



**CITY OF ONTARIO  
RICHLAND COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**



CITY OF ONTARIO  
RICHLAND COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants .....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances All Governmental Fund Types and Expendable Trust Fund For the Year Ended December 31, 2001 .....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances Proprietary and Similar Fiduciary Fund Types For the Year Ended December 31, 2001 .....	4
Notes to the Financial Statements .....	5
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	15
Schedule of Findings.....	17

**This page intentionally left blank.**



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 Second Street, NW  
Fourth Floor  
Canton, Ohio 44702  
Telephone 330-438-0617  
800-443-9272  
Facsimile 330-471-0001  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

City of Ontario  
Richland County  
555 Stumbo Road  
Mansfield, Ohio 44906

To the City Council:

We have audited the accompanying financial statements of the City of Ontario, Richland County, Ohio, (the City) as of and for the year ended December 31, 2001. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the City prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the City as of December 31, 2001, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, City Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

**Jim Petro**  
Auditor of State

August 8, 2002

**CITY OF ONTARIO  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts:</b>						
Property and Permissive Sales Taxes	\$423,704	\$177,070			\$66,908	\$667,682
Intergovernmental	237,885	92,330			5,088	335,303
Special Assessments			\$42,183			42,183
Charges for Services		11,845				11,845
Fines, Licenses, and Permits	244,860	13,000		\$42,033		299,893
Earnings on Investments	634,465	9,662				644,127
Miscellaneous	80,748	31,024			2,117	113,889
<b>Total Cash Receipts</b>	<b>1,621,662</b>	<b>334,931</b>	<b>42,183</b>	<b>42,033</b>	<b>74,113</b>	<b>2,114,922</b>
<b>Cash Disbursements:</b>						
Current:						
Security of Persons and Property	1,493,091				143,097	1,636,188
Public Health Services		7,620				7,620
Leisure Time Activities	81,565	31,728				113,293
Community Environment	19,692	48,143			4,884	72,719
Basic Utility Services	4,847					4,847
Transportation	71,304	1,129,784				1,201,088
General Government	933,882	9,186				943,068
Debt Service:						
Principal Payments			70,200	3,632,524		3,702,724
Interest Payments			6,492	172,460		178,952
Capital Outlay				909,521		909,521
<b>Total Cash Disbursements</b>	<b>2,604,381</b>	<b>1,226,461</b>	<b>76,692</b>	<b>4,714,505</b>	<b>147,981</b>	<b>8,770,020</b>
<b>Total Cash Receipts Under Cash Disbursements</b>	<b>(982,719)</b>	<b>(891,530)</b>	<b>(34,509)</b>	<b>(4,672,472)</b>	<b>(73,868)</b>	<b>(6,655,098)</b>
<b>Other Financing Receipts/(Disbursements):</b>						
Collection of Bonds				34,052		34,052
Collection of Loans	27,336					27,336
Proceeds of Notes				3,001,327		3,001,327
Transfers-In	1,507,267	1,155,475	12,882	1,837,283	72,883	4,585,790
Transfers-Out	(447,208)					(447,208)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>1,087,395</b>	<b>1,155,475</b>	<b>12,882</b>	<b>4,872,662</b>	<b>72,883</b>	<b>7,201,297</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	104,676	263,945	(21,627)	200,190	(985)	546,199
Fund Cash Balances, January 1	1,725,871	2,390,794	115,991	6,310,397	52,311	10,595,364
<b>Fund Cash Balances, December 31</b>	<b>\$1,830,547</b>	<b>\$2,654,739</b>	<b>\$94,364</b>	<b>\$6,510,587</b>	<b>\$51,326</b>	<b>\$11,141,563</b>
Reserves for Encumbrances, December 31	\$279,605	\$84,934	\$0	\$573,946	\$163	\$938,648

