larry Brown, and that when work is needed, the Mayor contacts them for estimates. Mr. Walburn stated the Browns' estimates were the lowest, and that other estimates were taken by telephone, but there is no record of the additional estimates. Of the 15 projects, additional estimates were evidenced on only one project involving sludge removal at the South Water Plant. All the disbursements were traced to vouchers. Purchase orders were used on 11 of the 15 projects.
5. Five of the seven councilmen were interviewed. Four of them had knowledge of the contracts awarded to Alvis and Larry Brown. The fifth councilman stated that he did not know of any contracts, because most of them did not go before Council.
6. We reviewed the Employee Time Records for Alvis Brown to determine if leave was taken during the time he performed contract work for the City. During May 1999, when the roof was repaired on the City Building, Alvis Brown used 16 hours of compensatory time, and 24 hours of personal leave. In June 1999, Alvis Brown used 16 hours compensatory time while replacing a porch on the City Street Garage and repairing the roof. All work appeared to be on his own time.

CITATION

Ohio Rev. Code Section 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated, and is in the treasury or in the process of collection to the credit of the appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate - this exception provides that, if the fiscal officer can certify that both at the time the contract or order was made, sufficient funds were available or in the process of collection, to the credit of the proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the issuance of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The required certification of fund availability was not obtained from the City Auditor prior to incurring obligations in four of the 15 projects that we reviewed. We recommend the City use purchase orders, which reflect the City Auditor's certification for all expenditures. In the event of an emergency, Then and Now Certificates could be used following the requirements listed above.¹⁴

¹⁴ This citation was also issued in Issue 5 relating to Operational Policies, Procedures, and Practices of the City's Purchasing Process.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

MANAGEMENT COMMENTS

1. Conflict of Interest/Related Party Transactions Policy

The City did not have a formal conflict of interest or related party transactions policy. This could result in the City officials and employees having unknown interests in City contracts or projects.

The City should adopt the aforementioned policies to help ensure the City's management is making prudent business decisions, and to avoid possible conflicts of interest with employees and officials of City projects and contracts. Persons with buying or contracting authority should file a written statement with the City disclosing any business interests on a periodic basis.

2. Outside Employment

The City did not have an outside employment policy in place. This could result in appearances of impropriety or conflicts of interest in the eyes of the citizens. A policy should be adopted that includes at the minimum the following:

Activities away from the job must not compete, conflict with or compromise its interests or adversely affect job performances and the ability to fulfill all responsibilities to the City.

This policy should prohibit the unauthorized use of City equipment for outside employment and the solicitation or conduct of business during the employee's working hours.

We recommend the City adopt an outside employment policy.

3. Competitive Bidding

During the period reviewed, the City entered into two contracts with a City Employee. The employee was compensated \$2,200 to replace a porch on the City Street Garage, and \$3,062 to repair the City Building roof after a windstorm. Although the contracts were performed on the employee's own time, these contracts were not competitively bid. The City also awarded ten contracts to the City employee's brother without obtaining competitive bids. This could result in the City paying more for a contract than necessary since competitive bids were not obtained. This also results in a conflict of interest.

We recommend the City obtain bids for projects expected to be greater than \$150 before awarding contracts to a City employee or family members of a City employee. If the lowest bidder is someone other than the employee or family member, the lowest and best bid should be accepted. Documentation should also be maintained to indicate the lowest and best bid was accepted. Furthermore, we recommend that all contracts, even those less than the \$15,000 bidding requirement (\$10,000 prior to March 30, 1999) according to Ohio Rev. Code Sections 715.18, 735.05, 735.051, 735.052, and 735.053, be approved by Council.

4. Materials as Part of the Contract

During the audit period, the City awarded two contracts for repairs to City property to a City employee. The amount paid to the employee was for labor and materials, however, the estimates did not indicate which materials would be needed. The vouchers also did not contain invoices to support the amount paid for materials. This could result in the City paying more for materials than was necessary, had the City purchased the materials separately.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

We recommend the City obtain a list of materials to be used and an estimated price of the cost of materials from the contractor. If the contractor can purchase materials at a lower price than the City can, we recommend the City obtain an invoice from the contractor indicating the amount paid for materials. The contractor can be paid the agreed upon labor charge plus the invoice amount for materials. If the City can purchase the materials at a lower price than the contractor's estimate, we recommend the City purchase the materials and the contract be made for labor only.

