



**CITY OF WELLSTON
JACKSON COUNTY**

**AGREED-UPON PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2001**



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF WELLSTON
JACKSON COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS ON AGREED-UPON PROCEDURES

City of Wellston
Jackson County
203 East Broadway Street
Wellston, Ohio 45692

To the City Council:

We have performed the procedures enumerated below, which were agreed to by the officials of the City of Wellston, Jackson County, Ohio (the City), solely to assist you in reconciling the City Auditor's and City Treasurer's records with the depository balances, and to review expenditures, including debt payments, for proper fund classification. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. We have not audited the City's cash balances and, accordingly, do not express an opinion or any other form of assurance on them.

The procedures and associated findings, if any, are as follows:

- A. We compared audit adjustments affecting cash from the audit of the City's financial statements for the year ended December 31, 1999 with the City Auditor's and Treasurer's reconciliation as of December 31, 1999.

We noted the following exceptions:

Adjustments from the 1999 audit were made by the City Auditor in November, 2000. However, some of the adjustments were not made correctly, or in their entirety. The following adjustments from 1999 remained to be made by the City Auditor, and were made in May, 2001:

1. Reduce the Fund Balance of the CDBG Program Income Fund by \$0.04
2. Reduce the Pool Fund balance by \$13,749.53
3. Increase the State Fire Loss Fund balance by \$8,000.00

- B. We reconciled the City Auditor's records to the City Treasurer's records as of May 31, 2001. Our reconciliation procedures included the following:

1. We compared each bank deposit to the corresponding City Auditor's Receipt Warrant. These amounts were then compared to the Revenue Audit Trail Report for proper posting as to fund and amount.

B. (Continued)

2. We compared each check to the City Auditor's Expense Audit Trail Report for proper posting as to fund and amount.
3. We reconciled each month from January, 2000 through May, 2001, carrying forward the necessary reconciling items.

As a result of steps B.1 - B.3, we proposed the following adjustments, which were made to the City Auditor's records as of May 31, 2001:

Fund Name (Number)	1999 Adjustment	2000 Adjustment	2001 Adjustment	Net Adjustment
General Fund (101)		(\$8,194.76)	\$12,905.13	\$4,710.37
Fire Fund (201)		(1,709.64)	(1,606.75)	(3,316.39)
Street Fund (202)		(799.48)	(1,150.00)	(1,949.48)
Cemetery Fund (203)		(1,523.19)	506.34	(1,016.85)
Recreation Fund (204)	\$198.00			198.00
CDBG Program (208)	(0.04)	142.79	375.07	517.82
UDAG (209)		(100.00)	655.65	555.65
Sales Tax Fund (210)			(338.00)	(338.00)
Street Levy Fund (211)		(2,888.61)	252.30	(2,636.31)
CDBG Loan (213)		615.18	3,178.86	3,794.04
DARE Fund (220)			100.00	100.00
Housing Grant (222)		(2,507.25)	(9,572.00)	(12,079.25)
CHIS Program (225)		(5,800.00)		(5,800.00)
Kuppenheimer Fund (405)	4,500.00			4,500.00
Water Fund (601)		(5,885.53)		(5,885.53)
Water Meter Fund (605)		41.01		41.01
Sewer Fund (606)	3,500.00	(5,108.84)	21,986.20	20,377.36
Garbage Fund (611)		(3,269.30)		(3,269.30)
Pool Fund (614)	(13,749.53)	(2,250.47)		(16,000.00)
State Fire Loss (702)	8,000.00			8,000.00
	=====	=====	=====	=====
Grand Totals:	\$2,448.43	(\$39,238.09)	\$27,292.80	(\$9,496.86)

B. (Continued)

We summarized the net effect of the proposed adjustments:

Fund Name (Number)	Fund Balance per City Auditor's Statement of Cash Position	Net Adjustment	Adjusted Fund Balances May 31, 2001
General Fund (101)	(\$80,587.66)	\$4,710.37	(\$75,877.29)
Fire Fund (201)	(23,187.59)	(3,316.39)	(26,503.98)
Street Fund (202)	30,089.13	(1,949.48)	28,139.65
Cemetery Fund (203)	(26,270.71)	(1,016.85)	(27,287.56)
Recreation Fund (204)	12,574.96	198.00	12,772.96
CDBG Program (208)	59,075.10	517.82	59,592.92
UDAG (209)	109,962.16	555.65	110,517.81
Sales Tax Fund (210)	(9,321.24)	(338.00)	(9,659.24)
Street Levy Fund (211)	65,074.27	(2,636.31)	62,437.96
CDBG Loan (213)	41,478.16	3,794.04	45,272.20
DARE Fund (220)	576.13	100.00	676.13
Housing Grant (222)	13,370.73	(12,079.25)	1,291.48
CHIS Program (225)	0.00	(5,800.00)	(5,800.00)
Kuppenheimer Fund (405)	(1,566.83)	4,500.00	2,933.17
Water Fund (601)	48,622.40	(5,885.53)	42,736.87
Water Meter Fund (605)	191,601.48	41.01	191,642.49
Sewer Fund (606)	(134,631.40)	20,377.36	(114,254.04)
Garbage Fund (611)	45,781.53	(3,269.30)	42,512.23
Pool Fund (614)	(3,088.99)	(16,000.00)	(19,088.99)
State Fire Loss (702)	272.11	8,000.00	8,272.11
	=====	=====	=====
Grand Totals:	\$339,823.74	(\$9,496.86)	\$330,326.88