The notes to the financial statements are an integral part of this statement.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$1,185,471		\$1,185,471
Income Taxes		\$4,157,906	4,157,906
Miscellaneous	5,498		5,498
	<u>1,190,969</u>	<u>4,157,906</u>	<u>5,348,875</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	319,001		319,001
Contractual Services	599,187		599,187
Supplies and Materials	108,178		108,178
Capital Outlay	44,263		44,263
	<u>1,070,629</u>	<u>0</u>	<u>1,070,629</u>
Operating Income	<u>120,340</u>	<u>4,157,906</u>	<u>4,278,246</u>
<b>Non-Operating Cash Receipts:</b>			
Other Non-Operating Cash Receipts		296,012	296,012
<b>Non-Operating Cash Disbursements:</b>			
Other Non-Operating Cash Disbursements	5,150	293,236	298,386
Excess of Cash Receipts Over Cash Disbursements Before Interfund Transfers	115,190	4,160,682	4,275,872
Transfers-In	19,324		19,324
Transfers-Out		(4,157,906)	(4,157,906)
Net Cash Receipts Over Cash Disbursements	134,514	2,776	137,290
Fund Cash Balances, January 1	<u>938,328</u>	<u>28,183</u>	<u>966,511</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$1,072,842</u></b>	<b><u>\$30,959</u></b>	<b><u>\$1,103,801</u></b>
Reserves for Encumbrances, December 31	<u>\$49,722</u>	<u>\$0</u>	<u>\$49,722</u>

*The notes to the financial statements are an integral part of this statement.*



**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

As a result of the 2000 census, Ontario, formerly known as the Village of Ontario became the City of Ontario. The City of Ontario, Richland County, Ohio, (the City) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City is directed by a publicly-elected eight-member Council. The City provides general government services, including water and sewer utilities, park operations (leisure time activities), police services and a mayor's court. Springfield Township provides fire protection services to the City.

The City's management believes these financial statements present all activities for which the City is financially accountable.

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit and repurchase agreements are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**D. Fund Accounting**

The City uses fund accounting to segregate cash and investments that are restricted as to use. The City classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The City had the following significant Special Revenue Fund:

*25% Street Construction and Maintenance Fund* - This fund receives 25% of the City's income tax revenues for constructing, maintaining and repairing City streets.

**3. Debt Service Funds**

These funds are used to accumulate resources for the payment of bond and note indebtedness. The City had the following significant Debt Service Fund:

*Bond Retirement Fund* - This fund is used to accumulate resources for the payment of principal and interest on the City's special assessment water and sewer bonds.

**4. Capital Projects Funds**

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The City had the following significant Capital Projects Fund:

*40% Capital Improvements Fund* - This fund receives 40% of the City's income tax revenues for the construction and maintenance of capital items.

**5. Enterprise Funds**

These funds are used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The City had the following Enterprise Funds:

*Water Fund* - This fund receives charges for services from residents to cover the cost of providing water service.

*Sewer Fund* - This fund receives charges for services from residents to cover the cost of providing sewer service.

**6. Fiduciary Funds (Trust and Agency Funds)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the City to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the City is acting in an agency capacity are classified as agency funds. The City had the following significant fiduciary fund:

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**6. Fiduciary Funds (Trust and Agency Funds - Continued)**

*Income Tax Fund* - This agency fund is used to record the collection of self-assessed taxes and the distribution to various other funds in accordance with City ordinances.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. City Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the City to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2001 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave is not reflected as a liability under the City's basis of accounting.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The City maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2001</u>
Demand deposits	<u>\$95,672</u>
Certificates of deposit	<u>7,508,988</u>
Total deposits	<u>7,604,660</u>
STAR Ohio	1,220,704
Sweep repurchase agreement	<u>3,420,000</u>
Total investments	<u>4,640,704</u>
Total deposits and investments	<u><u>\$12,245,364</u></u>

**Deposits:** Deposits are either insured by the Federal Depository Insurance Corporation, collateralized by securities specifically pledged by the financial institution to the City or collateralized by the financial institution's public entity deposit pool.

