



Mary Taylor, CPA  
Auditor of State

CITY OF WELLSTON  
PERFORMANCE AUDIT

MAY 20, 2010



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Auditor of State

To the Residents, City Council, Administration, and Financial Planning and Supervision Commission for the City of Wellston:

In accordance with Ohio Revised Code §118.023 and based on the Fiscal Emergency declaration of October 1, 2009, a performance audit was initiated for the City of Wellston (City), beginning in November 2009. The functional areas assessed in the performance audit were Financial Management and Governance, Human Resources, Safety Services; and Public Works and Services. These areas were selected because they are important components of City operations that support its mission of local government, and because improvements in these areas can assist in improving the City's financial condition.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of the City's financial situation and a framework for its financial recovery. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the City is also encouraged to assess overall operations and develop other alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the fiscal emergency designation; a district overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, issues for further study and financial implications. This report has been provided to the City of Wellston, and its contents discussed with appropriate officials and the Financial Commission. The City has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed on the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

May 20, 2010





# Executive Summary

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## Project History

As provided by the Ohio Revised Code (ORC) § 118.021 and 118.04(A), the Ohio Office of Budget and Management requested that a fiscal analysis be performed by the Auditor of State's Office (AOS). Based on the Local Government Services (LGS) Division of AOS analysis, the AOS certified the City had a treasury deficit of \$588,915 as of December 31, 2008, and \$623,915 as of June 30, 2009 and subsequently placed the City of Wellston (the City) in fiscal emergency on October 1, 2009 per ORC § 118.03 (A)(5) and 118.03 (B). To assist entities in improving their financial condition and assist in removing them from fiscal emergency status, ORC § 118.023 permits AOS to provide technical and support services to municipalities in fiscal emergency. In accordance with this authority and at the request of the Chairman of the Financial Planning and Supervision Commission (the Commission),<sup>1</sup> a performance audit was initiated in the City of Wellston.

Based on preliminary research, the following areas were assessed in the performance audit:

- Financial Management and Governance;
- Human Resources;
- Safety Services; and
- Public Works and Services.

Audit work concluded in February 2010. The goal of the performance audit process was to assist the City of Wellston and the Commission in identifying opportunities for cost savings and improving management practices. The recommendations included in this report provide options that the City should consider in its continuing efforts to improve and stabilize its long-term financial condition.

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<sup>1</sup> Due to the City's fiscal emergency status, a seven-member Financial Planning and Supervision Commission has been appointed for the purpose of overseeing the City's financial affairs, including the implementation of a financial recovery plan. The Commission members include the City Council President, three appointments from the Governor, one appointment from the Treasurer of State, one appointment from the Attorney General's Office and one appointment from the Director of the Ohio Office of Budget and Management, as chairman of the fiscal oversight commission.

## Subsequent Events

After the completion of fieldwork for the Performance Audit, certain events were reported that are significant to this report.

At the April 15, 2010 meeting of the City of Wellston's Financial Planning and Supervision Commission meeting, the City reported the following actions as implemented:

- Completed a reduction in force in its Ohio Civil Service Employees Association equal to (6) full time equivalents,
- Reduced Maintenance Department personnel by one employee ,
- Completed a reduction in force in the Division of Police of three officers and one dispatcher,
- Reduced Health Care Insurance cost and coverage,
- Began processing payroll in the City Auditor's Office rather than by contract with a third party,
- Eliminated an outside maintenance contract and transferred light maintenance duties to its custodian, and
- Eliminated 50 percent of its streetlight expenditures. The utility company will disconnect the lights later.

During the same meeting, the Commission accepted the City's financial recovery plan. The plan, however, showed several funds that would have negative cash balances through December 31, 2014. The funds and projected balances are shown below.

### December 31, 2014 Projected Cash Balances

Fund	Forecasted Amount as of December/2014
General Fund	(\$28,891)
Cemetery Fund	(\$773,073)
Street Fund	(\$179,237)
Fire Fund	(\$46,816)
Water Fund	(\$1,596,132)
Sewer Fund	(\$744,315)
Garbage Fund	(\$220,547)

**Source:** City Financial Recovery Plan

Finally, on April 21, 2010, the City of Wellston reported that it had reduced its outstanding unpaid bills to \$604,630. (See also **City Overview**.)

## **City Overview**

The City of Wellston is located in the southern part of Ohio in Jackson County and covers approximately 7.1 square miles. According to the United States Census Bureau, the City's population was 6,071 in 2008. Per capita income was \$31,000 in 2007, compared with the State average of \$34,468. In addition, 18.1 percent of Wellston's citizens lived below the poverty line, compared with the State average of 13.1 percent. Lastly, Jackson County's unemployment rate in December 2009 was 11.7 percent, compared with the State unemployment rate of 6.5 percent.

Wellston is a statutory city governed under the Home Rule laws within Article 18 of the Ohio Constitution and ORC Chapter 3. As a statutory city, it has an elected Mayor and City Council, which consists of seven individuals who are elected to staggered four-year terms, as well as a City Auditor, City Treasurer, and City Law Director (solicitor).

The City provides many general government services that include, but are not limited to police and fire services, street maintenance and repair, snow and ice control, and water and wastewater treatment. Operations of the City are funded mainly with revenue from property taxes, sales taxes, local government funds (LGF) distributed by the State, and fees and charges for services provided by the City. The City's revenues have ranged from \$6.2 million to almost \$7 million over the past four years for all funds.

Wellston has been unable to meet all of its current obligations for several years and, in addition to its treasury deficits in several funds, it has continued to purchase on credit and not remitted payment for goods and services. In addition to its estimated deficit of \$588,915 in December 2009, the City had about \$1.1 million in outstanding, unpaid bills by early 2010. Furthermore, by February of 2010, it had drained all its available cash resources and required a tax advance to meet immediate financial obligations (e.g., payroll). Because of the critical financial circumstances within the City, immediate action to reduce spending is needed, and Council has begun to act on cost reductions through layoffs. However, the magnitude of Wellston's financial difficulties will require ongoing attention from Council, the administration, and the Financial Planning and Supervision Commission for an extended future period.

Lax supervision, poor internal controls, and low workloads have contributed to the City's financial problems. Although Wellston provides some services in an efficient and effective manner, other areas of operations are substantially overstaffed based on the workload completed by employees. In addition, poor control over assets has led to misplaced and misappropriated equipment, deteriorating infrastructure, and in the case of water services, even theft. Improved management of the City's physical and human resources will be critical to Wellston's financial recovery.

## **Financial Outlook**

**Table 2-4** in the **financial management** section presents the effect of the City’s financial recovery plan (General Fund) and AOS recommendations on the City of Wellston’s financial condition. With the inclusion of the financial implications from the performance audit recommendations, and auditors’ adjustments to the City’s financial recovery plan, **Table 2-4** in the **financial management** section shows that Wellston can achieve a positive ending fund balance by the end of the forecast period. However, the outcomes associated with the recommendations in **Tables 2-6** through **2-9** are contingent upon the attainment of AOS projections, the timing of implementation of the performance audit recommendations, and the actual impact of those recommendations.

Prior to the adoption of final strategies for addressing the financial difficulties, City of Wellston officials are encouraged to discuss all potential options with stakeholders to obtain their input and expectations. Furthermore, developing a five-year forecast and a strategic planning process, establishing more effective budgeting processes, and improving data reporting would help ensure that potential options are based on goals and objectives and accurate information. Regardless of the process used to adopt changes in operations, the City administration and Council must address ongoing lapses in internal controls to ensure the scarce resources of the City are protected.

In order to address its projected financial deficits, City Council will have to make difficult decisions regarding City operations. Several recommendations in this performance audit are subject to collective bargaining negotiations, but represent opportunities for significant cost savings. Additional savings not identified by this performance audit would provide the City a greater range of choices for cost reductions. Conversely, failure to implement cost saving strategies may require the City of Wellston to make additional reductions in mission critical service areas.

## **Objectives**

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

The overall objective of this performance audit is to assist the City of Wellston in identifying strategies to eliminate the conditions that brought about the fiscal emergency declaration. The

major assessments conducted in this performance audit are outlined in detail in **Appendix A**. The following is a general description of the audit objectives by section:

- Expenditures, forecasting, planning, budgeting, and purchasing, as well as the general control environment, and planning were reviewed in the **financial management** section.
- City-wide staffing levels, collective bargaining agreements, salary levels, and benefit costs, as well as overall management and monitoring of personnel were assessed in the **human resources** section.
- Police and fire division staffing and expenditures, reporting, procurement, and technology were reviewed in the **safety services** section.
- City service levels, operations-related expenditures, policies and procedures, and technology were examined in the **public works and services** section.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The recommendations comprise options that the City can consider in its continuing efforts to stabilize its financial condition.

## **Scope and Methodology**

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. AOS and the Performance Audit Section (PAS) are aware of, and have considered, the potential independence issue regarding undertaking performance audits of fiscal watch and emergency municipalities that are also being monitored by the AOS' Local Government Services Division (LGS) as fiscal supervisor. Because LGS is statutorily required to serve as fiscal supervisor, an independence impairment may exist (GAGAS 3.14). However, under ORC § 118.023 and consistent with the intent of the legislature and Auditor of State under this law, performance audits are a component of the activities undertaken by AOS to assist local governments in fiscal distress.

Audit work was conducted between October 2009 and February 2010, and data was drawn from fiscal years 2007, 2008, and 2009. To complete this report, the auditors gathered a significant amount of data pertaining to the City of Wellston, conducted interviews with numerous individuals associated internally and externally with the various departments, and reviewed and assessed available information. Upon the request of the Financial Planning and Supervision Commission, auditors also conducted analyses of cost savings associated with service

consolidation in selected areas. Peer data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness.

The performance audit process involved significant information sharing with the City, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform the City of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the City was solicited and considered when assessing the selected areas and framing recommendations. Finally, the City provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on the City of Wellston's comments.

In addition, several cities were selected to provide benchmark comparisons for the operational areas assessed in the performance audit. The following cities were used in the applicable sections of the performance audit and were selected based upon demographic and operational data:

- **Division of Police:** The cities of Carlisle, Deer Park, and Logan.
- **Division of Fire:** The cities of Bellevue, Deer Park, and Taylor Mill.
- **Public Works and Services:** The cities of Delphos, Hillsboro, Logan, and Wapakoneta, as well as Port Clinton and Marietta for cemetery maintenance; Crestline and Uhrichsville for pool operations; and Piqua, Painesville, and Columbus for rental facility fee comparisons.

Furthermore, external organizations and sources were used throughout the report to provide comparative information and benchmarks.

The Auditor of State and staff express appreciation to the City of Wellston and the peer cities for their cooperation and assistance throughout this audit.

## **Noteworthy Accomplishments**

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The following summarizes The City's noteworthy accomplishment identified throughout the course of the audit.

- **Division of Fire Staffing:** The City operates its Division of Fire at staffing levels below the peer average and keeps departmental expenditures to a minimum by using volunteer and paid-on-call staff on an as-needed basis. In addition, the employee agreement

between the City of Wellston and its full-time Fire Division personnel defines overtime as payment earned only after 120 hours of work per pay period. Further, the agreement limits overtime to no more than 36 hours per pay period and requires approval by the Chief and Safety Service Director.

## **Conclusions and Key Recommendations**

Each section of the audit report contains recommendations that are intended to provide the City with options to enhance its operational efficiency and improve its long-term financial stability. In order to obtain a full understanding of the assessed areas, the reader is encouraged to review the recommendations in their entirety. The following summarizes the key recommendations from the performance audit report.

*In the area of Financial Management, the City of Wellston should:*

- Implement a basic control environment, including creating financial controls associated with planning and monitoring City finances, as well as creating a straightforward system for managing its employees. The City should also develop a strategic plan that articulates its programs and funding decisions and should ensure that the plan aligns its available resources with the service needs of its community.
- Develop a five-year capital improvement plan to address the City's most pressing capital needs and bring City infrastructure up to acceptable levels of maintenance and in compliance with various oversight agencies. The City should also develop a capital asset inventory to help it better manage its capital assets and detect loss or theft.
- Develop budgeting policies that include both the planning and forecasting of receipts and expenditures and the ongoing monitoring and adjusting of actual financial performance throughout the year.
- Adopt budgetary policies that define funds and adopt an annual appropriation measure in accordance with State law. The budget should be publicized to the community, the administration, and department supervisors.
- Ensure Council receives reports comparing actual receipts and expenditures to budgeted amounts and establish minimum fund balances for the General Fund and other significant funds to stabilize government operations. Department supervisors also should receive financial reports so that they can monitor their budgets throughout the year.
- Establish an audit committee and develop strategies to address past financial audit citations, especially those that have occurred in multiple years. It will be difficult for the

City to achieve long-term financial stability without addressing the internal control weaknesses identified in past financial audits.

- Ensure timecards are submitted with complete and accurate information to reduce the risk of fraud and abuse and to ensure employees are paid properly. Also, work patterns should be examined to ensure employees are not abusing leave benefits.
- Develop a comprehensive purchasing policy that applies to all credit cards and lines of credit. Policies should restrict purchasing to authorized individuals, require detailed documentation for purchases, and enforce prior or concurrent approval for all purchases to reduce the risk of fraud and abuse or the misappropriation of resources. The City should ensure that funds are available prior to the purchase being made to prevent expenditures from exceeding appropriations. The City should not allow transfers, advances, appropriation adjustments, and other budget modifications to take place without receiving Council approval beforehand.
- Develop policies regarding the selection process for vendors. These should include policies and procedures for planning for purchases, making the decision to contract, developing performance requirements, implementing a bidding and request for proposal process (RFP), awarding contracts, and monitoring vendors. Annually, quotes should be obtained from multiple vendors to examine prices and fees.
- Centralize and standardize the processes for handling cash and cash equivalents and ensure that internal controls are in place for all City transactions to reduce the risk of fraud or theft.
- Periodically evaluate its rate schedule for water, sewer, and refuse collection services to ensure it maintains positive balances in both the operating and capital funds. After applying economy and efficiency measures, adjusting the rate structure will help the City recover production costs and cover past deficits while maintaining a fair and equitable rate structure for all consumers.

*In the area of Human Resources, the City of Wellston should:*

- Examine its organizational structure and use of human resources to ensure its personnel allocation and management reflect efficiency and prudent stewardship of public dollars. While the City has made recent staffing cuts in an effort to reduce total expenditures, it should examine opportunities to consolidate management positions and departments with like functions.