In addition to the negative fund balances noted above, the City also has a negative balance as of May 31, 2001 in the McNally Fund - 218, (\$24,183.11), for which we did not propose an adjustment.

B. (Continued)

We compared each check to the bank statements to determine if the check had cleared. We summarized checks dated prior to June 1, 2001 per the City Auditor's Expense Audit Trail Report and compared to the City Treasurer's outstanding check list. The differences noted were reviewed with the Treasurer, and corrections made to the outstanding check list as of May 31, 2001.

The following is the net adjustment, by fund, of the adjustments made to the Treasurer's outstanding check list at May 31, 2001:

Fund Name (Number)	Treasurer's Outstanding Checks	Outstanding Checks per the Auditor of State	Net Adjustment
General Fund (101)	\$9,729.25	\$9,629.25	(\$100.00)
Fire Fund (201)	479.22	454.22	(25.00)
Street Fund (202)	3,480.41	2,330.41	(1,150.00)
Cemetery Fund (203)	1,559.37	1,559.37	0.00
Recreation Fund (204)	275.11	281.11	6.00
Sales Tax (210)	4,460.13	2,310.13	(2,150.00)
Depot Fund (219)	0.00	100.00	100.00
Water Fund (601)	8,720.68	8,931.93	211.25
Water Meter Fund (605)	420.11	336.76	(83.35)
Sewer Fund (606)	5,404.14	5,030.39	(373.75)
North Sewer (610)	0.00	2,150.00	2,150.00
Garbage Fund	2,670.54	2,601.79	(68.75)
Pool Fund	11.14	11.14	0.00
	=====	=====	=====
Grand Totals:	\$37,210.10	\$35,726.50	(\$1,483.60)

We noted the following exceptions in the City's reconciliation procedures/process:

1. There was no evidence that monthly reconciliations had been performed between the City Auditor's and City Treasurer's cash records from January, 2000 through May, 2001.
2. There was no evidence the City Treasurer provided the City Auditor with a copy of the outstanding check list or bank statements each month.

B. (Continued)

Exceptions (Continued)

3. There was no evidence the City Auditor provided the City Treasurer with a copy of the detail revenue and expenditure reports each month.
4. A regular monthly format should be followed by both the Auditor's office and the Treasurer's office to ensure each is provided with the information necessary to reconcile the financial records of the City. We provided a format to these offices that other cities use to reconcile cash.
5. After the Auditor and Treasurer have reconciled their financial records, a detailed copy should be reviewed by the City's Finance Committee and/or City Council. A notation should be made on the reconciliation by the person(s) reviewing, and the date reviewed. A notation should also be made in the Minutes to this end.

The detailed copy should include adequate support for all items on the reconciliation. These detailed items should include the bank statements, the outstanding check list, the fund balance reports, and other reconciling items such as interest not yet credited to funds, deposits-in-transit, NSF checks, or other bank activity.

These comments, as well as some of the following, had been mentioned to the City in the prior audit management letter.

RECOMMENDATIONS

The following are recommendations to aid the Treasurer's office:

1. Provide the Auditor with accurate, complete, and timely information. This information would include all bank statements, credit, debit, and non-sufficient funds (NSF) memos, and the outstanding check list.
2. Correct, and accurately maintain, the outstanding check list. For the "old" (greater than 6 months) outstanding checks, copy these on to one sheet and use it monthly, revised as necessary. Then, use a separate sheet to list the current outstanding checks. This will reduce both the time involved and the chance for errors.
3. Reconcile all bank deposits and other credits to the receipts. Each deposit/credit on the bank statement should be identified as to its source so it can be credited to the proper fund when booked.
4. Provide the Auditor, on a timely basis, any activity generated by the bank that appears on the monthly statements. Examples might include NSF checks or regular checks and deposits that do not agree with the source document, plus an outstanding check list.

RECOMMENDATIONS (Continued)

B. (Continued)

5. Consider utilizing the existing computer systems to their fullest advantage. With proper input, the City's computerized financial accounting system would generate outstanding check lists. This could save time and reduce errors.
6. Make all bank transfers by debit / credit memo. If a check is used when just moving funds from one account to another, it will overstate disbursements and receipts in the funds involved.