**Investments:** STAR Ohio is not evidenced by securities that exist in physical or book-entry form. The sweep repurchase agreement is an uninsured and unregistered investment for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2001 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,035,000	\$3,156,265	\$121,265
Special Revenue	1,326,600	1,490,406	163,806
Debt Service	70,500	55,065	(15,435)
Capital Projects	5,050,000	4,914,695	(135,305)
Enterprise	1,200,000	1,210,293	10,293
Fiduciary	4,364,000	4,304,902	(59,098)
Total	\$15,046,100	\$15,131,626	\$85,526

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,824,471	\$3,331,194	\$493,277
Special Revenue	1,514,177	1,311,395	202,782
Debt Service	77,692	76,692	1,000
Capital Projects	7,604,649	5,288,451	2,316,198
Enterprise	1,477,429	1,125,501	351,928
Fiduciary	4,370,841	4,306,050	64,791
Total	\$18,869,259	\$15,439,283	\$3,429,976

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the City Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the City.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the City.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**5. LOCAL INCOME TAX**

The City levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the City as well as certain income of residents earned outside of the City.

Employers within the City withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**6. DEBT**

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water System Improvement Bond Anticipation Note	\$3,000,000	2.25%
Ohio Publics Works Commission	33,074	0.00%
Park Land Acquisition Bonds	335,000	0.00%
Special Assessment Bonds:		
Lewis Road Bonds, Series 1997	21,600	5.00%
Sanitary Sewer Improvement Bonds, Series 1993	18,000	4.25%
Sewer Improvement Bonds, Series 1992	6,000	5.75%
Sewer Improvement Note	<u>146,337</u>	6.81%
Total	<u><u>\$3,560,011</u></u>	

The Special Assessment Bonds were issued for various water and sewer improvement projects. Special assessments are collected from property owners to repay these bonds in annual installments. These bonds have various final maturity dates, ranging from 2002 through 2007. These bonds are collateralized by the special assessment taxing and general taxing authority of the City.

The City issued a \$3 million Water System Improvement Bond Anticipation Note, Series 2001, dated October 23, 2001, bearing interest at the rate of 2.25% per year, payable at maturity on October 23, 2002, in anticipation of bonds for the purpose of paying costs of constructing and equipping an addition to the City water treatment plant, and constructing an elevated water storage tank, together with all necessary appurtenances to each. This note is collateralized by the general taxing authority of the City.

The Ohio Public Works Commission loan was entered into during July 2000 to finance improvements to the Water Treatment Plant. This loan will be repaid in semi-annual installments of \$918, with no interest, through January of 2020. The loan is collateralized by water and sewer receipts. The City has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**6. DEBT (Continued)**

The Park Land Acquisition Bonds were issued during May 2000 by the City to four individuals for the purpose of acquiring real property adjacent to Marshall Park for recreational use. The bonds will be repaid in annual installments of \$134,000, with no interest. However, one individual has not redeemed his bonds in 2001 or 2000. Therefore, there is \$67,000 of bonds that have matured but have not been redeemed. Final maturity will be in 2003. These bonds are collateralized by the general taxing authority of the City.

The Sewer Improvement Note was entered into during June 1988 in order to equalize the investment between the City of Mansfield sewer users and the City of Ontario sewer users for those improvements made by the City of Mansfield to its treatment plant and collection system as such benefits the City of Ontario. The note will be repaid in semiannual principal and interest installments, through December 2006. The note is collateralized by utility receipts. The City has agreed to set utility rates sufficient to cover the debt service requirements.

Amortization of the above debt, including interest, is scheduled as follows:

Year Ending December 31	OPWC Loans	Park Land Acquisition Bonds	Special Assessment Bonds	Sewer Improvement Note	Water System Improvement Note
2002	\$1,837	\$201,000	\$20,790	\$38,735	\$3,067,500
2003	1,837	134,000	13,883	36,742	0
2004	1,837	0	4,320	34,748	0
2005	1,837	0	4,140	32,755	0
2006	1,837	0	3,960	30,762	0
2007-2011	9,185	0	3,780	0	0
2012-2016	9,185	0	0	0	0
2017-2020	5,519	0	0	0	0
Total	<u>\$33,074</u>	<u>\$335,000</u>	<u>\$50,873</u>	<u>\$173,742</u>	<u>\$3,067,500</u>

The City has entered into three lease-purchase agreements for copy machines. The leases are with the Gordon Fleisch Company, the Kissinger Company, and Xerox for monthly payments of \$195, \$145, and \$422, respectively. The total value of the three copy machines is \$41,502.