- Update its job descriptions to ensure they are current and consistent with the required duties of each position. In addition, Wellston should develop and implement appropriate performance appraisal processes and conduct evaluations on an annual basis.
- Ensure the Civil Service Commission exercises its role as monitor of municipal employee classifications and conducts appropriate tests based on minimum qualifications for successful job performance among City safety and service positions. The Commission should review and make appropriate updates to job descriptions, meet regularly and formally document meeting activities, and monitor and maintain a certified list of eligible applicants.
- Ensure that individuals meet the certification levels outlined in the job descriptions for their positions. The Safety Service Director or his designee should be responsible for ensuring Wellston employees maintain their certifications for key functions and employee files should contain documentation of up-to-date, appropriate licensure and training and should be retained in the City Auditor's Office.
- Implement a succession plan in order to plan ahead for the retirement of key supervisory and management positions.
- Aggressively manage its workers' compensation claims and use training sessions provided by the Bureau of Workers' Compensation (BWC) to enhance its management of claims costs.
- Ensure that supervisors provide appropriate structure and guidance to employees and that employees are held accountable for productivity levels and the quality of working performed.
- Negotiate an increase to employee health insurance premium contribution rates to 15 percent for all employees, including elected and contracted employees.
- Reduce its retirement benefits costs by negotiating an end to its pick-up of the employee's share of retirement contributions. Furthermore, the City should seek to renegotiate vacation accrual rates, the number of personal days, and the number of paid holidays to be more consistent with State guidelines and reduce its expenditure liabilities. Wellston should seek a memorandum of understanding with its collective bargaining units on concessions agreed to prior to the termination of its current bargaining agreements.
- Seek to renegotiate certain provisions within its collective bargaining agreements to bring the City in line with ORC minimum requirements, industry standards, or peer benchmarks. The City should seek a memorandum of understanding from each

bargaining unit to negotiate an amendment to the current contracts. The City should also seek to negotiate the removal of early retirement incentives from its collective bargaining agreements.

- Limit overtime usage to approximately 2 percent of regular salary expenditures by increasing oversight and requiring administrative approval. Additionally, the City should institute effective overtime data analysis and management controls to ensure overtime costs are justified expenditures in terms of the work performed. In its efforts to reduce overtime, Wellston should also revise its sick leave policies and increase its monitoring of sick leave use in order to identify and reduce abuse.

*In the area of Safety Services, the City of Wellston should:*

- Consider the analysis performed for the Financial Planning and Supervision Commission and potentially contract for shared law enforcement services with the Jackson County Sheriff.
- Consider consolidating dispatching services with the County. A reduction in local dispatch operations could be achieved without loss of 911 emergency services to Wellston residents.
- Establish workload measures for the Fire Division based on peer or national benchmarks to ensure staffing levels are appropriate and contribute to the safety of its personnel.
- Develop a fee schedule for the Fire Division to recoup its costs for fire prevention services provided to residential and commercial consumers. The Fire Division should also initiate inspections to improve fire prevention within the City.
- Prepare policies and plans for capital asset acquisition, maintenance, replacement, and retirement.
- Explore alternative funding options for the Fire Division beyond traditional methods, such as grant funding. It could consider training a paid-on-call or volunteer firefighter to assist in this function.

*In the area of Public Works and Services, the City of Wellston should:*

- Identify and reduce its sources of water loss and address water loss issues to reduce its water treatment costs.

- Eliminate at least 1.0 additional full-time employee in the water treatment operator classification, then adjust its staffing levels and workloads in the Water Department to be consistent with peers.
- Implement the Ohio EPA's recommendations on improvements and repairs to its infrastructure and integration of basic training and operating standards for its employees. Council and the administration should require the Water Superintendent to create a plan for completing the EPA's recommended repairs, as well as addressing the water loss and meter operability issues, within 90 days of the release of this report.
- Actively research grant opportunities and use matching funds from its Water and Sewer Capital funds to leverage additional public dollars.
- Implement a replacement schedule of water meters as part of a City-wide comprehensive capital improvement plan, and require the meter readers to inspect all meters as part of the monthly meter reading cycle to determine maintenance needs and replacement priorities.
- Enforce Ordinances 2824 and 3142 and disconnect service to water customers and/or place liens on property for sewer customers whose outstanding balances have not been paid within the stipulated time periods.
- Ensure that clerks and meter readers receive training on the equipment and software needed to complete their job functions.
- Require the Clerk's Office to record and post payments as they are received, prepare the deposit at the close of each business day, and have the Treasurer pick up and deposit the receipts at the end of each day.
- Place liens on the property of customers who have unpaid accounts with significant delinquencies and contract with a collection agency for the purpose of collecting its unpaid bills.
- Require employees performing such tasks as meter reading to wear City-issued attire or articles of clothing that clearly identify them as City workers.
- Develop a formal preventive maintenance plan for City vehicles and develop and enforce a vehicle use policy that restricts use of City vehicles to the sole purpose of conducting City business.

- Establish an up-to-date inventory of City vehicles and develop a formal replacement plan to ensure that it is properly planning for the eventual purchases of new City vehicles including trucks, dump trucks, street sweepers, backhoes, and if applicable, refuse collection trucks.
- Use the Street Levy Fund and the State Highway Improvement Fund to fund capital projects for road and highway repair in Wellston.
- Eliminate 1.0 FTE in the Streets Department in addition to the reductions already made. Though this would bring staffing to levels below the peers, it would provide needed financial relief for the General Fund and Street Operating Fund.
- Evaluate its Refuse Collection Services operation to assess whether it can continue to perform services in-house or should consider outsourcing the service to a third-party vendor, as well as consider restoring its recycling program.
- Eliminate 1.0 FTE from its refuse collection staff to bring its workload in line with industry standards.
- Provide cemetery maintenance at minimum standards based on funding available through grave sales and endowment interest. Furthermore, it should establish and monitor performance measurements such as acreage maintained when staff are assigned to cemetery functions.
- Establish and enforce standards on gravestones and funerary adornments in its cemetery in order to reduce maintenance time and expenditures in the upkeep of the cemetery.
- Consider reducing or temporarily ceasing the collection of cemetery perpetual care fees as part of its unexpendable endowment fund. Temporarily redirecting these funds to operations would help Wellston conduct minimal cemetery maintenance and begin to resolve its Cemetery Operating Fund deficit.
- Develop an automated database of cemetery records to increase the efficiency and effectiveness of the documentation of cemetery sales and to reduce the risk of fraud and error. Also, the City should ensure that it is officially registered with the Division of Cemetery Registration at the Ohio Department of Commerce.
- Create and retain Recreation Fund records for revenues, expenditures, and meeting minutes in a manner consistent with Ohio Law.

- Adjust the Recreation Director's contracted salary commensurate with his duties.
- Formulate a business plan to promote the Railroad Depot to help it become a self-supporting entity.

## Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. The following presents issues requiring further study:

- **City Discretionary Spending:** During the course of the audit, auditors noted that the City had incurred substantial discretionary expenditures in several areas. Because the scope of this audit was limited to identifying material reductions to assist the City and Financial Planning and Supervision Commission in developing the City's Financial Recovery Plan, auditors could not evaluate in detail all instances of high discretionary spending. Two areas that were noted that the City should examine include: cell phone reimbursements (supervisors and police receive \$60 and \$21 monthly phone reimbursements respectively) and departmental land line phone usage (several departments incurred phone charges in excess of \$150 per month). City Council and the Administration should examine these costs for appropriateness and consider eliminating them from approved expenditures. This may require Council to pass an ordinance requiring employees to reimburse the City for personal calls and the City Auditor to examine the detailed phone records for each department and charge employees for inappropriate phone usage.
- **Technology:** Wellston Division of Police (CWDP) vehicles are not equipped with Motor Data Terminals (MDTs). CWDP recognizes that there are benefits to having information flow to Patrol Officers in the field and would like to install MDTs. Should the City decide to retain an in-house Division of Police, it should explore the feasibility of equipping vehicles with MDT technology.
- **Cost-Effectiveness of Operating Water Treatment Plant:** The City has two water treatment plants. The South plant is primarily used by General Mills. In 2006, the EPA identified several issues with equipment and facility conditions. In 2009, the City discussed its concerns about the South plant with General Mills and sought its assistance in making repairs and improvements to the South plant. In the event the City does not receive financial assistance for repairs, it should evaluate the cost of operating the plant and the plant's ability to produce safe drinking water.

- **Cemetery Trust Fund:** City Council, with assistance from the Law Director, should investigate alternatives to accessing the significant amount of funds deposited into the cemetery perpetual care endowment fund. While the Ohio Department of Taxation has been clear with the prohibition on the transfer of principal funds, it has referenced case precedents that might be applicable to the City on the use of trust funds in situations where the purpose of the funds, such as to take care of the cemetery, cannot be continued without access to the principal. If the City Law Director is unfamiliar with this aspect of Ohio law, Wellston should consider contracting with an individual with expertise in this area.
- **Stadium Concession Stands:** Wellston should study the costs and benefits associated with operating concession stands at sporting events in order to determine the profitability of these operations and their ability to generate funds to offset programming costs for sponsoring events. The City contracts out the operation of the baseball stadium concession stands to the local non-profit Wellston Ohillco Society to run the stands as part of fundraising, with the City earning a percentage. According to the Recreation Board President, this was done because the City was losing money running the concessions. Since then, the stadium was expanded and the concessions have become profitable. The Wellston Ohillco Society also sponsors the City's annual Coal Festival. While the City has considered operating the concessions itself, information on revenues and costs was not available and, as a result, the feasibility of operating the concessions at a profit could not be determined at the time of this audit.

## Summary of Financial Implications

The following tables summarize the performance audit recommendations that contain financial implications. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

### Summary of Performance Audit Recommendations for Wellston – All Funds

	2010	2011	2012	2013	2014
<b>Grand Total All Funds</b>	\$1,068,400	\$1,323,700	\$1,326,600	\$1,329,700	\$1,333,100

### Performance Audit Recommendations for Wellston General Fund (Fund 101)

	2010	2011	2012	2013	2014
<b>R2.11</b> Transfer capital outlay to sales tax fund	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
<b>R2.11</b> Transfer of Fire Fund Non-Capital to Fire Fund	\$0	\$307,500	\$315,500	\$323,800	\$332,300
<b>R3.1</b> Consolidate Service Director position	\$80,800	\$91,800	\$91,800	\$91,800	\$91,800
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$4,800	\$4,800	\$4,800	\$4,800	\$4,800
<b>R3.9</b> Reduce pick-up of employee PERS contribution	\$41,200	\$41,200	\$41,200	\$41,200	\$41,200
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
<b>R3.10</b> Reduce the COLA from 3% to 0%	\$0	\$46,200	\$47,500	\$49,000	\$50,400
<b>R3.14</b> Attend Ohio Municipal League training	(\$300)	\$0	\$0	\$0	\$0
<b>R4.1</b> Enter into Dedicated Service Agreement for Police Services	\$242,000	\$484,000	\$484,000	\$484,000	\$484,000
<b>R4.1</b> Sell 4 police cruisers	\$8,000	\$0	\$0	\$0	\$0
<b>R4.4</b> Establish fire inspection fee structure	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
<b>Total</b>	<b>\$409,500</b>	<b>\$1,008,500</b>	<b>\$1,017,800</b>	<b>\$1,027,600</b>	<b>\$1,037,500</b>

### Performance Audit Recommendations for Special Revenue Funds

	2010	2011	2012	2013	2014
<b>Fire Fund (Fund 201)</b>					
<b>R2.11</b> Transfer of Fire Fund Non-Capital to Fire Fund	\$0	(\$307,500)	(\$315,500)	(\$323,800)	(\$332,300)
<b>R2.11</b> Transfer of Fire Truck Payments to County Sales Tax Improvement Fund	\$68,500	\$68,500	\$68,500	\$68,500	\$68,500
<b>Total Fire Fund (Fund 201)</b>	<b>\$68,500</b>	<b>(\$239,000)</b>	<b>(\$247,000)</b>	<b>(\$255,300)</b>	<b>(\$263,800)</b>
<b>Street Fund (Fund 202)</b>					
<b>R3.1</b> Consolidate Service Director position and allocate costs to other funds	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$18,600	\$18,600	\$18,600	\$18,600	\$18,600
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
<b>R3.10</b> Reduce the COLA from 3% to 0%	\$0	\$8,400	\$8,600	\$8,900	\$9,200
<b>R3.12</b> Reduce overtime to 2%	\$3,600	\$3,600	\$3,600	\$3,600	\$3,600
<b>R5.17</b> Transfer appropriate expenditures to State Highway Improvement Fund	\$34,500	\$34,500	\$34,500	\$34,500	\$34,500
<b>R5.17</b> Transfer appropriate expenditures to Street Levy Fund	\$45,800	\$45,800	\$45,800	\$45,800	\$45,800
<b>R5.18</b> Reduce Streets Department staffing by 1.0 FTE	\$46,100	\$57,100	\$57,100	\$57,100	\$57,100
<b>Total Street Fund (Fund 202)</b>	<b>\$128,600</b>	<b>\$148,000</b>	<b>\$148,200</b>	<b>\$148,500</b>	<b>\$148,800</b>
<b>Cemetery Fund (Fund 203)</b>					
<b>R5.25</b> Transfer new cemetery care fee	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
<b>Total Cemetery Fund (Fund 203)</b>	<b>\$1,800</b>	<b>\$1,800</b>	<b>\$1,800</b>	<b>\$1,800</b>	<b>\$1,800</b>
<b>Railroad Depot Fund (Fund 219)</b>					
<b>R5.31</b> Implement business plan for rental facility	\$2,000	\$4,100	\$4,100	\$4,000	\$4,000
<b>Total Railroad Depot Fund (Fund 219)</b>	<b>\$2,000</b>	<b>\$4,100</b>	<b>\$4,100</b>	<b>\$4,000</b>	<b>\$4,000</b>
<b>Pool Fund (Fund 614)</b>					
<b>R5.29</b> Adjust Recreation Director salary based on pool closing	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200
<b>Total Pool Fund (Fund 614)</b>	<b>\$7,200</b>	<b>\$7,200</b>	<b>\$7,200</b>	<b>\$7,200</b>	<b>\$7,200</b>

### Performance Audit Recommendations for Restricted and Capital Funds

	2010	2011	2012	2013	2014
<b>Cemetery Perpetual Care Fund (Fund 801)</b>					
<b>R5.25</b> Transfer new cemetery care fee	(\$1,800)	(\$1,800)	(\$1,800)	(\$1,800)	(\$1,800)
<b>Total Cemetery Perpetual Care Fund (Fund 801)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>
<b>State Highway Improvement Fund (Fund 206)</b>					
<b>R5.17</b> Transfer appropriate expenditures from Street Operating Fund	(\$34,500)	(\$34,500)	(\$34,500)	(\$34,500)	(\$34,500)
<b>Total State Highway Improvement Fund (Fund 206)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>
<b>County Sales Tax Improvement Fund (Fund 210)</b>					
<b>R2.11</b> Transfer capital outlay from General Fund	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)
<b>R2.11</b> Transfer of fire truck payments from Fire Fund	(\$68,500)	(\$68,500)	(\$68,500)	(\$68,500)	(\$68,500)
<b>Total County Sales Tax Improvement Fund (Fund 210)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>
<b>Street Levy Fund (Fund 211)</b>					
<b>R5.17</b> Transfer appropriate expenditures from Street Operating Fund	(\$45,800)	(\$45,800)	(\$45,800)	(\$45,800)	(\$45,800)
<b>Total Street Levy Fund (Fund 211)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>