5. Policy and Procedures Manual

The City does not have a policy and procedures manual governing the control of the activities of the City. A policy and procedures manual clearly outlines the specific authority and responsibility of individual employees, thus providing the essential foundation needed for establishing employee accountability. It also serves as a reference tool for employees seeking guidance on the less frequently encountered transactions and situations. In addition, a policies and procedures manual lessens the threat to continuity posed by employee turnover.

We recommend the City adopt a policy and procedures manual which includes policies and procedures over areas such as disbursements, awarding of contracts, hiring, promoting, evaluating and terminating of employees, and administering fundraisers. The manual could also include other topics that would benefit the City such as prohibited political activity, civil rights, equal employment, conflicts of interest, incompatibility of public offices, records commission, investment practices, sexual harassment, background checks, and job descriptions for all employment positions.¹⁵

6. Project Quotes

The City should obtain at least two quotes for all projects regardless of size to help ensure the City is making prudent business decisions.

The minutes should reflect all quotes received for each project and which quote was accepted upon the recommendation of the Mayor and Service Director and/or the Council.

¹⁵This comment is also addressed in Issue 1.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

ISSUE 9 - FUND RAISING ACTIVITIES

We reviewed fund raising activities conducted to benefit the Police Auxiliary and the Water Rescue Team for the period October 1, 1996 through September 30, 1999 ("the Period") to determine the accounting treatment of the monies raised for these organizations and whether the receipts were deposited in tact and in a timely manner in accordance with Ohio Revised Code Section 9.38.

PROCEDURES

1. We interviewed the Police Chief, Police Dispatcher, 1st. Assistant Fire Chief, former Water Rescue Team President, and five Council members to determine the types of fund raisers held during the Period.
2. We obtained copies of financial reports from the Police Chief and the Police Dispatcher for the fund raisers.
3. We determined the process of collecting and depositing monies raised from the fund raisers. We determined if any outside accounts existed.
4. We reviewed bank statements of outside accounts that were not on the City's financial records pertaining to fund raisers. We compared receipts collected for each fund raiser to amounts deposited to determine if all monies were deposited in tact.
5. We compared the date of the collections from the fund raisers to the date the monies were deposited in the bank to determine if all monies were deposited with the depository within 24 hours of receipt.

RESULTS

- 1 The results of our interviews disclosed the following:

- A. Interview with Tom Helm, 1st Assistant Fire Chief

On December 2, 1999, we interviewed Tom Helm concerning fund raisers of the Water Rescue Team. He stated that a haunted house fund raiser was held in October 1998, and a wrestling match fund raiser was held in October 1999. Mr. Helm stated he thought the records for the wrestling match were maintained by Sandy Kessler, Police Dispatcher.

Mr. Helm stated the Water Rescue Team opened an account at the Milton Banking Company for transactions related to the wrestling match, with Tom Helm, Bill Denny, and Sandy Kessler listed as signatories. After the bills were paid, any money remaining in the account was to be deposited with the City, and the account was to be closed. As of April 4, 2000, there was \$82 remaining in the account. Mr. Helm stated the balance of the account will be paid into the City treasury within the next week.

A separate account was opened at the First National Bank by Jim Boysel, a former member and President of the Water Rescue team. Mr. Boysel established this account using his personal social security number, rather than the City's identification number. As of April 4, 2000, Mr. Helm stated the Water Rescue Team was able to change this account whereby Bill Denny and himself are the signatories on the account, and Mr. Boysel's name was removed. Mr. Helm stated the balance in this account is currently \$183, and will be paid into the City treasury within the next week.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

B. Interview with Jim Boysel, former member of the Water Rescue Team

On December 7, 1999, we spoke with Jim Boysel by phone at his home, and asked for the records from the Water Rescue Team prior to the wrestling match. He stated that he did not have any records, and that he gave everything to Bill Denny, a member of the Water Rescue Team and a Volunteer Fireman for the City. We attempted to contact Mr. Denny, but was unable to reach him at his home.

We confirmed with Tom Helm on April 4, 2000, that records pertaining to the wrestling match are now in the possession of the Water Rescue Team.