**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**6. DEBT (Continued)**

Amortization of the lease payments, including interest, is scheduled as follows:

<u>Year Ending December 31</u>	<u>Copier Leases</u>
2002	\$7,785
2003	6,810
2004	6,810
2005	<u>3,695</u>
Total	25,100
Less Interest	<u>(2,209)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$22,891</u></u>

**7. RETIREMENT SYSTEMS**

The City's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time and part-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. OP&F participants contributed 10% of their wages. The City contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The City contributed an amount equal to 13.55% of participants' gross salaries. The City has paid all contributions required through December 31, 2001.

**8. RISK MANAGEMENT**

The City has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Stop gap liability
- Public officials' liability
- Law enforcement liability
- Employment practices liability

The City also provides health insurance (including cost-share prescription), dental and vision coverage to full-time employees through Medical Mutual of Ohio.



**CITY OF ONTARIO  
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(Continued)**

**9. CASH IN SEGREGATED ACCOUNTS**

The following escrow account at Richland Bank is used to hold retainage funds from contractors until completion of projects in accordance with various City and Contractor agreements.

Account balance as of December 31, 2001 was as follows:

Retainage Account	\$37,970
-------------------	----------

This account is not included in the cash fund balances on the accompanying financial statements.

**10. LOANS RECEIVABLE**

On June 14, 1996, the City loaned \$225,000 to Crane Plumbing (a private company) for the purpose of acquiring equipment. The Company is repaying the loan in monthly installments of \$2,278, including interest of 4%, over 10 years. As of December 31, 2001, the loan had a principal balance of \$112,406. Final maturity on this loan will be in 2006.

**11. CONTINGENT LIABILITIES**

The City is a defendant in a lawsuit. Although the outcome of this suit is not presently determinable, management believes that the resolution of this matter will not materially adversely affect the City's financial condition.

**12. SUBSEQUENT EVENT**

On January 17, 2002, the City awarded a contract in the amount of \$799,041 for the initial (design and construction) phase of the Marshall Park Improvements Project. The anticipated completion date of this phase is October 27, 2002.

**This page intentionally left blank.**



**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

111 Second Street, NW  
Fourth Floor  
Canton, Ohio 44702  
Telephone 330-438-0617  
800-443-9272  
Facsimile 330-471-0001  
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Ontario  
Richland County  
555 Stumbo Road  
Mansfield, Ohio 44906

To the City Council:

We have audited the accompanying financial statements of the City of Ontario, Richland County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 8, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2001-20570-001 and 2001-20570-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 8, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

August 8, 2002

**CITY OF ONTARIO  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2001**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2001-20570-001**

**Reportable Condition**

**Use of Credit Cards**

We noted the following issues regarding the use of City credit cards during our audit:

- The City has provided, at least 10, credit cards to various City officials. However, a written policy addressing controls and usage of these credits cards does not exist.
- During 2001, D. Daniel Kreisher, Mayor, charged \$4,159.49 to a City credit card for a personal vacation to Walt Disney World. The Mayor subsequently made a cash payment of \$80 directly to the bank on the account on November 30, 2001. A finance charge of \$51.03 was assessed to the account on December 5, 2001. As of December 31, 2001, there was an outstanding balance due of \$4,130.52. Subsequent to year end, there was an additional \$251.86 of finance charges and \$90 of late fees assessed to the account. The bank automatically debited the City's general checking bank account in the amounts of \$253 and \$165 on February 21, 2002 and April 26, 2002, respectively, because the minimum payment was not received by the due date. The Mayor made another cash payment of \$165 directly to the bank on the credit card account on April 25, 2002. On May 20, 2002, the Mayor made a cash deposit of \$418 directly to the bank to the City's general checking bank account to reimburse for the debit memos of February 21, 2002 and April 26, 2002. In addition on May 20, 2002, the Mayor made a cash payment of \$3,889.38 directly to the bank to pay off the remaining outstanding balance.
- The Mayor received the credit card statements directly from the mail. We requested original credit card statements, for the Visa account used by the Mayor, from November, 2001 through June, 2002; however, only two original monthly credit card statements were provided.
- We requested supporting documentation for the cash payment made by the Mayor directly to the bank on the credit card account; however, the Mayor could not provide supporting documentation for the cash payments on November 30, 2001 and April 25, 2002.
- A review of other credit card transactions revealed that employees did not maintain detailed itemized receipts for meals charged to credit cards while attending training.
- A review of selected credit card statements revealed that the City was assessed late charges on two statements for not remitting payment for the balance due.
- There are multiple cards for some of the credit card accounts; however, there is no control over who has possession of these cards.