## Performance Audit Recommendations for Enterprise Funds

	2010	2011	2012	2013	2014
<b>Water Fund (Fund 601)</b>					
<b>R3.1</b> Consolidate Service Director position and allocate costs to other funds	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$11,200	\$11,200	\$11,200	\$11,200	\$11,200
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$60,100	\$60,100	\$60,100	\$60,100	\$60,100
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200
<b>R3.10</b> Reduce COLA from 3% to 0%	\$0	\$26,100	\$26,900	\$27,700	\$28,600
<b>R3.12</b> Reduce overtime to 2%	\$91,500	\$91,500	\$91,500	\$91,500	\$91,500
<b>R5.1</b> Capture maintenance savings from reducing water loss to 37% target	\$95,000	\$95,000	\$95,000	\$95,000	\$95,000
<b>R5.3</b> Reduce water employee staffing by 1.0 FTE	\$40,900	\$51,900	\$51,900	\$51,900	\$51,900
<b>R5.8</b> Collect additional receipts from previously unmetered water accounts	\$59,600	\$59,600	\$59,600	\$59,600	\$59,600
<b>R5.11</b> Collect unpaid water receipts through collection agency	\$110,000	\$0	\$0	\$0	\$0
<b>Total Water Fund (Fund 601)</b>	<b>\$447,000</b>	<b>\$374,100</b>	<b>\$374,900</b>	<b>\$375,700</b>	<b>\$376,600</b>
<b>Wastewater Fund (Fund 606)</b>					
<b>R3.1</b> Consolidate Service Director position and allocate costs to other funds	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$9,700	\$9,700	\$9,700	\$9,700	\$9,700
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$600	\$600	\$600	\$600	\$600
<b>R3.10</b> Reduce COLA from 3% to 0%	\$0	\$13,200	\$13,600	\$14,000	\$14,500
<b>R3.12</b> Reduce overtime to 2%	\$13,800	\$13,800	\$13,800	\$13,800	\$13,800
<b>R5.8</b> Collect additional receipts from previously unmetered sewer accounts	\$87,000	\$87,000	\$87,000	\$87,000	\$87,000
<b>R5.11</b> Collect unpaid sewer receipts through collection agency	\$17,000	\$0	\$0	\$0	\$0
<b>Total Wastewater Fund (Fund 606)</b>	<b>\$104,200</b>	<b>\$100,400</b>	<b>\$100,800</b>	<b>\$101,200</b>	<b>\$101,700</b>
<b>Refuse Collection Fund (Fund 611)</b>					
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$10,900	\$10,900	\$10,900	\$10,900	\$10,900
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$900	\$900	\$900	\$900	\$900
<b>R3.10</b> Reduce COLA from 3% to 0%	\$0	\$8,000	\$8,200	\$8,400	\$8,700
<b>R5.8</b> Collect additional receipts from previously uncollected garbage accounts	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
<b>R5.12</b> Reduce refuse collection staff by 1.0 FTE	\$44,000	\$55,000	\$55,000	\$55,000	\$55,000
<b>Total Refuse Collection Fund (Fund 611)</b>	<b>\$70,200</b>	<b>\$89,200</b>	<b>\$89,400</b>	<b>\$89,600</b>	<b>\$89,900</b>

Source: AOS

# Appendix A

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The following detailed audit objectives were used to conduct the performance audit of the City of Wellston. In some instances, objectives were modified based on actions taken by the City to address its deficit or high-risk environments identified by the auditors during the course of their work.

## **In Financial Management:**

- What is the long-term financial condition of the City given its current financial situation?
- What tools does the City use when making long-term financial decisions? Does the City have a strategic plan?
- Does the City practice strategic planning or has it established long- and short-term goals?
- How does the City's budgetary process compare with best practices?
- How efficient are the City's timekeeping and attendance processes?
- How does the City's purchasing and financial management practices compare with best practices?
- What are the City's processes for handling and securing cash and check payments when collecting fees?

## **In Human Resources:**

- How is the government structured and are governing practices efficient and consistent with applicable laws and regulations? Is human resource management effective and in line with peer and/or leading industry standards?
- Does the City-wide span of control appear appropriate? Are divisions structured in an appropriate manner to facilitate service provision economically and efficiently?
- Does the City exercise appropriate use of management communication controls? Are management communications in line with leading practices?
- Are the City's salaries and benefits in line with peer city and/or State benchmarks?
- Are the City's collective bargaining provisions in line with peer city and/or State benchmarks?
- Are City-wide overtime and leave (including sick leave) usage and practices comparable to State or other applicable benchmarks?

**In Public Safety:**

*Division of Police*

- Are the staffing levels comparable to peers, industry benchmarks, and best practices?
- How do the Department's expenditures compare with the peers?
- Does the Department use available technology to support operations and increase effectiveness?
- Does the Department obtain grants to support operations in accordance with peer levels and grant availability?
- Are dispatch operations effective and efficient?

*Division of Fire*

- Are the staffing levels comparable to peers, industry benchmarks, and best practices?
- How do the Department's expenditures compare with the peers?
- Does the Department maximize revenue collections and minimize inspection costs?
- Does the City pay for EMS services?
- Has the Department developed a formal capital asset, acquisition, maintenance, and replacement plan that is comparable to the peer departments and best practices?
- Does the City actively pursue grant funding to offset General Fund expenditures?

**In Public Works and Services:**

*Water and Wastewater Treatment*

- Is the Department efficiently organized? Are staffing levels appropriate for services currently provided by the Department?
- Do accounting practices accurately reflect the true cost of operations? What are the historic costs associated with running the Department and are they comparable to their peers?
- Do program revenues sufficiently cover program costs?
- Does the Department use cost-effective processes to ensure quality services?
- Is the City maximizing potential assistance through government grants and other funding sources?
- Would outsourcing current services be cost-effective for the City?
- Has the City implemented a maintenance and repair schedule to avoid EPA violations and water loss?

*Utility Billing and Meter Reading*

- How does the structure of the Utility Department compare with the peers?
- Does the City maintain an appropriate Water rate structure?
- Are the processes used to collect utility data effective and efficient?
- Are the methods used to process utility data effective and efficient?
- How does the City provide its customers with Utility service?

*Streets and Vehicle Maintenance, and Refuse Collection*

- Are staffing levels appropriate for services currently provided by the Department?
- Do accounting practices accurately reflect the true cost of operations? What does the Department cost and is that comparable to peers?
- Do program revenues sufficiently cover program costs? Are fees consistent with peers?
- Does the Department use cost-effective processes to ensure quality services?
- Does the City maximize potential alternative programs such as the recycling program or a yard waste program?
- Would outsourcing be cost-effective for garbage services?
- Does the cost of maintenance of capital equipment exceed the cost of replacement?
- What are the City's policies and practices for vehicle use, and how do they compare with leading practices or standards?

*Cemetery Maintenance*

- Do accounting practices accurately reflect the true cost of operations? What are the historic costs associated with running the Department and are they comparable to peers?
- Are revenues (fees and interest income) consistent with peers? Are revenues equal to program costs?
- Based on the recent elimination of dedicated Cemetery Department staffing, what level of maintenance service can the City provide?
- Can the cemetery perpetual care fund be accessed or eliminated?
- How does the City ensure the efficiency of the assignment and selling of cemetery lots?

*Recreation*

- Are current staffing levels appropriate for services provided by the Department?
- Do accounting practices accurately reflect the true cost of operations? What is the cost to operate the Department and is that comparable to peers?
- Do program revenues sufficiently cover program costs? Are fees consistent with those for peers?
- Is the City maximizing potential revenue sources such as concession stands?

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# Financial Management

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## Background

This section of the performance audit analyzes the City of Wellston's (the City) current and future financial condition and its financial management practices. Recommendations were developed to help improve the financial condition and the management of the City's fiscal resources. Sources such as the Government Finance Officers Association (GFOA), the Ohio Department of Taxation (ODT), the Ohio Revised Code (ORC), and the National Institute of Governmental Purchasing (NIGP) were used to compare City operations and develop its five-year forecast. In some cases, analyses were completed using peer cities for comparison purposes.<sup>1</sup>

On October 1, 2009, the Auditor of State declared the City of Wellston in fiscal emergency under ORC § 118.03(A)(6) and 118.03(B). The declaration was based on a determination of the fiscal viability of the City's treasury.<sup>2</sup> Because Wellston retained a large permanent investment fund of \$2.4 million in three bank CDs, the treasury deficit was offset by this large cash balance. However, as of December 31, 2008 and June 30, 2009, the amount of the treasury deficit exceeded one-sixth of the City's collected receipts in the previous year.

Following the fiscal emergency declaration, a Financial Planning and Supervision Commission was created to assist the City in addressing the financial situation and drafting a financial recovery plan for the City by March 5, 2010. During the course of this audit, the City began to take action to address its increasing deficit, including making personnel reductions.

### *Financial Operations*

Although Wellston has experienced financial problems for many years, the City has not adopted a plan to address these problems (see **Table 2-1**). Financial audits conducted by the Auditor of State and by independent public accountants (IPAs) reported continuing patterns of non-compliance (see **R2.4**), and the City has made little effort to address these recurring issues or to respond to the increasing financial problems identified in these audits. Despite outstanding invoices in the City Auditor's office totaling more than \$1.1 million by the beginning of 2010,

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<sup>1</sup> The peer cities used were Delphos, Hillsboro, Uhrichsville, Crestline, and Port Clinton in Ohio.

<sup>2</sup> The City's cash balance, or treasury account balance, consisting of all cash available to the City in bank accounts and Certificates of Deposit (CDs), was reviewed. From this total, the balance of all the City's positive cash funds was subtracted. Since some funds fluctuate into deficit in certain years, this method acknowledges interfund advances made during the period. These advances indicate the City borrowed from its own restricted funds, with the expectation that future funds will correct the difference.

the City continued to permit employees to make purchases at a local hardware store on an open line of credit, approved undocumented fuel card purchases, paid unapproved overtime, continued operations without substantive operational changes in several deficit funds, and generally operated as if the City had only recently encountered economic hardships.

Operating out of a centralized treasury account (known to the City as the “corporate account”), the City has maintained the appearance of sustainability based on the unlawful use of restricted City funds to pay staff and to support daily operations. City personnel even continue under the misperception that the City retains a permanent investment fund of \$2.4 million, with citizens, staff, and Council actively debating the merits of tapping into this reserve.

In reality, the City technically maintains three Certificates of Deposits totaling \$2.4 million in the bank; however, the City has an obligation to pay various vendors for outstanding invoices totaling \$1.1 million as of January 2010. In addition, fund accounts for the Cemetery, Streets, Recreation, Pool, Railroad Depot (rental facility), and Refuse Collection spend more money than they generate in most years and have been sustained by the General Fund. Accounts for water and sewer services are also losing money but have large balances in respective capital accounts that are temporarily masking those losses. Wellston is repeatedly in violation of ORC § 5705.10<sup>3</sup> as the large deficit generated by so many failing accounts is forcing the City to draw from all of its capital and reserve funds. These funds have been aggregated into the pooled cash/ centralized treasury account that the City is using to pay daily operations. In February 2010, Wellston required an advance on its tax collections in order to make payroll. This action revealed that all its reserve funds had been spent and it could no longer sustain basic operations.

The mismanagement of the City’s finances, the failure by Council and the administration to require financial reports and enact changes, and the widespread exploitation of lax payroll and equipment oversight by employees have exhausted City resources. Only through prudent and aggressive management by City administrators and Council can Wellston address substantial internal control failures and reestablish its financial resources.

### *Statistical Information*

City operations are funded mainly with receipts from property taxes, income taxes, sales taxes, local government funds (LGF) distributed by the State, and fees and charges for services provided by the City. Expenditures include salary and benefits, purchased services, supplies and materials, and capital outlay associated with providing police, fire, street maintenance, and utilities. **Table 2-1** represents the total receipts, expenditures, and the percentage of change by year and for the five-year period for all funds.

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<sup>3</sup> This section of code indicates that funds should be used in the accounts that they were designated for and that unauthorized borrowing between accounts is a violation.

**Table 2-1: Wellston Receipts and Expenditures: All Funds**

	2005	2006	2007	2008	2009	Five-Year Change
Total Receipts	\$6,245,521	\$6,318,358	\$6,927,787	\$6,026,260	\$6,600,266	n/a
Percent of Change	n/a	1.2%	9.6%	(13.0%)	9.5%	1.4%
Total Expenditures	\$6,493,598	\$6,718,307	\$6,602,327	\$6,628,829	\$6,608,807	n/a
Percent of Change	n/a	3.5%	(1.7%)	0.4%	(0.3%)	0.4%
<b>Receipts Over (Under) Expenditures</b>	<b>(\$248,076)</b>	<b>(\$399,949)</b>	<b>\$ 325,460</b>	<b>(\$602,570)</b>	<b>(\$8,541)</b>	<b>(\$933,676)</b>
<b>Ending Balance</b>	<b>3,657,295</b>	<b>3,257,346</b>	<b>3,582,805</b>	<b>2,980,236</b>	<b>2,971,695</b>	<b>(4.7%)</b>

Source: Wellston financial reports

**Table 2-1** indicates that in all years but 2007, City expenditures exceeded receipts. The discrepancy was most significant in 2008 when receipts decreased by 13.0 percent due to significant losses in property tax and LGF. Although receipts increased in 2009 as the City raised utility rates, the cumulative loss to the City due to spending in excess of receipts amounted to more than \$933,700 over the five-year period. Further, expenditures shown in **Table 2-1** do not include encumbrances—debt obligations incurred in 2009 but not yet paid. As of January 2010, these represented an additional \$1.1 million in outstanding obligations.

Although **Table 2-1** indicates a positive ending cash balance of nearly \$3.0 million in 2009, this is a misleading indicator for the City. The majority of these funds are restricted for capital improvement projects, police or fire programs, community development loan accounts, and the cemetery trust fund. **Table 2-2** presents the unrestricted cash balance for the City, a more useful representation of the City's operational funds.

**Table 2-2: Wellston Unrestricted Ending Balances**

	2005	2006	2007	2008	2009
General Fund	\$185,865	\$751	\$107,006	\$159,448	\$14,263
Other Fund Deficits	(\$190,701)	(\$148,355)	(\$279,863)	(\$514,000)	(\$722,161)
<b>Unrestricted Balance</b>	<b>(\$4,837)</b>	<b>(\$147,604)</b>	<b>(\$172,857)</b>	<b>(\$354,552)</b>	<b>(\$707,898)</b>

Source: Wellston financial reports

As shown in **Table 2-2**, while the General Fund (GF) has shown small positive but fluctuating balances, these were offset each year by the accumulation of large deficits in several other funds, including the Fire Fund, Street Fund, Cemetery Fund, Railroad Depot Fund, and Pool Fund.<sup>4</sup> Based on increasing negative balances in these other funds, the total deficit in unrestricted cash has increased each year, even doubling in size to a cumulative deficit of \$707,900 in 2009.

<sup>4</sup> There were also negligible amounts from the DARE Fund and the Kuppenheimer Fund.

### Financial Forecast

**Table 2-3** presents a five-year forecast developed for Wellston that includes General Fund receipts and expenditures based on current trends and historical accounting practices. This table does not include outstanding encumbrances owed by the City or deficits in other funds.

**Table 2-3: Wellston - General Fund Only**

	2010	2011	2012	2013	2014
Receipts Over (Under)					
Expenditures	(\$113,684)	(\$196,191)	(\$231,231)	(\$270,630)	(\$311,425)
Beginning Balance	\$14,263	(\$99,421)	(\$295,612)	(\$526,842)	(\$797,473)
<b>Ending Cash Balance</b>	<b>(\$99,421)</b>	<b>(\$295,612)</b>	<b>(\$526,842)</b>	<b>(\$797,473)</b>	<b>(\$1,108,898)</b>

Source: Wellston financial reports

As shown in **Table 2-3**, current deficit spending continues and the five-year forecast anticipates increasing deficits in the General Fund. Therefore, without substantial changes in operations and spending, the City is projected to maintain a deficit through the forecasted period. There are several likely scenarios that could negatively or positively impact the ending fund balance. These scenarios include implementing the performance audit recommendations, renegotiating with the City bargaining units, and increasing or reducing anticipated revenues.