C. Interview with Sandy Kessler, Police Dispatcher

We interviewed Sandy Kessler on December 2, 1999. She stated she had some of the records for the wrestling match, but had no records for events prior to the wrestling match. Ms. Kessler stated that Mr. Denny did have the wrestling match records, which he gave to Ms. Kessler, but these were the only records he had to present. She stated that fund raisers she had no records for included the haunted house from 1998, and a raffle of a bicycle at an area festival. She stated Mr. Boysel had these records. She stated that as a member of the Police Auxiliary, fund raisers were conducted for a haunted house held in 1996 and a circus in the summer of 1998, for which she and the Police Chief have the records.

D. Interview with Mark Jacobs, Police Chief

We interviewed Mark Jacobs on December 6, 1999. He had the records for the circus, but said the only records he had for the haunted house were bills that were paid with cash. He stated that he had no records for collections for the haunted house, except for the amounts turned into the City.

He stated that for the circus, volunteers collected money and issued circus tickets, but no ticket accountability forms were used. The cash was used to pay bills, such as supplies for the haunted house, pop, and food for the workers. Sandy Kessler was given any remaining funds which were then deposited with the City Treasurer. Ms. Kessler wrote a receipt when money was given to her, and the City Treasurer issued a receipt when the money was turned into the City.

E. Interviews with Councilmen - Chris Brenner, Tom Clark, David McWilliams, John Stabler, and Keith Woolum

We interviewed five Councilmen between November 11, 1999 and December 7, 1999 regarding fund raising activities of the Water Rescue Team and the Police Auxiliary. The other two members of Council were not interviewed since they were appointed to their positions in August and November 1999.

All five members of Council stated that a circus and haunted houses were fund raising activities of the Police Auxiliary, and that a wrestling match was a fund raising activity of the Water Rescue Team.

2. The records obtained and reviewed of outside accounts noted the following:

We received information from the Police Chief and the Police Dispatcher for Water Rescue Team and Police Auxiliary fund raisers. The records obtained for the Water Rescue Team fund raisers included wrestling match collection reports, bank statements for the Milton National Bank account, canceled checks, and deposit slips. The records obtained for the Police Auxiliary fund raisers included circus settlement sheets, receipts issued by the Police Department, pay-ins issued to the City Treasurer, and haunted house fund raiser bills from 1996.

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3. Our review of the process of collecting and depositing monies from fund raisers and review of bank statements of the outside accounts disclosed the following:

We contacted the First National Bank. The bank representative could not locate any account listed under the name of the City of Wellston and the Water Rescue Team. We were not able to provide the bank representative with an account number to check the status of this outside account further.

Water Rescue Team - Wrestling Match

The Water Rescue Team account at the Milton National Bank was opened on July 23, 1999 for the wrestling match fund raiser. Total receipts deposited from July 26, 1999 through December 7, 1999 amounted to \$11,527. Disbursements from the account totaled \$11,445, leaving an ending balance of \$82 as of March 2, 1999. Of the ten deposits made during this period, only one was not made in accordance with Ohio Rev. Code Section 9.38. Collections of \$735 on September 17, 1999 were not deposited until September 24, 1999.

Warrant No. 113 for \$900 issued on October 12, 1999, was made to "Cash" and signed by Tom Helm and Sandy Kessler. It was endorsed on the back by Sandy Kessler. When we asked Ms. Kessler why the check was issued in this manner, she stated the wrestlers had to be paid in cash on the night of the event, before they would enter the ring. While in her office, we conducted a conference call with the promoter, Mel Colburn. He was asked if he recalled the transaction. He stated he did, and that it was a normal process to pay the wrestlers in cash. Mr. Colburn stated he forgot to give Ms. Kessler a receipt, so he faxed one to her that reads, "I, Melvin Colburn, received \$900 on October 9, 1999, from Sandy Kessler for payment of wrestling show for Wellston Fire department Water Rescue." His signature on the faxed receipt matches the signature that are on the collection reports for the wrestling match he submitted to the Water Rescue Team.

Police Auxiliary - Haunted House 1996

The Police Chief and Police Dispatcher stated that all bills paid for this event were paid with cash. Any remaining monies were given to the City Treasurer. The Police Auxiliary maintained a revenue ledger for monies deposited with the City Treasurer. In October 1996, three deposits were made with the City Treasurer for \$3,554.

The bills were kept in a file maintained by the Police Chief. Thirty-four (34) bills were paid between September 1996 and November 1996 with cash totaling \$1,818. The largest expense listed was a donation to Donald Hartley in the amount of \$500 towards the purchase of a wheelchair. Other expenses included costs for items used in the haunted house, and food and snacks for the workers.