**FINDING NUMBER 2001-20570-001  
(Continued)**

**Reportable Condition (Continued)**

Permitting the use of direct bill City credit cards allows expenses to be made which are not related to the operation of the City.

We recommend the City discontinue permitting the use of direct bill credit cards issued in the name of the City by City officials or employees. City-related expenses incurred by individuals on behalf of the City should be reimbursed to the individual following completion and approval of an expense reimbursement form and upon submission of appropriate supporting documentation to support that the expense incurred was for a purpose related to the operation of the City.

Should the City desire to continue using direct bill City credit cards issued in the name of the City, the City should pay the monthly credit card balances off timely in order to avoid finance charges and late charges. Additionally, the City Council should establish and formally adopt a written credit card policy and related formal administrative procedures. The policy and procedures should include, but not be limited to the following:

- Normal purchasing procedures should be used, whenever possible, instead of using credit cards;
- Council should authorize all credit card accounts which are opened. In addition, Council should limit the number of accounts and cards to those that are necessary for operation of the City;
- City Council should establish and approve credit limits on all credit cards;
- Identify individuals authorized to use the credit cards;
- Prohibit the use of City credit cards by unauthorized individuals or for personal use;
- A designate custodian should maintain documentation as to which employees have been issued or are in the possession of a credit card;
- Identify the types of charges allowable and maximum amounts per charge, require purchase orders for all credit card transactions and establish maximum gratuities permitted;
- Adopt procedures as to proper supervisory approval of credit card purchases;
- A standard form should be created and used to estimate credit card expenditures and should be submitted for approval prior to using the credit card;
- Require all purchases made with credit cards be supported by a receipt or other supporting documentation;
- Detailed itemized receipts should be required to be maintained for any meal purchases;
- Limitations should be placed on travel expenses such as:
  1. an estimate of travel expenses must be submitted and approved prior to the travel;
  2. maximum amounts for in state and out of state lodging;

**FINDING NUMBER 2001-20570-001  
(Continued)**

**Reportable Condition (Continued)**

3. maximum amounts for meals and gratuities;
  4. allowability of charging sales taxes, alcohol, entertainment, personal expenses, etc. and procedures for reimbursing unallowed expenses, if applicable;
- Require all credit card expenditures be reviewed by City Council to ensure the purchases are related to the operations of the City;
  - Balances on credit card charges should be paid off monthly to avoid any finance charges or late fees.

**FINDING NUMBER 2001-20570-002**

**Reportable Condition**

**Payroll**

City Ordinance 99-4 states in part that the compensation of the Mayor and certain elected officials shall be payable bi-monthly. Past practice has been that these officials have been paid on the 15<sup>th</sup> and last day of the month.

During 2001, we noted 13 pay periods in which payroll checks cleared the bank prior to the actual check date. On four of these pay periods, only the Mayor's payroll check was cashed early, ranging from one day to eight days prior to the check date. Because the checks cleared the bank prior to the actual date on the check, this indicates a City Official distributed these payroll checks prior to the actual check date. During fiscal year 2002 through June 14, there were 11 pay periods in which certain payroll checks cleared the bank prior to the actual check date. On nine of these pay periods, only the Mayor's payroll check was cashed early, ranging from one day to eight days prior to the check date. In addition, on two of these occasions, the actual date on the check was manually altered by someone.

Providing payroll checks prematurely to officials/employees represents a substandard financial management practice. Additionally, distributing payroll checks early could allow for these checks to be returned for insufficient funds, individuals to receive payroll before they have actually earned it, or overpayment of payroll.

We recommend that payroll checks be distributed to all individuals on the actual check date. If there are occasions which require checks to be distributed early, Council should adopt an appropriate policy and procedure for these occasions.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF ONTARIO**

**RICHLAND 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  
SEPTEMBER 17, 2002**