**Table 2-4** presents a forecast developed for Wellston based on five years of actual historical data (2005-2009) and includes five years of projected data (2010-2014). The forecast includes General Fund receipts and expenditures and an adjustment line that reflects the following:

- Selected funds that are projected to incur deficits throughout the forecast period;
- Corrections and adjustments for non-capital expenditures from the Fire Fund and the County Sales Tax Improvement Fund (see **R2.11**); and
- Total of outstanding encumbrances owed by the City.

Each major line item was projected by auditors on an individual basis, then summarized for the depiction in **Table 2-4**. The City is strongly encouraged to use the individual line item projection methodology to manage its finances in the future.

**Table 2-4: Adjusted Wellston General Fund with Audit Recommendations**

	2010	2011	2012	2013	2014
Receipts Over (Under) Expenditures	(\$113,684)	(\$196,191)	(\$231,231)	(\$270,630)	(\$311,425)
Beginning Balance	\$14,263	(\$99,421)	(\$295,612)	(\$526,842)	(\$797,473)
<b>Ending Cash Balance</b>	<b>(\$99,421)</b>	<b>(\$295,612)</b>	<b>(\$526,842)</b>	<b>(\$797,473)</b>	<b>(\$1,108,898)</b>
Adjustments (Cumulative) <sup>5</sup>	(\$1,652,359)	(\$2,055,657)	(\$2,469,709)	(\$2,894,791)	(\$3,331,191)
<b>Adjusted Ending Cash Balance</b>	<b>(\$1,751,779)</b>	<b>(\$2,351,269)</b>	<b>(\$2,996,551)</b>	<b>(\$3,692,264)</b>	<b>(\$4,440,089)</b>
City Actions (Cumulative)	\$59,800	\$132,400	\$207,200	\$284,200	\$363,500
<b>Ending Cash Balance After City Actions</b>	<b>(\$1,691,979)</b>	<b>(\$2,218,869)</b>	<b>(\$2,789,351)</b>	<b>(\$3,408,064)</b>	<b>(\$4,076,589)</b>
AOS Recommendations (Cumulative)	\$409,495	\$1,417,955	\$2,435,857	\$3,463,472	\$4,501,078
<b>Revised Cash Balance</b>	<b>(\$1,282,484)</b>	<b>(\$800,915)</b>	<b>(\$353,494)</b>	<b>\$55,408</b>	<b>\$424,490</b>

Source: Wellston financial reports and AOS

The purpose of a financial forecast is to identify trends in revenue and spending and to serve as a foundation for the City's short- and long-term planning needs. Assumptions are provided for the major line items to explain significant variances and to clarify the methodology used to project revenue and expenditures. The assumptions (**Appendix 2-A**) used to project the major revenue and expenditures within the five-year forecast are based on available information, including historical events and future City plans. Furthermore, the assumptions disclosed herein were developed in conjunction with City personnel and are based on information obtained during the course of the audit. Financial forecasts may be affected by many factors, both external and internal. Therefore, it is important to note that assumptions may not accurately reflect future events, and the reliability of financial forecasts cannot be guaranteed. The forecast is a dynamic planning document and the City should monitor projections and adjust its projections to reflect new information.

**Table 2-5** demonstrates the cumulative cost savings associated with all recommendations in this report.

**Table 2-5: Total Recommendations for Wellston – All Funds**

	2010	2011	2012	2013	2014
<b>Grand Total All Funds</b>	\$1,068,400	\$1,323,700	\$1,326,600	\$1,329,700	\$1,333,100

**Table 2-6** through **Table 2-9** illustrate the cost savings for the General Fund and other funds (by fund type) associated with the recommendations contained within the performance audit. Some recommendations and the associated savings are dependent on the outcome of collective bargaining negotiations.

<sup>5</sup> Adjustments are detailed in **Appendix 2-A**.

**Table 2-6: Recommendations for Wellston General Fund (Fund 101)**

	2010	2011	2012	2013	2014
<b>R2.11</b> Transfer capital outlay to sales tax fund	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
<b>R2.11</b> Transfer of Fire Fund Non-Capital to Fire Fund	\$0	\$307,500	\$315,500	\$323,800	\$332,300
<b>R3.1</b> Consolidate Service Director position	\$80,800	\$91,800	\$91,800	\$91,800	\$91,800
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$4,800	\$4,800	\$4,800	\$4,800	\$4,800
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$41,200	\$41,200	\$41,200	\$41,200	\$41,200
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
<b>R3.10</b> Reduce the COLA from 3% to 0%	\$0	\$46,200	\$47,500	\$49,000	\$50,400
<b>R3.14</b> City officials attend Ohio Municipal League training	(\$300)	\$0	\$0	\$0	\$0
<b>R4.1</b> Enter into Dedicated Service Agreement for Police Services	\$242,000	\$484,000	\$484,000	\$484,000	\$484,000
<b>R4.1</b> Sell 4 police cruisers	\$8,000	\$0	\$0	\$0	\$0
<b>R4.4</b> Establish fire inspection fee structure	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
<b>Total</b>	<b>\$409,500</b>	<b>\$1,008,500</b>	<b>\$1,017,800</b>	<b>\$1,027,600</b>	<b>\$1,037,500</b>

Source: AOS

**Table 2-7: Recommendations for Special Revenue Funds**

	2010	2011	2012	2013	2014
<b>Fire Fund (Fund 201)</b>					
<b>R2.11</b> Transfer of Fire Fund Non-Capital to Fire Fund	\$0	(\$307,500)	(\$315,500)	(\$323,800)	(\$332,300)
<b>R2.11</b> Transfer of Fire Truck Payments to County Sales Tax Improvement Fund	\$68,500	\$68,500	\$68,500	\$68,500	\$68,500
<b>Total Fire Fund (Fund 201)</b>	<b>\$68,500</b>	<b>(\$239,000)</b>	<b>(\$247,000)</b>	<b>(\$255,300)</b>	<b>(\$263,800)</b>
<b>Street Fund (Fund 202)</b>					
<b>R3.1</b> Consolidate Service Director position and allocate costs to other funds	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$18,600	\$18,600	\$18,600	\$18,600	\$18,600
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
<b>R3.10</b> Reduce the COLA from 3% to 0%	\$0	\$8,400	\$8,600	\$8,900	\$9,200
<b>R3.12</b> Reduce overtime to 2%	\$3,600	\$3,600	\$3,600	\$3,600	\$3,600
<b>R5.17</b> Transfer appropriate expenditures to State Highway Improvement Fund	\$34,500	\$34,500	\$34,500	\$34,500	\$34,500
<b>R5.17</b> Transfer appropriate expenditures to Street Levy Fund	\$45,800	\$45,800	\$45,800	\$45,800	\$45,800
<b>R5.18</b> Reduce Street Department staffing by 1.0 FTE	\$46,100	\$57,100	\$57,100	\$57,100	\$57,100
<b>Total Street Fund (Fund 202)</b>	<b>\$128,600</b>	<b>\$148,000</b>	<b>\$148,200</b>	<b>\$148,500</b>	<b>\$148,800</b>
<b>Cemetery Fund (Fund 203)</b>					
<b>R5.25</b> Transfer new cemetery care fee	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
<b>Total Cemetery Fund (Fund 203)</b>	<b>\$1,800</b>	<b>\$1,800</b>	<b>\$1,800</b>	<b>\$1,800</b>	<b>\$1,800</b>
<b>Railroad Depot Fund (Fund 219)</b>					
<b>R5.31</b> Implement business plan for rental facility	\$2,000	\$4,100	\$4,100	\$4,000	\$4,000
<b>Total Railroad Depot Fund (Fund 219)</b>	<b>\$2,000</b>	<b>\$4,100</b>	<b>\$4,100</b>	<b>\$4,000</b>	<b>\$4,000</b>
<b>Pool Fund (Fund 614)</b>					
<b>R5.29</b> Adjust Recreation Director salary based on pool closing	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200
<b>Total Pool Fund (Fund 614)</b>	<b>\$7,200</b>	<b>\$7,200</b>	<b>\$7,200</b>	<b>\$7,200</b>	<b>\$7,200</b>

Source: AOS

**Table 2-8 Recommendations for Restricted and Capital Funds**

	2010	2011	2012	2013	2014
<b>Cemetery Perpetual Care Fund (Fund 801)</b>					
<b>R5.25</b> Transfer new cemetery care fee	(\$1,800)	(\$1,800)	(\$1,800)	(\$1,800)	(\$1,800)
<b>Total Cemetery Perpetual Care Fund (Fund 801)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>	<b>(\$1,800)</b>
<b>State Highway Improvement Fund (Fund 206)</b>					
<b>R5.17</b> Transfer appropriate expenditures from Street Operating Fund	(\$34,500)	(\$34,500)	(\$34,500)	(\$34,500)	(\$34,500)
<b>Total State Highway Improvement Fund (Fund 206)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>	<b>(\$34,500)</b>
<b>County Sales Tax Improvement Fund (Fund 210)</b>					
<b>R2.11</b> Transfer capital outlay from General Fund	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)
<b>R2.11</b> Transfer of fire truck payments from Fire Fund	(\$68,500)	(\$68,500)	(\$68,500)	(\$68,500)	(\$68,500)
<b>Total County Sales Tax Improvement Fund (Fund 210)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>	<b>(\$88,500)</b>
<b>Street Levy Fund (Fund 211)</b>					
<b>R5.17</b> Transfer appropriate expenditures from Street Operating Fund	(\$45,800)	(\$45,800)	(\$45,800)	(\$45,800)	(\$45,800)
<b>Total Street Levy Fund (Fund 211)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>	<b>(\$45,800)</b>

Source: AOS

**Table 2-9: Recommendations for Enterprise Funds**

	2010	2011	2012	2013	2014
<b>Water Fund (Fund 601)</b>					
<b>R3.1</b> Consolidate Service Director position and allocate costs to other funds	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$11,200	\$11,200	\$11,200	\$11,200	\$11,200
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$60,100	\$60,100	\$60,100	\$60,100	\$60,100
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$4,200	\$4,200	\$4,200	\$4,200	\$4,200
<b>R3.10</b> Reduce COLA from 3% to 0%	\$0	\$26,100	\$26,900	\$27,700	\$28,600
<b>R3.12</b> Reduce overtime to 2%	\$91,500	\$91,500	\$91,500	\$91,500	\$91,500
<b>R5.1</b> Capture maintenance savings from reducing water loss to 37% target	\$95,000	\$95,000	\$95,000	\$95,000	\$95,000
<b>R5.3</b> Reduce water employee staffing by 1.0 FTE	\$40,900	\$51,900	\$51,900	\$51,900	\$51,900
<b>R5.8</b> Collect additional receipts from previously unmetered water accounts	\$59,600	\$59,600	\$59,600	\$59,600	\$59,600
<b>R5.11</b> Collect unpaid water receipts through collection agency	\$110,000	\$0	\$0	\$0	\$0
<b>Total Water Fund (Fund 601)</b>	<b>\$447,000</b>	<b>\$374,100</b>	<b>\$374,900</b>	<b>\$375,700</b>	<b>\$376,600</b>
<b>Wastewater Fund (Fund 606)</b>					
<b>R3.1</b> Consolidate Service Director position and allocate costs to other funds	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)	(\$25,500)
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$9,700	\$9,700	\$9,700	\$9,700	\$9,700
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$600	\$600	\$600	\$600	\$600
<b>R3.10</b> Reduce COLA from 3% to 0%	\$0	\$13,200	\$13,600	\$14,000	\$14,500
<b>R3.12</b> Reduce overtime to 2%	\$13,800	\$13,800	\$13,800	\$13,800	\$13,800
<b>R5.8</b> Collect additional receipts from previously unmetered sewer accounts	\$87,000	\$87,000	\$87,000	\$87,000	\$87,000
<b>R5.11</b> Collect unpaid sewer receipts through collection agency	\$17,000	\$0	\$0	\$0	\$0
<b>Total Wastewater Fund (Fund 606)</b>	<b>\$104,200</b>	<b>\$100,400</b>	<b>\$100,800</b>	<b>\$101,200</b>	<b>\$101,700</b>
<b>Refuse Collection Fund (Fund 611)</b>					
<b>R3.8</b> Increase employee share of insurance premium to 15%	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400
<b>R3.9</b> Reduce pick-up of employee contribution to PERS	\$10,900	\$10,900	\$10,900	\$10,900	\$10,900
<b>R3.10</b> Consolidate/ eliminate uniform allowance for OCSEA & Fire Dept.	\$900	\$900	\$900	\$900	\$900
<b>R3.10</b> Reduce COLA from 3% to 0%	\$0	\$8,000	\$8,200	\$8,400	\$8,700
<b>R5.8</b> Collect additional receipts from previously uncollected garbage accounts	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
<b>R5.12</b> Reduce refuse collection staff by 1.0 FTE	\$44,000	\$55,000	\$55,000	\$55,000	\$55,000
<b>Total Refuse Collection Fund (Fund 611)</b>	<b>\$70,200</b>	<b>\$89,200</b>	<b>\$89,400</b>	<b>\$89,600</b>	<b>\$89,900</b>

Source: AOS

## Recommendations

**R2.1 Wellston should implement a basic control environment. This includes creating financial controls associated with the planning and monitoring of City finances, as well as creating a straightforward system for managing its employees. The City should develop a strategic plan that articulates its programs and funding decisions and ensure the plan aligns available resources with the service needs of the community. Goals in the strategic plan should be linked to the City's capital plan (R2.2) and financial forecast (R2.3).**

The City lacks the most basic internal management controls. There is no budgetary process and no future planning. Most of the City's purchases are made as emergencies. Finances have not been managed as resources are comingled, and expenditures and receipts have not been monitored. During the course of the audit, the City was in the process of developing a mandated financial recovery plan following the Auditor of State's fiscal emergency declaration for the City.

The City is also not managing its human resources. There are few management controls over personnel. Work quality and duration is not monitored, timekeeping and payroll records are routinely altered or revised, and no performance standards have been implemented.

In addressing its financial circumstances, Wellston must also address the practices that have been identified as sources of financial loss for the City. These include:

- Annual budgets should identify changes in revenues and expenditures and should be filed appropriately with the County Auditor (R2.3);
- Monthly financial updates should be shared with Council and with department leaders to determine the need for spending adjustments (R2.3);
- Purchases should be approved by City Administration and Council before the purchase is made, with only rare exceptions (R2.8);
- Outstanding invoices should be paid to reduce late fees and finance charges (R2.3);
- City Auditor's Office employees and other cash-handling staff should receive annual training on fund management and proper accounting and auditing procedures (R2.10);
- Accounts should be adjusted to comply with ORC fund management, such as posting capital funds to appropriate accounts (R2.11);
- Fund deficits should be prioritized for repayment as the City is in violation of the ORC for using restricted funds (R2.3);

- Timecards should be reviewed, approved, and audited to ensure payroll reflects the time worked and to identify abuse (**R2.6**);
- Non-essential expenditures should be minimized or eliminated, including non-approved overtime use (**R3.12**);
- Fee rates and expenditures in enterprise funds such as water, sewer, and refuse collection should be evaluated to ensure these funds are self-sufficient (**R2.12**);
- An audit committee should be established for addressing audit citations (**R2.4**);
- Positions that are currently vacant should be eliminated;
- Collective bargaining agreement provisions should be renegotiated (**R3.10**); and
- Detailed documentation records should be maintained for all City transactions (**R3.4**).