The following are recommendations to aid the Auditor's office:

1. Provide the Treasurer with accurate, complete, and timely information.
2. Promptly post the adjustments described in this report. Without correct fund balances, it is impossible to reconcile to the bank, and to provide accurate information to the City so that it can make informed financial decisions.
3. Reconcile all computer entries to the source documents, at the time they are entered. As an example, when receipts are being entered, separately add the receipts to be entered, then compare that total with the "batch" total generated by the computer. The "batch" entry should then be reviewed and the receipts footed by another person to ensure amounts are correct. The reviewing person should indicate their approval by signing/initialing and dating the "batch" report. A copy of the "batch" report should be maintained with the source documents. The same type of procedure should be applied to disbursements.
4. Limit "hand-typed" checks to the minimum. Several errors were noted concerning the hand-typed checks including, but not limited to, checks not being entered into the system at all, or incorrect amounts being entered. A follow-up list should be maintained to provide accountability for the "hand-typed" checks.
5. Several checks from the Community Housing Improvement Account were not entered into the City's records. Follow-up procedures should be developed to ensure these checks are entered into the system.

- C. We reviewed the debt agreements and the related expenditures for the period of January 1, 1999 through July 31, 2001 to determine from which fund the various debt issues were paid. There was concern by the City that debt payments may not have been made from proper funds, thereby reducing some fund balances unnecessarily.

As a result of our debt payment review, we found that some debt payments should have been made from funds other than where they have been made.

C. (Continued)

We propose the following fund balance adjustments:

Fund Name (Number)	July 31, 2001 Balance	Proposed Adjustment	July 31, 2001 Adjusted Balance
Fund 401 - Water System Renovation	\$(250.00)	\$250.00	\$0.00
Fund 601 - Water Fund	58,070.50	44,619.00	102,689.50
Fund 602 - North Water Capital Improvement	107,708.04	(80,860.38)	26,847.66
Fund 606 - Sewer Fund	(107,043.56)	116,550.88	9,507.32
Fund 610 - North Sewer Capital Improvement	242,475.33	(80,559.50)	161,915.83

The above adjustments, if made by the City, will have the effect of eliminating negative fund balances in the Water System Renovation Fund and the Sewer Fund at July 31, 2001.

The following exceptions were noted in the City's debt payments:

1. There were no apparent budgetary procedures in force to accumulate monies in proper funds for payment of debt obligations.
2. Water debt was sometimes paid from sewer funds; Sewer debt was sometimes paid from water funds.

RECOMMENDATIONS

The following are recommendations concerning debt payments:

1. To aid in budgeting for debt payments and for easier reference to when they are due, the City should establish a debt payment schedule after carefully reviewing all debt. The schedule might include the name of the debt, the debt originator, purpose of the debt, frequency of payments, amount of payments, source of debt retirement monies, and fund(s) to be paid from.
2. Ensure all loans are properly budgeted when preparing the annual City budget.
3. Establish, and enforce, procedures to accumulate funds in a sufficient and timely manner to make the required debt payments.

D. In performing the above stated agreed up-on procedures, the following exceptions were noted regarding the City's expenditures from various funds:

1. There did not appear to be a clear understanding of the purpose for each fund, or the sources and uses of monies for/from each fund. A clear understanding of fund requirements would help prevent expenditures from improper or illegal funds.
2. At July 31, 2001, the City had a total of (\$300,122.92) in negative fund balances. If the aforementioned adjustments are made for the debt payments, the City's total negative fund balances would be (\$183,322.04). The General Fund represents (\$95,902.12) of both amounts. Negative fund balances indicate a lack of budgetary review, and have allowed for monies which are restricted by law, ordinance, or resolution, to be expended for purposes other than intended.
3. During the period of January 1, 2000 through July 31, 2001, the City has averaged expending \$18,997.58 per month more than it has received. For the period of January 1, 2001 through July 31, 2001, the City has expended (\$441,371.36) more than it has received - four times as much as the same period during the year 2000 (\$110,526.08).

The City's net cash at July 31, 2001 (total fund balances reduced by the permanent investment, cemetery perpetual care, water meter deposits, street levy, CDBG, UDAG, FEMA, sewer reserve, and the health insurance reserve funds, minus the debt payment due on August 1, 2001) is \$93,525.08. At the current rate of deficit spending, the City will have no cash by December 31, 2001.

RECOMMENDATION

The City must reduce current spending, and comply with the budgetary provisions of Chapter 5705, Ohio Rev. Code. The City must carefully monitor the budget and actual receipts and disbursements.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the City's cash reconciliations and fund cash balances. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City Auditor, Treasurer, Council and the Finance Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

August 10, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
OCTOBER 18, 2001**