Police Auxiliary - Circus

The total amount paid into the City Treasurer for the circus amounted to \$2,376. On August 5, 1998, the City Treasurer issued pay-in No. 9170 for \$1,736, representing the Police Auxiliary share of advance ticket sales. On August 6, 1998, the City Treasurer issued pay-in No. 9171 for \$640, representing the Police Auxiliary share of gate sales.

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When reviewing Police Auxiliary records, the Carson and Barnes Circus Advance Ticket Settlement sheet and the Gate Ticket Settlement sheet did not agree to the amount paid into the City by \$130. The Police Chief called Christine Huff, a representative of the Carson and Barnes Circus, and she faxed a settlement sheet that contained the same information as that maintained by the Police Chief. Ms. Huff stated that discrepancies could exist between the settlement sheet and the amount paid in if not all money was collected for tickets sold, or tickets not sold were not returned. The Circus charges based on the number of tickets not returned regardless of the reason. The settlement sheet reflected the Police Auxiliary received a total of \$2,941 from the circus, but \$435 was subtracted due to advertising that was paid by the Police Auxiliary, leaving a net cash amount of \$2,506. The total amount paid into the City was \$2,376, leaving a shortage of \$130. We are unable to determine whether or not these were monies collected by the ticket sellers and not deposited into the City's bank account or whether the \$130 represent tickets which were not sold and were not returned to Carson and Barnes Circus. In the future, the Police Auxiliary should account for all the tickets sold or unsold to ensure all monies due to the City are deposited into the City's bank account.

CITATIONS

1. Ohio Rev. Code Section 9.38¹⁶ states that a public official other than a state officer, employee, or agent shall deposit all public monies received by the official with the Treasurer of the public office or with a properly designated depository once every 24 consecutive hours.

The collections made for the wrestling match fund raiser were deposited in a Water Rescue Team account at the Milton National Bank. During a review of the receipts, it was noted that collections made on September 17, 1999 were not deposited until September 24, 1999.

We recommend the City implement policies and procedures to ensure compliance with this State statute.

2. Ohio Revised Code Section 149.351 states all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Sections 149.38 to 149.42.

The Water Rescue Team members did not retain records in accordance with the aforementioned provisions. They could not provide us with any records related to the haunted house fund raiser conducted in October 1998, and the raffle of the bicycle at an area festival. The Police Auxiliary could not present us with forms to indicate the amount actually received at the haunted house fund raiser in 1996. Procedures should be formulated and a filing system should be established which provides the mechanism for all records created by the Water Rescue Team and Police Auxiliary to be filed and maintained.

¹⁶ This section was amended effective November 2, 1999. The amendment now allows public officials (other than a state officer, employee or agent) to deposit all public moneys received with the treasurer of the public office or properly designated depository on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official has the option of either depositing the money on the next business day following the day of receipt or adopting a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the monies until the time of deposit. If, however, the public official is governed by a legislative authority, only that legislative authority may adopt such a policy. This citation was also made in Issue 6 relating to Swimming Pool Collections.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT CITY OF WELLSTON

MANAGEMENT COMMENTS

1. Maintenance of Documents

Documents supporting the haunted house fund raiser in October 1998 and the raffle of a bicycle at an area festival could not be located by the Water Rescue Team members for our audit period. In addition, documents supporting collections for the haunted house fund raiser in 1996 were not available from the Police Auxiliary members. These documents are the support for the monies received and expended, and are an important part of the control process. The lack of such records provides no documentation for verifying the financial activity of the fund raiser. We recommend all documents supporting the receipt and expenditure of monies relating to any fund raising events of both the Water Rescue Team and the Police Auxiliary be generated and maintained by the City Treasurer and filed in the Treasurer's office. The Treasurer will then be able to prepare financial statement information for each fund raiser and report to Council.

2. Accountability Sheets

The Water Rescue Team and the Police Auxiliary do not use accountability sheets when collecting monies for fund raisers.

Accountability sheets should be used to document monies collected and disbursed for each fund raising event. A pre-numbered ticket should be used to evidence receipt of payment for participation in an event, and the accountability sheet should document the number of tickets sold, price per ticket, total sales collections, and total collections deposited with the City Treasurer. In addition, for events such as the Police Auxiliary's circus in which the unsold tickets must be returned to the vendor, the Police Auxiliary should compare the total number of tickets received minus those tickets sold to the tickets remaining to ensure all monies due to the Auxiliary for the fund raiser have been collected.