Implementation of the most basic control environment is a critical step to the necessary overhaul of the administration of the City's government. Although a strategic plan is typically a five- to ten-year plan describing large projects and a vision for directing progress, Wellston must focus on addressing and immediately mitigating all areas of financial risk for the City. This could be accomplished through a simple and straightforward strategic plan.

*According to Recommended Budget Practice on the Establishment of Strategic Plans* (GFOA, 2005), all governmental entities should use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals. The focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. In developing the strategic plan, GFOA recommends the inclusion of measurable objectives and performance measures.

The City may wish to use examples and methodologies employed by other government agencies. For instance, the City of Montgomery, Ohio has established a formal strategic plan that meets recommended practices. Montgomery uses information from GFOA, ICMA (International City/County Management Association), and other industry practices to develop its strategic plan. Montgomery's strategic planning process was initially implemented to create a vision and engage Council in its operations. Montgomery has continued its strategic planning efforts beyond the initial implementation period, and its new plan extends through 2011. The strategic plan gives its Council and other officials a mutually-agreed-upon framework to achieve the goals of the city and sets parameters for operational goals for the city's departments.

Wellston administrators perceive the City's financial situation as being a result of revenue scarcity; however, little is being done to control expenditures or manage resources. Throughout the course of the audit, auditors identified multiple instances of overspending, poorly controlled spending, questionable resource allocation, and poor

personnel management. By developing a strategic plan that addresses the future management of the City, Wellston will be able to reinforce its commitment to its mission to serve its residents, and reach consensus on strategies and objectives for achieving that mission. More importantly, it will be able to more effectively target its financial and human resources during periods of resource scarcity.

**R2.2 The City should develop a five-year capital improvement plan (CIP) that is updated on an annual basis. The capital improvement plan should address the City’s most pressing capital needs first, but also establish a plan to bring City infrastructure up to acceptable levels of maintenance and into compliance with various oversight agencies.**

The City does not have a comprehensive capital improvement plan (CIP) that addresses long-term road maintenance and infrastructure needs. Major decisions are made annually based on available funding and perceptions of need. Formal planning is not conducted. The City does not have an inventory process to maintain and update its capital assets (see **R2.5**).

In 2009, Wellston had approximately 10 percent of its roads rated as “Critical,” while the peer average was only 4.6 percent. The development of a long-term CIP would help the City anticipate and prioritize its infrastructure needs. Additionally, advanced planning would help the City identify project financing sources before they are needed, helping to eliminate the significant effect of unforeseen costs on the City’s finances. However, due to the current financial situation, the City did not perform any street paving during 2009. In addition to the lack of a capital plan, the City also lacks a vehicle/equipment replacement plan (**R5.15**) or a preventive maintenance plan (**R5.13**).

According to *Multi-Year Capital Planning* (GFOA, 2006), local governments should prepare and adopt comprehensive multi-year capital plan to ensure effective management of capital assets. It should clearly identify capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts. A capital plan is a component of an entity’s strategic plan (see **R2.1**) and is essential to the future financial health of an organization and the continued delivery of services to citizens and businesses. A capital plan should cover a period of at least three years, preferably five or more, and should contain the following steps in development:

- Identify Needs: Governments should identify present and future service needs that require capital infrastructure or equipment.
- Determine Costs: The full extent of project costs should be determined when developing the multi-year capital plan.

- Prioritize Capital Requests: Continually faced with extensive capital needs and limited financial resources, governments should properly evaluate project submittals.
- Develop financing strategies: Financing strategies should align with expected project requirements while sustaining the financial health of the organization.

With a multi-year capital plan, the City can create a clear understanding of its capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts. It would help the City identify and prioritize expected infrastructure needs based on its strategic plan and known factors. In addition, a capital plan would help establish project scope and cost, detail estimated amounts of funding by source, and project future operating and maintenance costs.

Developing a comprehensive CIP as part of the City's strategic plan will enable it to plan for capital maintenance and replacement costs and also help the City communicate to its stakeholders the cost of maintaining its capital assets.

**R2.3 The City should develop budgeting policies that include both the planning and forecasting of receipts and expenditures and the ongoing monitoring and adjusting of actual financial performance throughout the year. First, Council should require the preparation of a five-year financial forecast prior to adopting the annual appropriation measures. The City should ensure the forecast is consistent with the Certificate of Estimated Resources filed with the County and that the forecast is approved and documented by Council. The City should regularly update the financial forecast to address changing conditions.**

**In addition, Council should adopt budgetary policies that define funds, and should adopt an annual appropriation measure in accordance with State law. The budget should be publicized to the community, the administration, and department supervisors. Policies should be used to frame major initiatives such as increasing or decreasing services and departmental budgets. Financial policies should be summarized in the budget document to communicate to the public and stakeholders how the City plans to manage financial resources.**

**Council should receive reports comparing actual receipts and expenditures with budgeted amounts and should establish minimum fund balances for the General Fund and other significant funds to stabilize government operations. Department supervisors also should receive financial reports so that they can monitor their budgets throughout the year.**

Although Wellston was placed in fiscal emergency by the Auditor of State (AOS) in 2009, the City's financial condition has been steadily declining for several years. For example, Wellston's 2004 audited financial statements indicated that the City's unreserved fund balance for the General Fund had decreased by 37 percent from the prior year. The 2005 Financial Audit noted that the unreserved fund balance for the General Fund had decreased another 24.6 percent from the prior year. The City does not develop financial projections.

The City also has not established or documented its budgetary process. The City's processes consist of the Auditor requesting information from the Police, Fire, and Recreation departments and then calculating a budget based on past trends. The 2008 Financial Audit, however, indicated that the most recent certified budget could not be located. While the City insists that past City budgets were approved, the City failed to submit a Certificate of Estimated Resources to the County Auditor. The City administration and Council could also not locate the 2009 budget.

The City has not developed comprehensive financial management policies and procedures that meet GFOA-recommended practices (see **Appendix 2-C**) that include balanced budget, long-range financial planning, fees and cost of services, and debt and investment policies. The City has received numerous recurring non-compliance citations and recommendations but has not developed policies for addressing these issues. The 2008 Financial Audit specifically recommended the City seek Council approvals of expenditures on a monthly basis. The City has not focused on strategic and financial planning or regularly evaluating its fees and expenditures in order to balance operating costs.

*Financial Forecasting in the Budget Preparation Process* (GFOA, 1999) recommends that governments at all levels forecast major revenues and expenditures. The forecast should extend 3 to 5 years beyond the budget period and should be regularly monitored and periodically updated. The GFOA goes on to indicate that a financial forecast provides an understanding of available funding, evaluates financial risk, assesses the likelihood that services can be sustained, identifies future commitments and resource demands, and identifies the key variables that cause change in the level of revenue. The American Institute of Certified Public Accountants (AICPA)<sup>6</sup> also has detailed guidelines that could assist Wellston in preparing financial forecasts in a consistent and reliable manner.

*Best Practices in Public Budgeting* (GFOA, 2000) notes that regular monitoring of budget performance provides an early warning of potential problems and gives decision-makers time to consider actions that may be needed due to changing circumstances. Consistency and timeliness are particularly important when implementing this practice: it

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<sup>6</sup> <http://www.aicpa.org/>

is essential that reports are prepared on a routine, widely-publicized basis. In addition to monitoring budget-to-actual results, reasons for deviations should be evaluated. These factors are important in assessing the significance of variations, including whether they are expected to be temporary or longer-term in duration. This budgetary monitoring is for the short-term and should be performed in conjunction with regular monitoring and evaluation of the City's long-term financial condition.

The City of Sidney, Ohio has developed financial policies that include a budgeting and financial planning policy. Furthermore, Sidney has financial policies for auditing, internal controls, asset management, risk management, capital improvement, debt management, and financial performance targets. The major elements of the budgeting and financial planning process for Sidney are a comprehensive strategic plan, five-year financial plan, and annual operating and capital budgets. The comprehensive strategic plan establishes a policy framework to guide the expansion and future development of Sidney over a ten- to fifteen-year period. The five-year financial plan projects operating fund financial performance, estimates funding needs, and identifies funding sources. Sidney updates the financial plan annually and estimates the costs and funding for projects and programs that accomplish the long-term goals of the city. Sidney's budgeting and financial policies state that the following budget-balancing strategies will be used, in order of priority:

- Reduce expenditures through improved productivity;
- Shift expenses to other parties;
- Create new service fees or increase existing fees;
- Seek tax rate increases; and
- Reduce or eliminate services.

Likewise, *Appropriate Levels of Unreserved Fund Balances in the General Fund* (GFOA, 2002) indicates that "it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning." Accordingly, the GFOA recommends that governments establish formal policies of unreserved fund balance that should be maintained in the General Fund, and that the balances be 5 to 15 percent of regular General Fund operating revenues, or no less than 1 to 2 months of regular operating expenditures. The GFOA goes on to indicate that the minimum fund balance policy should be applied and monitored within the context of the long-term financial forecast.

The financial health of a government is critical to its ability to meet the needs of its residents. Past deficit spending was ignored by Wellston's elected officials, in part because of a significant permanent investment fund and the lack of regular financial updates. Requiring a minimum fund balance could help the City enforce the need for maintaining sufficient fund reserves and promote an understanding of fund accounting.

Furthermore, the financial condition of any local government should be evaluated to identify potential problems and any changes that may be needed to improve performance over both the short and long terms. Budget performance identifies explicit short-term indicators, primarily revenue and expenditure status for the budget period. An evaluation of financial condition considers a broader array of factors that may have long-term implications for the financial health of the government. These factors may include specific measures of City's financial performance (e.g., trends in operating position or liquidity) as well as measures of the community's general social, demographic, and economic conditions. Consistent and routine reporting and analysis will help the City better understand, plan, and prepare for conditions that could impact the levels of service the City is able to provide to its residents. Long-term financial management will be essential to the City's financial recovery.

**R2.4 Wellston should establish an audit committee and develop strategies to address past financial audit citations, especially those that have occurred in multiple years. It will be difficult for the City to achieve long-term financial stability without addressing the internal control weaknesses identified in past financial audits.**

The City Auditor works with a Council Finance Committee on budgetary and finance issues. **Appendix 2-B** shows that Wellston has had an extensive list of financial audit citations since 2004, most of which have been issued in multiple years. Based on the results in **Appendix 2-B** and other financial management practices identified in this performance audit (see **R2.3** and **R2.10**), it does not appear the City places an importance on the financial audit results or maintaining sound financial management practices. Establishing membership and authority of an audit committee may help the City resolve the financial audit citations and address some of the other recommendations identified in this performance audit.

In *Recommended Budgeting Practices* (GFOA, 2006), the GFOA indicates that every government should establish an audit committee and that all contracted accounting and auditing services should report directly to the audit committee. The GFOA also indicates, "Ideally, the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing. The audit committee should also have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. This expert should possess an understanding of generally accepted accounting principles, experience in preparing or auditing financial statements, experience in applying such principles in connection with the accounting for estimates, accruals, and reserves, experience with internal accounting controls, and an understanding of audit committee functions." The GFOA goes on to state that the audit committee should provide an independent review and oversight of a government's financial reporting process, internal controls, and independent auditors.

*Best Practices* (AOS, 2005) recommends the audit committee be established to review draft financial statements, work with management and audit staff to select accounting standards, discuss sensitive audit areas, and resolve audit citations. The committee should monitor for fraud and illegal acts, deficiencies in internal controls, auditor responsibilities and expectations, significant accounting policies and estimates, and significant audit adjustments in determining whether the government's overall financial statements were fairly stated.

By forming an audit committee and providing specific written guidelines concerning objectives to accomplish, Wellston can establish an independent oversight body to help to ensure the accuracy of financial reporting and facilitate both internal and external audits.

**R2.5 The City should develop a capital asset inventory. Tagging and listing all items will provide valuable information on the value of City assets and will help to identify loss or theft.**

According to the 2008 Financial Audit, the City has \$11.8 million in capital assets, but the City does not maintain an inventory of buildings, equipment, or vehicles. When an item is stolen, the department leader must describe the item to the City Auditor's office to order a replacement. Thefts have allegedly occurred frequently due to break-ins and inadequate security.

*Recommended Practices: Adopted Financial Policies* (GFOA 2001) recommends that, at a minimum, financial planning should include an asset inventory as a basic financial policy. A jurisdiction should adopt a policy regarding inventory and should assess the condition of all major capital assets. This information should be used to plan for the ongoing financial commitments required to maximize the public's benefit. The 2008 Financial Audit recommended that the City monitor and update capital assets. The audit suggested that the City hire an appraisal firm to tag and list all assets; however, it can also accomplish this through low-cost means using internal personnel.

The risk of theft increases when items are not properly accounted for in City records and are not monitored on a long-term basis. By tracking assets, the City will be able to identify areas of risk and ensure the City is not losing its resources to misappropriation. This will reduce the need for City employees to replace lost and stolen equipment and conserve scarce financial resources. If necessary, Council could implement a policy assigning financial responsibility over key assets to specific City personnel.

**R2.6 Wellston should ensure timecards are submitted with complete and accurate information to reduce the risk of fraud and abuse and ensure employees are paid properly. Timecards should be reviewed for completeness before payment is authorized and should be verified to ensure hours submitted are consistent with**

**hours worked. Finally, work patterns should be examined to ensure employees are not abusing leave benefits.**

Timecards are maintained on handwritten forms signed by both the employee and supervisor and submitted by department supervisors. Once reviewed, the City Service Director signs the timecard indicating final approval. The Deputy Auditor then submits payroll information directly to the City's contracted payroll processing company with no additional inspection. A review of timecards for City personnel for 2009 found 33 percent had been altered in some manner. Only one card contained initials identifying the supervisor who had made the changes. Further, a review of Water Department employee timecards identified missing signatures, missing dates, and other irregularities.

In addition to incompleteness and alternations, certain timecards were also submitted with false information. Refuse collectors in the Streets Department regularly submit timecards showing eight hours worked each day despite these employees often ending their shifts at midday once their routes are complete.

Further, in analyzing payroll records, the total hours paid per employee for combined regular hours plus holidays, vacation, sick leave, and compensatory time were inconsistent. Even when taking into account certain provisions for cashing out leave and for extra holiday pay for Fire Department employees, this did not explain the discrepancies. Since the City Auditor's Office is the only department with access to detailed payroll information, the City's payroll is prone to high levels of undetected error.<sup>7</sup>

According to *Developing a 'Clock Work' State of Mind* (Society for Human Resource Management (SHRM), 2006), employers must clarify what counts as compensable working time, ensure employees accurately report all hours worked, monitor employee work activities to ensure employees do not work off the clock, and consistently reprimand any employees for violations. SHRM recommends that employers periodically audit a sample of payroll records and calculations. Notes should also be retained describing any changes to time entries. Further, employers should periodically call managers' and employees' attention to the importance of proper timekeeping practices.

SHRM also recommends that employers looking to reduce errors should consider the benefits of an automated time and attendance system, which include the following:

- Reduces the risk of costly payroll errors and inflated labor costs;
- Provides managers with real-time labor data along with tools to control costs and improve productivity;

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<sup>7</sup> In fact, the Deputy Auditor indicated that her own total was incorrect.

- Eliminate paper timesheets and opportunities for human error;
- Deliver pay accurately and on time with consistent pay practices; and
- Free managers to focus on higher-value strategic activities.

Due to financial problems and a lack of technology infrastructure across the City, the City is not likely to be able to implement automated time and attendance immediately. However, it can create spreadsheets to account for timecard data. The spreadsheets can be used to verify totals and ensure employees have sufficient leave balances to permit leave usage. Data should be verified as accurate before being submitted to the payroll processing company. Performing basic checks would provide the City with an ability to significantly improve the efficiency of the payroll function and reduce the potential for paying employees wages they have not earned. Once the City's finances improve, it should consider investing in an automated time and attendance system.

**R2.7 Wellston should require the use of direct deposit for payroll checks in order to save time reduce the cost of processing physical checks. Using direct deposit would also reduce the potential for lost checks and the need to produce duplicate checks.**

City employees can elect to receive direct deposit or a traditional paper check. About half of employees use the direct deposit option.

*Accounting Best Practices* (Bragg, 2005) indicates that direct deposit carries the advantage of putting money in the employees' bank accounts at once, so those employees who are off-site on payday do not worry about how their money will be received. According to *Costs and Benefits of Direct Deposit of Salary Checks* (National Federation of Independent Businesses (NFIB), 2004), direct deposit of paychecks provides many benefits to both employers and employees. Benefits to employers include:

- Reduced risk of check fraud and lost or stolen checks;
- Greater control over payroll and payroll expenses;
- Timely payment of salary checks, even when employees are away from the office;
- Reduced time spent on bookkeeping because of immediate payments into employee accounts (no lost checks, delayed check cashing, etc.); and
- Online transaction reports are available immediately.

Benefits to employees include:

- Reduced time required for checks to clear;
- Reduced chance of losing checks or having checks stolen;
- No need to spend time visiting a bank or ATM to deposit paychecks;

- Payments can be divided automatically among designated employee accounts; and
- There is no cost to employees for direct deposit.

The Electronic Payment Association states that employers and employees can financially benefit from the use of electronic pay stubs, while simultaneously increasing efficiencies within a payroll department. The employer benefits because electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employee benefits because he or she can easily access pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to third parties, such as accountants, mortgage lenders, and other agencies requiring pay verification.

Although the savings associated with implementing mandatory direct deposit and electronic pay stubs is not consequential to the City because of the use of the contracted payroll processing agency and limited staff involvement in distributing paychecks and receipts, the District's employees would benefit from the timely payments and the greater availability of historical pay stub information. In addition, the use of direct deposit would reduce the need for duplicate checks to be ordered when an employee's check is lost or accidentally destroyed.

**R2.8 The City should develop a comprehensive purchasing policy that applies to all credit cards and lines of credit. Policies should restrict purchasing to authorized individuals, require detailed documentation for purchases, and enforce prior or concurrent approval for all purchases to reduce the risk of fraud and abuse or the misappropriation of resources. The City should ensure that funds are available prior to the purchase being made to prevent expenditures from exceeding appropriations. It should complete a "then and now" certificate at the time of commitment in emergency situations. If a proposed expenditure is going to exceed the available appropriation and is not an emergency, the purchase should be postponed until the Mayor identifies reductions in other areas of the budget to cover the shortfall and City Council approves the adjustment. The City should not allow transfers, advances, appropriation adjustments, and other budget modifications to take place without receiving prior approval by Council.**

Wellston has a purchasing policy that requires purchase orders to ensure prior approval. However, the 2008 Financial Audit tested the City's invoices and found 70 percent of invoices were dated on or before the purchase order, meaning that the purchases were made prior to being legally authorized by the fiscal officer. The Audit also recommended the development of a credit card policy to ensure authorized use of cards. Although the

Deputy Auditor indicated that cards are assigned to departments, several individuals across the City described purchasing fuel at the local gas cards using cards kept at those businesses. In at least one instance, an employee of one business has made false charges.

In addition, the City has open purchase orders and lines of credit at area businesses such as the local hardware store. A review of purchases made in 2009 included mostly low-cost items, such as bolts, paper towels, plumbing supplies, and occasional car batteries. While these are minor purchases, the City is unable to meet current obligations, making payments as much as five or six months in arrears. With a balance of over \$11,000 in 2009 on this line of credit, the 18 percent annual interest finance charge was adding more than \$100 per month onto this unpaid balance.

The 2008 Financial Audit cited the City for several issues related to purchasing. The most serious of these was non-compliance with ORC § 5705.41(D)(1), which prohibits the City from making any contract or ordering any expenditure of money unless the Auditor certifies that the amount required has been lawfully appropriated and is in the treasury, or is in the process of collection to the appropriate fund. Further, according to the ORC, contracts and orders for expenditures lacking prior certification shall be null and void.

In addition, the following issues were catalogued in the Financial Audit:

- Accumulating late fees is an improper use of resources;
- No policy regarding the use of government credit cards and accounts;
- Cell phone policy paid without monitoring documentation; and
- City employees related to vendors.

In *Public Purchasing: A Checklist for the Local Government Manager* (International City/County Management Association, 1998), ICMA states that an essential document in any local government is a purchasing manual containing the policies governing the "how to" of public procurement. The manual can contain a variety of topics, from basic instructions on how to prepare a purchase order to the procedures used to take telephone quotations, submit a sole source justification, make an emergency purchase, or negotiate a contract. A manual makes it easier to enforce purchasing policy. ICMA also provides examples of cities with purchasing manuals. Wellston could implement a purchasing manual internally at no additional cost. In order to ensure compliance, the City Auditor may need to provide training to key personnel and hold department supervisors and employees accountable for purchases made without prior approval, outside of the purchasing process, without supporting documentation, or for questionable purposes.

One of the reasons cited by City management for continued deficit spending is the need to make purchases in emergency situations for functions like the water and sewer utilities. However, a purchasing policies and procedures manual can help staff to do their jobs

more quickly, efficiently, and accurately. Establishing a policy to control and limit purchasing will help the City to limit expenditures and, in the future, better direct its resources to ongoing maintenance and planned capital replacement. By operating within the framework and parameters established through purchasing policies and proactively monitoring purchases during the year, the City will be better able to regain financial stability.

**R2.9 The City should develop policies and procedures regarding the selection process for vendors. These should include planning of purchases, making decisions to contract, developing performance requirements, implementing a bidding and request for proposal (RFP) process, awarding contracts, and monitoring vendors. Annually, quotes should be obtained from multiple vendors to examine prices and fees. This will allow the City to more effectively contract for services, such as excavating, while increasing accountability and ensuring the cost-effectiveness of the contracts. The City should also consider the cost-savings and benefits of participating in purchasing programs, including U.S. Communities Government Purchasing Alliance.**

Wellston purchases most goods from a selected group of local vendors that have traditionally been used by the City. Many items are purchased on an emergency basis, preventing the City from actively evaluating prices. The 2008 Financial Audit cited the City for the prevalence of transactions with parties related to City employees and elected officials. Although the small size of the community makes this more likely to occur, the City does not obtain quotes from multiple sources or review vendor charges to seek discounts and better pricing.

According to *Contracting for Services* (National State Auditors Association, 2003) governments should develop policies and procedures for the procurement of contracted services. Policies and procedures should include the following:

- **Planning:** Proper planning provides the foundation for contract awarding and monitoring. Planning identifies what services are needed, when and how they should be provided, and what provisions should be in the contract. Planning also helps ensure proper information is collected to effectively structure a request for proposals (RFP). As a public entity, the City must adhere to the State's bidding and contracting laws and other relevant State laws, as well as any procedural guidelines it is obligated to follow. Timely planning is especially important in processes like issuing RFPs that can take a long period of time to execute.
- **Decision to Contract:** The agency needs to determine whether or not to contract for the services. This will determine whether outsourcing or keeping the services in-house is the most appropriate action.

- **Performance Requirements:** Once the decision to contract has been made, the agency should develop performance requirements that will hold contractors accountable for the delivery of quality services.
- **Request for Proposal Process (RFP):** The decision to employ an RFP commits an agency to a formal process based on fair and open competition and equal access to information. An RFP allows the agency to systematically define the acquisition process and the basis on which the proposal will be assessed. The RFP itself provides a standardized framework for contractor proposals and highlights the business, technical, and legal issues that must be included in the final contract.
- **Award Process:** Although evaluation methods vary, the contract award process should ensure contractor proposals are responsive to the agency's needs, consistently and objectively evaluated, and that contracts are awarded fairly to responsible contractors. Without proper awarding practices, there is little assurance that an agency is selecting the most qualified contractor at the best price.
- **Award Decision:** When making an award decision, an agency should:
  - Have appropriate procedures for handling late or incomplete proposals;
  - Ensure that an adequate number of proposals was received;
  - Use an evaluation committee comprised of individuals who are trained on how to score and evaluate the proposals and who are free of impairments to independence;
  - Use fixed, clearly defined, and consistent scoring scales to measure the proposal against the criteria specified in the RFP;
  - Carefully check contractor references;
  - Document the award decision and keep supporting materials; and
  - Carefully control bids upon receipt to ensure that bids are not opened prematurely to give late confidential pricing information, bids are not accepted after the due date, inferior bids are not given extra opportunities to cure deficiencies, etc.
- **Contract Provision:** A contract for the purchase of services must be a formal written document. The contract should (1) protect the interests of the agency, (2) identify the responsibilities of parties to the contract, (3) define what is to be delivered, and (4) document the mutual agreement, the substance, and the parameters of what was agreed upon.

- **Monitoring:** Contract monitoring is an essential part of the contract process. Monitoring should ensure that contractors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved. Without a sound monitoring process, the contracting agency does not have adequate assurance that it receives the services stated in the contracts.

Although Wellston does not have many contracted services, it can annually aggregate its purchases for a particular type of service and request proposals for hourly labor rates. This would help the City improve its accountability over frequently used services like excavating and vehicle repair.

In addition, Wellston does not use any cooperative organizations for making bulk purchases. The United States Conference of Mayors – along with the National Institute of Government Purchasing, the National Association of Counties, the National League of Cities, and the Association of School Business Officials International – sponsors the largest national purchasing cooperative for local governments in the United States (U.S. Communities). Examples of additional items the City can purchase through organizations such as U.S. Communities include:

- Office supplies,
- Janitorial supplies,
- Furniture,
- Electrical communication and data supplies;
- Technology products,
- Office machines,
- Carpeting and flooring; and
- Light duty vehicle auto parts.

Additional program information is available from the program websites: [www.uscommunities.org](http://www.uscommunities.org).

By accessing such programs, the City can lower its costs for supplies and materials and ensure that it receives the best value on its purchases. In addition, purchasing in bulk and requesting quotes and proposals from vendors will help City administrators and department supervisors ensure the City is making only needed purchases throughout the year.

**R2.10 Wellston should centralize and standardize the processes for handling cash and cash equivalents and ensure that internal controls are in place for all City transactions to reduce the risk of fraud or theft. Controls include maintaining receipt books, recording deposits, and periodically reconciling records to identify potential**

**discrepancies. Cash should also be properly secured and deposited as soon as possible.**

Wellston disperses the responsibility for cash handling across various personnel and departments. Money is turned in to the Treasurer periodically, but audits of these receipts are not performed and there are few internal controls to prevent the diversion of this money. The following personnel are responsible for accepting cash or check payments:

- Utilities (water, sewer, and garbage bills) – Utilities Clerk or Assistant Utilities Clerk;
- Cemetery lot purchases and transfers – Cemetery Sexton<sup>8</sup> and Assistant Utilities Clerk;<sup>9</sup>
- Rental facility payments & building permits – Mayor and Service Director’s Secretary;
- Municipal court fines – Police Dispatcher;
- Recreation sports player and sponsor fees – Recreation Director; and
- Season and daily pool passes – Seasonal pool ticket booth staff.

The procedures for receipting these payments vary. While the Utilities Office has minimal systems for accepting utility payments, several practices were found to lack sufficient control to prevent theft. For example, while a utility card stub was attached to payments and placed in the cash drawers, no other receipt of this money was made subsequent to leaving the cash overnight. Although the office was reportedly locked and cash drawers were locked inside a cabinet overnight, the adequacy of these procedures was questionable. With only a common date stamped on a customer’s utility bill as a receipt, an accurate record in the event of a theft might be difficult to recreate (see **public works and services** for a review of the Utilities Office processes).

Manual records are used in the sales of grave lots and burial services, with only certain personnel assigned to these functions. Cash is accepted both in the Utilities Office as well as by the Cemetery Sexton in charge of grave-digging. Since the manual records are reconciled only once a year, this lacks sufficient auditing to prevent error (**R5.26**).

The Secretary in the main office schedules the former Railroad Depot as a rental facility and accepts payment. In the 2008 Financial Audit, the City was cited for not accurately following the City ordinance in regard to requiring deposits for rentals. The Secretary indicated that this was intentional because of the City’s failure to refund these deposits in a reasonable amount of time. The Secretary also accepts fees for building permit

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<sup>8</sup> The position of Cemetery Sexton position was officially eliminated at the beginning of 2010. The cemetery functions are now in the Streets Department.

<sup>9</sup> In 2009, this function was performed by a part-time staff person; when staffing changes were made at the beginning of 2010, staff were reduced and the Assistant Utilities Clerk became responsible for the function.

applications.<sup>10</sup> Receipts are provided for both payments and a computer spreadsheet is maintained and updated once a deposit identification number is returned.

The police dispatcher on duty accepts payments of court fines and provides a receipt from a book provided by the Jackson County Court. The fines are picked up twice weekly by a court employee, although sometimes a police officer will deliver the deposits to the court.

Finally, the City allows residents to drop off sports player fees at designated local businesses and the fees are picked up by the Recreation Director and deposited with the Treasurer. The 2008 Financial Audit indicated that no documentation was provided for these fees. The Director also collects sponsorship fees. The Recreation Board President reported that the Director was permitted to collect tournament fees and then deduct umpire wages before submitting the remaining funds. During the course of this audit, the City passed an ordinance requiring increased documentation of fees associated with recreation sports activities. Details on the process of the ticket booth at the swimming pool were not available during the audit, but the Director indicated that a specific seasonal employee returns and runs the booth during the months the pool is open.

According to the 2009 Ohio Compliance Supplement (AOS, 2009), as a matter of accountability and internal control, each public office should account for financial activities using a financial system which demonstrates legal compliance. In particular, Ohio Administrative Code § 117-2-02(A) states the following:

“All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.”

*Accounting Procedures Manual for Local Units of Government in Michigan* (Michigan Department of Treasury, 2007) clarifies some of the specific procedures that should be adopted to ensure all cash collected is deposited. These include:

- Formal evidence such as numbered cash receipt tickets;
- Periodic listings of cash receipts;
- Bank deposits audited to ensure agreement with cash receipts;

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<sup>10</sup> After discussion with the Ohio Department of Commerce Board of Building Standards, the term “building permits” is broadly used and represents, in Wellston, a zoning function rather than enforcement and inspections of Ohio Building Codes compliance.

- Currency must be itemized and deposited intact;<sup>11</sup> and
- Deposits must be made timely.

If any employees other than the treasurer of the local unit receive cash, they must do so with the approval of the treasurer and in accordance with all cash-handling policies set forth by the government. There must be a record of each individual cash transaction. This may be accomplished using manually-written or computer-generated receipts, a cash register receipt, a point of sale cash receipts system, or any other method that results in a written record of each individual receipt. Manually prepared receipts must use sequentially numbered official receipts that include the local unit name and the department name.