3. Outside Checking Accounts

A separate checking account was maintained by the Water Rescue Team for fund raising events. The bank statements were not available for our review. There was no authority given by Council to maintain the account, nor was there any requirement to provide a report of the activity in the account to Council.

We recommend that Council approve the establishment of outside checking accounts. Also, the Water Rescue Team should provide a detailed monthly report of the activity in the account to Council. If an account is going to remain in existence, or if fund raising events are going to continue for the Water Rescue Team, the activity in the account or the activity of the events conducted, need to be established on the books as a Water Rescue Team Special Revenue Fund.

4. Cash Transactions and the Establishment of a Checking Account

The Police Auxiliary conducts fund raising events without the use of a checking account. Bills are paid in cash, and excess monies collected from the events is given to the City Treasurer for deposit into the Police Auxiliary Fund on the City's books.

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If City Council authorizes the use of a separate checking account for fund raising events, the Police Auxiliary should provide a detailed monthly report of the activity in the account to Council. Additionally, all monies received and deposited into the account should be documented by an accountability sheet and all monies disbursed should be supported by an invoice with a check made payable to a vendor or service provider. Each check issued should have two signatories bearing the names of the President and the Treasurer of the Police Auxiliary.

5. Internal Audit Function

Periodic internal review of financial systems can identify deterioration or weaknesses in application and monitoring controls. Internal reviews should be a part of every organization's control structure. The internal review process is most often accomplished by use on an Internal Auditor.

Internal auditing is an independent appraisal activity within an organization that reviews operations as a service to management. It is a managerial control that functions by measuring and evaluating the effectiveness of other controls. The basic objective of internal auditing is to assist all members of management in the discharge of their responsibilities. The Internal Audit Department provides this assistance by furnishing management with analyses, appraisals, recommendations, and comments concerning the activities reviewed. Frequently, this involves going beyond accounting and financial records to obtain a full understanding of the operations under review.

The scope of an internal audit function should encompass the examination and evaluation of the adequacy and effectiveness of the City of Wellston's system of internal control and the quality of performance in carrying out assigned responsibilities including:

- Reliability and integrity of information;
- Compliance with policies, plans, procedures, laws, and regulations;
- Safeguarding assets;
- Economical and efficient use of resources; and
- Accomplishment of established objectives and goals for operations or programs.

The Internal Auditor should also coordinate the efforts and assist in the performance of the external audit. Effective Internal Audit Departments have historically reduced the cost of external audits.

City policy should clearly establish the responsibilities of the Internal Auditor within the organization. The City should expressly provide the Internal Auditor with the authority to obtain full access to all of the organization's records, properties, and personnel that could be relevant to the subject under review. The Internal Auditor should be free to review and appraise policies, plans, procedures, and records.

Internal Auditors have no direct responsibility or authority over any of the activities reviewed. Therefore, the internal audit review and appraisal process does not in any way relieve other people in the organization of the responsibilities assigned to them.

Independence is critical to the effectiveness of internal auditing. This independence is obtained primarily through organization status and objectivity. The status of the internal audit function within the organization and the support accorded to it by management are major determinants of its range and value. Therefore, the head of the internal audit function should report to a person or body whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of, and effective action on, the audit findings and recommendations. At the City of Wellston, we believe the reporting level should be to a committee comprised of the Mayor, Auditor, Treasurer, and Law Director.

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Objectivity is essential to the internal audit function. Therefore, an Internal Auditor should not develop and install procedures, prepare records, or engage in any other activity that he or she would normally review and appraise, or activities which could be reasonably construed to compromise his or her independence. The Internal Auditor's objectivity need not be affected adversely by determining and recommending the standards of control to be applied in the development of the systems and procedures being reviewed.

Internal Auditors should possess adequate knowledge of the audit process, and an education background appropriate to the audits they will perform. Experience as an External Auditor or an Internal Auditor of another organization is desirable. He or she should have experience working through others in a diverse, multi-disciplinary culture.

We recommend the City establish an internal audit function that contains the described characteristics.



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CITY OF WELLSTON

JACKSON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 20, 2000**