By providing a documented record of cash handling, the City will be better able to ensure the proper receipt of all monies, identify the source of funds, and reduce the risk of any misappropriation of funds. In addition, ensuring more timely deposits, such as each evening, by the Treasurer will help safeguard funds received by the City. Finally, in its reorganization of personnel and duties associated with cost reductions to address its financial circumstances, the City should consider designating a single point of contact for payment of fees and fines, such as the Utility Billing Clerk's Office.

**R2.11 The City should ensure it is in compliance with generally accepted accounting principles (GAAP) and official voter ballot language when recording expenditures from the Fire Levy and County Sales Tax Improvement Levy. Expenditures should reflect the capital obligation specifications of the respective levies. The City should seek voter approval to change language in order to use the Fire Fund for non-capital expenditures.**

Wellston voters approved a levy in 2004, and renewed it in 2009, for the Wellston Fire Department for the specific purpose of funding fire fighting capital equipment and maintenance of such equipment. Up to January 2010, the City was improperly charging the Fund for non-capital expenditures including salaries, benefits, purchased services, supplies and materials, and other miscellaneous expenditures that were outside of the ballot language approved by voters. In addition, the Jackson County Commissioners passed enabling legislation for a sales tax ballot issue in 1987 to be used for community improvements. The citizens of Jackson County approved the tax levy for community improvements, and funds were distributed proportionately to Wellston and other Jackson County communities. In 2009, the City of Wellston spent revenue collected from the sales

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<sup>11</sup> Depositing intact means that the amount deposited should separately state cash from checks or other payment forms and should equal the total of the cash drawer receipts for the day. Identifying each receipt (either in a cash register or on manual cash receipt forms) as cash and then separately stating cash on the bank deposit slip is a strong protection against cash replacement fraud. Checks must also be restrictively endorsed (stamped for deposit only) at the point and time of collection.

tax levy on various operational expenditures across the City that did not qualify as capital expenditures.

According to ORC § 5705.10(C), expenditures based on a special levy should be consistent with the provisions described in the ballot language. Under ORC § 307.282 and ORC § 307.283, a community improvement board is invested with the authority to initiate a sales tax levy for permanent improvement projects. ORC § 133.01 defines a permanent improvement as an asset with a useful life of five years or more. The City of Wellston, in contrast, used the majority of sales tax funds collected in 2009 on various operating expenditures including office supplies and pest control services. At the same time, the City had capital expenditures that were assigned to other funds that could have been allocated to the County Sales Tax Improvement Fund as qualifying capital investments. By assigning expenditures in accordance with the ORC and the intent of the voted levies, the City can appropriately use these funds to help offset capital investments.

*Financial Implication:* If the City can obtain voter approval to change Fire Levy ballot language, the transfer of non-capital expenditures of fire operations will amount to a reduction of expenditures<sup>12</sup> of approximately \$300,000 to the General Fund (see **Table 2-6**). However, considering the state of Fire Department equipment, the City should carefully consider whether this change is essential to its financial recovery or if reductions made elsewhere would allow it to use these funds for their original purpose.

In addition, adjusting appropriate capital expenditures from the General Fund to the County Sales Tax Improvement Fund will amount to a reduction of expenditures of \$20,000 to the General Fund and \$68,500 from other funds. Using these funds for capital improvements will help the City fund its capital improvement plan, and improve and maintain its infrastructure.

**R2.12 The City should periodically evaluate its rate schedule for water, sewer, and refuse collection services to ensure it maintains positive balances in both the operating and capital funds (R2.3). After applying economy and efficiency measures, adjusting the rate structure will help the City recover production costs and cover past deficits while maintaining a fair and equitable rate structure for all consumers. The rate schedule should be evaluated annually to ensure the City shows a positive amount for the change in net assets, meets or exceeds any debt covenants, and provides sufficient cash flow to pay all bills in a timely manner.**

In the past, the City has not consistently evaluated water, sewer, and refuse collection rates to ensure these operations were adequately funded. Assuming the City implements

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<sup>12</sup> The transfer of non-capital expenditures of fire operations will revert these costs to the Fire Fund as had been the case prior to 2010, though, in this instance, the ballot language would now authorize the expenditures.

AOS recommendations for benefits and staffing, the water, sewer, and refuse collection funds are forecasted to maintain positive balances through the forecast periods.

Based on ORC § 743.04, the City may assess a fee for utility services in order to pay for operations and permanent improvements. *Cost Analysis and Activity-Based Costing for Government* (GFOA, 2004) recommends that a formal policy be established on setting fees and that the full cost of providing a service be calculated in order to provide a basis for setting the charge or fee. The full cost incorporates both direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities. Further, the policy should be reviewed and periodically updated for the adequacy of coverage. Accordingly, the City will need to monitor the changes to adjust based on the assumptions used for projections.

If the City's Water, Sewer, and Refuse Collection funds are able to maintain surpluses, Wellston should be able to use the additional revenue to make critical repairs to its water and sewer infrastructure and maintain its refuse collection vehicles.

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## Appendix 2-A: Forecast Assumptions

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The assumptions used in the forecast are based on a combination of available information and judgments, including historical events and future plans. Financial forecasts may be affected by many factors, both internal and external. Therefore, it is important to note that assumptions may not accurately reflect future events, and the reliability of financial forecasts cannot be guaranteed. The City should closely monitor projections, and when changes occur, projections should be adjusted to reflect the new information. The following is an explanation of the assumptions used to project the major revenue and expenditures within the five-year forecast.

### Revenues

#### *General Fund*

The General Fund receives revenues from real property taxes, rollback, local government / county taxes, incomes taxes, licenses and permit collections, rentals, and estate taxes.

- Real Property increased by an average of 6.8 percent from FY 2005 through 2009. The majority of the increase occurred due to a reappraisal update<sup>13</sup> in 2005, which increased 2006's total collections. Jackson County is expected to have a full reappraisal in 2011 which will affect 2012 collections. Due to recent economic downturns in the real estate market, it would not be reasonable to assume large property growth rates in valuations throughout the forecast. As a conservative assumption, the projections include a 1.0 percent increase per year through the forecasted period with a 3 percent increase following the reappraisal. The City should closely monitor real estate values and adjust the projections once more reliable or up-to-date data is obtained.
- Local Government Fund data was provided by the Jackson County Auditor for 2010. This was projected flat since the revenue is a combination of taxes sent by the State.
- Estate Tax has decreased steadily since 2005 by an average 17.6 percent from 2005 through 2009, with a five-year high total collection of \$105,700 in 2005. However, due to the unpredictability of this type of tax, the average collection for the recent three-year period of 2007 to 2009 was applied as a flat amount through the forecast.

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<sup>13</sup> Once every six years, county auditors are charged with conducting a physical reappraisal of property to determine the property value upon which the tax rate will be based. Every third year, the county auditors conduct a less detailed reappraisal called an update. The update makes further adjustments to property values.

### *Income Tax*

According to the Ohio Department of Taxation, income taxes are imposed on wages / salaries, and other compensation earned by residents and nonresidents who work in a municipality. The income tax is also applied to business net profits that are attributed to activities in the municipality. Wellston has an income tax rate of 1.0 percent and collected nearly \$1 million in 2009. The City uses Regional Income Tax Agency (RITA) to administer the collection of taxes. The Central Ohio RITA representative indicated the City had collected approximately \$1.1 million. Because the largest local employer, General Mills, is anticipating expanding, the 2009 figure was carried over to 2010. A modest 1 percent in annual growth reflects the 1 percent increase based on the Consumer Price Index (CPI).

### *Permanent Investment Income*

The City has three Certificates of Deposit (CDs) set to mature in September 2010, each for \$811,278 at interest rates of 4.5, 4.6, and 4.7 percent. A calculation was made for interest accumulating for 265 of 365 days of 2010. Since the CDs would be reinvested at the current rate, identified as a national average of 2.0 percent, this rate was calculated for the remainder of the year and for the entirety of the following years.

### *Other Line Items*

The remaining line items were projected using historical trends and known factors when available.

## **Expenditures**

### *Personal Services*

The projections for Personal Services consist of salaries, wages, and overtime costs for the majority of the City's departments, with the exception of enterprise fund departments. Personal Services represented approximately 57.5 percent of the City's total expenditures from 2005 through 2009. The following are key assumptions used in developing the projections for 2010 through 2014.

- Personal services were projected for 2010 through the forecasted period by increasing 2009 total reported expenditures by various percentages based on the department and negotiated pay increases. Current contracts for OCSEA employees have negotiated increases of 5 percent. The Fire Department employee contract has a negotiated wage increase of 3 percent. Since the Police Department accepted a wage freeze, the wage increase was rescinded for 2010. Since all the contracts will expire and are expected to be renegotiated by 2011, a 3 percent COLA was factored in for all subsequent years based

on historical trends. In addition to these, elected officials were expected to receive no increases while Council receives 3 percent annual increases under City ordinance.

#### *Employees' Retirement / Insurance Benefits (ERIB)*

ERIB consist of health insurance benefits, Medicare payments, retirement,<sup>14</sup> workers' compensation, unemployment benefits, life insurance, and Federal Insurance Contribution Act (FICA) payments. ERIB was calculated for each department based on past five-year averages. ERIB was extremely high, averaging 64.6 percent of Personal Services across the City.

#### *Purchased Services*

Purchased Services consist of expenditures related to contract payments, professional services, services and incidentals, leases, travel and training, telephone, electric, cell phones, maintenance of equipment, and general insurance. Since costs for these services are composed of both material costs and labor costs, services were estimated to increase at 2 percent annually to be conservative.

#### *Supplies and Materials*

Supplies and Materials consist of expenditures related to salt, gasoline, operating supplies, and office supplies. Since the CPI is estimated at 1.0 percent, this amount was used as an annual inflationary factor for these expenditures.

#### *Capital Outlay*

Capital Outlay consists of expenditures for the purchase of departmental equipment and/or the improvement of buildings and lands. Based on the CPI, the inflationary rate of Capital Outlay is estimated to be 1.0 percent, and this percentage was applied in each year of the forecast.

#### **Other Adjustments**

Several adjustments in the forecast were made to correct errors in Wellston's accounting methods. These adjustments were made by AOS in the development of the five-year forecast to reflect necessary changes the City should perform in order to comply with the ORC in recording its revenues and expenditures.

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<sup>14</sup> Retirement consist of the Ohio Public Employees Retirement System (PERS) and the Ohio Police and Fire Pension Fund (OPFPF).

*General Fund (101)*

- The 2009 ending fund balance of those special revenues funds with deficits – namely the Fire Fund, Street Fund, Cemetery Fund, Recreation Fund, Railroad Depot Fund, and Pool Fund – were reallocated to the General Fund. This amounted to a one-time debit of \$722,200 to the General Fund.
- Due to improper accounting for non-capital expenditures in the Fire Fund, non-capital fire fighting expenditures including salaries, benefits, purchased services, supplies and materials, and other expenditures were transferred to the General Fund during the forecasted period.
- Fire fighting capital expenditures, namely fire truck payments of \$68,500, which had been charged to the General Fund, were transferred to the Fire Fund.
- Non-capital general operating expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the General Fund.

*Fire Fund (201)*

- The 2009 negative ending fund balance was reallocated to the General Fund. This amounted to a one-time credit of \$18,000 to the Fire Fund.
- Non-capital expenditures, described above, which were inappropriately charged to the Fire Fund were reallocated to the General Fund and therefore credited to the Fire Fund throughout the forecast period.
- Also identified above, the fire truck payments of \$68,500 were reallocated throughout the forecast period from the General Fund to the Fire Fund, in keeping with the special levy.

*Street Fund (202)*

- The 2009 negative ending fund balance was reallocated to the General Fund. This amounted to a one-time credit of \$174,700 to the Street Fund.
- Non-capital street maintenance expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the Street Fund.

*Cemetery Fund (203)*

- The 2009 negative ending fund balance was reallocated to the General Fund. This amounted to a one-time credit of \$479,400 to the Cemetery Fund.
- Non-capital cemetery maintenance expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the Cemetery Fund.

*Recreation Fund (204)*

- The 2009 negative ending fund balance was reallocated to the General Fund. This amounted to a one-time credit of \$9,500 to the Recreation Fund.
- Non-capital recreational expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the Recreation Fund.

*County Sales Tax Improvement Fund (210)*

- Non-capital expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were credited to the appropriate funds.

*Railroad Depot Fund (219)*

- The 2009 negative ending fund balance was reallocated to the General Fund. This amounted to a one-time credit of \$6,700 to the Railroad Depot Fund.

*Water Operating Fund (601)*

- Non-capital water maintenance expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the Water Operating Fund.

*Sewer Operating Fund (606)*

- Non-capital sewer maintenance expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the Sewer Operating Fund.

*Pool Fund (614)*

- The 2009 negative ending fund balance was reallocated to the General Fund. This amounted to a one-time credit of \$33,800 to the Pool Fund.
- Non-capital pool maintenance expenditures which had been charged inappropriately to the County Sales Tax Improvement Fund were projected through 2014 and were reallocated to the Pool Fund.

## Appendix 2-B: Historical Financial Audit Findings

**Table 2-B: Historical Financial Audit Findings for City of Wellston 2003-2008**

Topic	Recommendation	2003	2004	2005	2006	2007	2008
<b>Financial Review By Council</b>							
Approval of Expenditures	Council should receive a detailed listing of all expenditures on a monthly basis.					X	X
Council Monitoring	Council should receive financial reports and then document approval of reports in the minutes.	X	X				
Investment Records	Properly record investment activity and regularly share with Council.	X					
Approval of Funds	Council should approve all newly created funds as required by ORC.		X				
Audit Committee	City should establish an Audit Committee.	X	X				
Investment Balances	City Investment Board should meet quarterly, review broker reports, and issue investment recommendations.	X					
Tony Hawk Grant	Council should maintain all grant funds and monitor expenditures. All Council activities should be recorded.	X					
Fire Contracts	Council should sign fire contracts and all payments should be made to City.	X	X				
<b>Compensation/ Reimbursement Policies</b>							
Cell Phones/ Credit Cards	Establish City cell phone account and monitor use. Council should establish policies and monitor credit card usage.	X	X	X		X	X
Monitoring of Overtime	City should follow Union Agreement to monitor overtime per dept and employee to avoid excessive overtime. Ensure comp time is used within 180 days or paid out.		X				
Call-Out Charges	City should monitor all call-out charges. Keep a detailed log and call only the minimum number of employees necessary.		X				
Retirement Incentive	City should monitor the cost and benefit of the incentive plan.	X	X				
Paid Lunch	City should consider lunch time to be at the expense of employee when renegotiating union contracts.		X				
Sick Leave Conversion	City should reconsider option to allow employees to exchange sick leave days for vacation days when renegotiating contracts.		X				

Topic	Recommendation	2003	2004	2005	2006	2007	2008
<b>Purchasing</b>							
Related Party Transactions	Council should maintain supporting documentation of consideration of other non-related vendors	X	X			X	X
Purchase Requisitions	Purchases should be supported by requisition signed by Dept Head and Service Director/ Mayor.	X				X	
Approval for Payment/ Approval of Invoices	Voucher package should be supported by invoice or packing slip with Dept Head approval.	X	X	X			
<b>Capital Assets</b>							
Capital (Fixed) Asset Useful Lives	City should reevaluate asset useful life and adjust fixed asset balances accordingly.	X	X	X		X	X
Capital (Fixed) Assets Listing	City should hire an appraisal firm to tag all inventory to ensure complete list of assets.	X	X	X	X	X	X
Storage of Machinery & Equipment During Periods of Non-Use	City should adopt a written policy regarding storage of machinery and equipment on City property during periods of non-use			X			
Trading of Equipment	City should keep accurate and complete records of all items sold or traded. Council approval of trade.		X				
<b>Revenue and Tax Receipts</b>							
Tax Receipts	City should post all tax revenue at the gross amount.	X	X	X	X		
Monitoring of Tax Settlement Fluctuations	Auditor should monitor all tax settlements and initial evidence of monitoring on sheets and document any follow-up.			X			
Estimated Receipts	Auditor should post budgeted revenue consistent with certificate of estimated resources and prepare monthly budget vs. actual reports for Council.	X	X				
Timely Posting of Receipts	Treasurer should submit receipts to Auditor daily so revenue can be posted daily.	X	X				
Income Tax Fund	Income Tax Fund should be eliminated and deposits from income tax should be made directly into the General Fund.	X					
Street Levy	City should correct error in certification of street levy funds.	X					

Topic	Recommendation	2003	2004	2005	2006	2007	2008
Posting of Debt Revenue	City should post all revenue and disbursements to the ledgers, even when the transaction is handled directly by the bank.		X				
Income Tax Database	City should compare City utility database to taxpayer database. Ensure all businesses/ taxpayers are remitting income taxes as required.	X	X				
<b>Other Financial/ Accounting</b>							
Transaction Descriptions	City Auditor should record a full and accurate description of all City transactions in ledgers.	X					
Outstanding Checks	Contact vendors or employees with outstanding checks and determine if they should be reissued or posted to unclaimed funds.	X	X	X	X	X	X
Check Images	Treasurer should contact bank to request front and back images.	X	X	X			
Check Order	Checks should be issued sequentially and enter all manual checks in the register at the time of disbursement.	X					
Monitoring of Revolving Loan Payments	City should monitor all revolving loan payments by following Loan Amortization Table as to when and how much is due. When delinquent, the City should take action to collect money owed.		X				
DARE Donations	Dispatcher should deposit money with Treasurer rather than Police Chief.	X					
Late Fees	Avoid paying penalties and interest due to late payments of obligations.						X
Non-Expendable Trust Fund Agreement	Obtain the legally binding trust agreement for this fund and retain a copy.	X					
Direct Deposits	Correct error with State that causes funds to be deposited to an incorrect City bank account.	X					
<b>Utility Billing</b>							
City's Utility Clerk Review of Reports	City Utility Clerk should review each of the monthly utility reports for errors or inconsistencies and sign or initial.	X	X	X			
Water Hauler Receipts	City should use pre-numbered water hauler tickets to allow monthly reconciliations.	X	X	X			
Utility Deposits	A system should be developed to reconcile utility deposits being held with monthly balance.	X	X	X			

Topic	Recommendation	2003	2004	2005	2006	2007	2008
General Mills Utility Account	City should negotiate a written agreement with General Mills to stipulate billing procedures and rates.					X	X
Printing of Utility Reports	Receipts Journal and Final Billing Journal should be printed each month and filed with the monthly reports. Service Director and /or Clerk review and reconcile to Utility Detail Trial Balance report.					X	
<b>Cemetery</b>							
Cemetery Deeds	Utility Clerk should periodically compare the Cemetery receipt book to the deed book to ensure all Certificates of Ownership have been issued for lots paid in full or ownership has been transferred.					X	
<b>Recreation</b>							
Pool Concessions	Contracts for pool concessions should be bid, and should stipulate amount of rental including utility expenses.	X	X	X	X		
Ticket Accountability Forms	Ticket accountability forms should be completed daily and receipts reconciled to the deposit.	X					
Recreation Board Minutes	Board should maintain detailed records of all activities in the record of proceedings.		X	X	X		
Depot Rentals	City should follow established policies regarding rentals to ensure consistent treatment to all renters.					X	X
<b>Computer Controls</b>							
Logical Access - Windows Server	Request vendor implement password parameter settings and failed login attempts.					X	X
Logical Access - App Passwords	Passwords should be changed periodically and at least 6 characters.					X	X
Computer Controls	City should adopt a formal policy regarding changing passwords.				X		
Logical Access - App Access	Assign user rights to applications based on employee duties.					X	
Disaster Recovery Plan	City should establish a plan with continuity procedures, contingency data, current inventory, etc.					X	X
Backups	Ensure backup is performed accurately every night and periodically rotate to an off-site location.					X	X

Source: AOS and IPAs - 2004-2008 Financial Audits

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## Appendix 2-C: GFOA Recommended Policies

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The following are GFOA-recommended budgetary policies and procedures:

- *Develop Policy on Balancing the Operating Budget* (GFOA, 1999) suggest that a government develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.
- *Develop Mechanism for Budgetary Compliance* (GFOA, 2000) recommends that entities should have mechanisms in place to ensure compliance with the adopted budget.
- *Develop the Type, Presentation, and Time Period of the Budget* (GFOA, 2000) recommends that a government should choose the type of budget, the manner in which it will be presented, and the time period covered by the budget that best fit its needs.
- *Develop a Budget Calendar* (GFOA, 2000) advocates that governments should publish comprehensive budget calendars that specify when budget tasks are to be completed and that identify timelines for those tasks.
- *Develop Budget Guidelines and Instructions* (GFOA, 2000) advises that entities should prepare general policy guidelines and budget preparation instructions for each budget cycle.
- *Develop Mechanism for Coordinating Budget Preparation and Review* (GFOA, 2000) instructs that a government should develop a mechanism and assign responsibilities to provide for overall coordination of the preparation and review of the budget.
- *Develop Procedures to Facilitate Budget Review, Discussion, Modification, and Adoption* (GFOA, 2000) stresses that a government should develop and implement a set of procedures that facilitates the review, discussion, modification, and adoption of a proposed budget.
- *Identify Opportunities for Stakeholder Input* (GFOA, 2000) recommends that governments should provide opportunities in the budget process for obtaining stakeholder input.

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- *Prepare and Present a Recommended Budget* (GFOA, 2000) suggests that a government should prepare and present a recommended comprehensive budget for review by stakeholders and consideration for adoption by the governing body.
  - *Explain the Budgetary Basis of Accounting* (GFOA, 2000) stresses that a budget should include descriptions of the relationship between the form of accounting used to describe revenue and expenditures in the budget, and the form of accounting used to prepare the annual financial report.
  - *Prepare a Budget Summary* (GFOA, 2000) suggests that an entity prepare a summary of both the proposed and final budget. A concise summary of key issues, choices, and financial trends is needed to inform stakeholders of major budget decisions.
  - *Present the Budget in a Clear, Easy-to-Use Format* (GFOA, 2000) recommends that budget documents and related materials made available to stakeholders should be presented in a clear and readily-comprehensible format.
  - *Adopt a Budget* (GFOA, 2000) stresses that a government should adopt a budget that meets all statutory requirements prior to the beginning of the fiscal year.
  - *Monitor, Measure, and Evaluate Budgetary Performance* (GFOA, 2000) suggests that an entity should evaluate its financial performance relative to the adopted budget. Regular monitoring of budget performance provides an early warning of potential problems and gives decision-makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident.
  - *Adjust the Budget* (GFOA, 2000) suggests that budgets should be adjusted during the budget period should unforeseen events require changes to the original budget plan.



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# Human Resources

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## Background

This section of the performance audit focuses on the City of Wellston's human resource functions including staffing and structure, employee benefits, and negotiated agreements. This section also includes a review of City governance and personnel management. Where appropriate, recommendations identify potential cost savings to improve efficiency and business practices. The City's human resource functions were compared with leading practices and industry standards drawn from the State Employment Relations Board (SERB), the Kaiser Family Foundation (Kaiser), the Ohio Department of Administrative Services (DAS), the Society of Human Resource Management (SHRM), the Government Finance Officers Association (GFOA), and the American Society for Public Administration (ASPA).

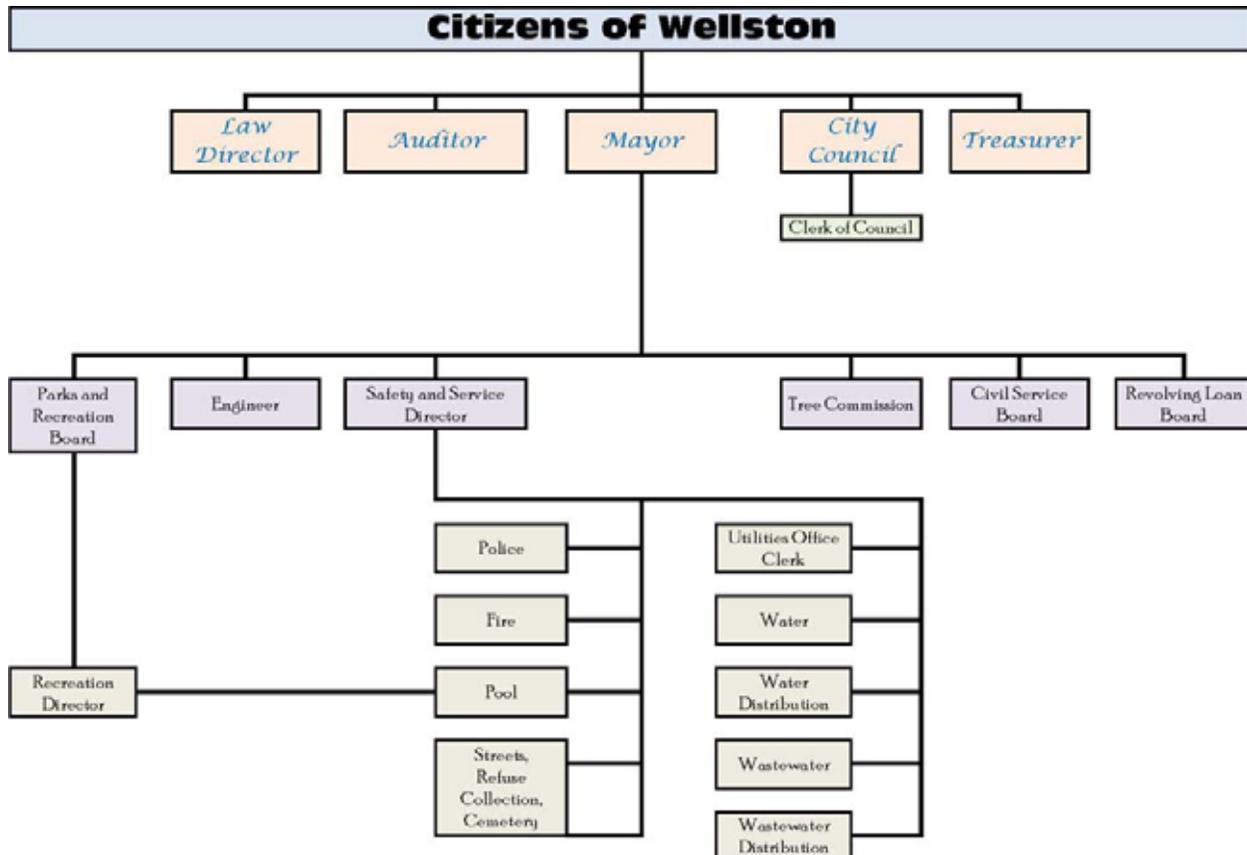
### *Organizational Structure and Governance*

The Ohio Constitution grants all municipalities home rule, meaning that cities and villages may adopt laws for purposes of local self-government that are not specifically forbidden by or in conflict with State general law. Ohio municipalities are classified as general statutory, meaning they follow laws and regulations laid out in State statute, or optional statutory (a commission, city manager, or federal plan), or charter, which requires approval by a vote of the citizens. General statutory law is described in Ohio Revised Code (ORC) chapters 731 and 733. The City of Wellston is a statutory city with an elected Mayor, Auditor, Treasurer and Law Director, as well as a seven-member legislative body (Council) and Council President. The following is a brief description of these offices in statutory municipalities:

- **Mayor:** The Mayor is the chief executive officer and may appoint or remove the various department heads such as police chief or service director.
- **Council President:** The President of Council presides at all Council meetings but has no vote except in the case of a tie.
- **Auditor:** The Auditor keeps the books of the municipality and makes certain that sufficient appropriated funds are available before vouchers are issued.
- **Treasurer:** The Treasurer receives and disburses all funds and must keep an accurate account of them.
- **City Solicitor:** The City Solicitor (Law Director) prepares all contracts and other documents for the City and provides legal counsel for City officers.

**Chart 3-1** illustrates the City's organizational structure:

**Chart 3-1: City of Wellston Organizational Chart**



Source: City records, AOS

*Staffing*

In 2009, the City expended 81 percent of its General Fund monies on employee salaries and benefits. All elected officials and the appointed staff in their respective offices are paid through the General Fund. Because Wellston has a General Fund deficit (see **financial management**), staffing levels are an essential component of the City’s budget and are closely scrutinized to identify opportunities to reduce cost. Detailed staffing analyses were conducted for each department within the City and are described in the corresponding audit report sections.

In general, Wellston’s staffing was above the average of comparable cities, and the workloads lower than average. Only the Fire Department reflected lower than average staffing due to its use of part-time and volunteer staff (see **executive summary**). Staffing analyses in other City service departments including police, water and wastewater, streets, refuse collection, and cemetery yielded recommendations for potential savings through staffing reductions (see also **R3.1**).

Table 3-1 shows City staffing by department.

**Table 3-1: City of Wellston FTEs by Department**

Population	6,078		Variance	% Difference	Per 1,000 Residents 2009	Per 1,000 Residents 2010
	2009	2010				
Mayor's Office	3.0	3.0	0.0	0%	0.5	0.5
Auditor	3.0	3.0	0.0	0%	0.5	0.5
Treasurer	0.5	0.5	0.0	0%	0.1	0.1
Law Director	0.5	0.5	0.0	0%	0.1	0.1
Cemetery	3.0	0.0	(3.0)	(100%)	0.5	0.0
Council	9.0	9.0	0.0	0%	1.5	1.5
Engineer	1.0	1.0	0.0	0%	0.2	0.2
Fire Department	3.0	3.0	0.0	0%	0.5	0.5
Police Department	16.5	16.0	(0.5)	(3%)	2.7	2.6
Recreation	1.0	1.0	0.0	0%	0.2	0.2
Sanitation	4.0	3.0	(1.0)	(25%)	0.7	0.5
Streets	6.0	5.0	(1.0)	(17%)	0.8	0.8
Bldg Maintenance	0.5	0.5	0.0	0%	0.1	0.1
Water Department	16.5	15.0	(1.5)	(9%)	2.7	2.5
<b>Total</b>	<b>67.5</b>	<b>60.5</b>	<b>(7.0)</b>	<b>(10%)</b>	<b>10.9</b>	<b>10.0</b>

Source: City of Wellston

Note: The Treasurer, Law Director, and maintenance personnel are part-time or contract employees. The City Engineer is also a contract employee. This table does not include seasonal or volunteer employees. Based on staffing reductions made as of January 2010, the City of Wellston has approximately 10.0 FTEs per 1,000 residents. In comparison, the peer cities used throughout this report employ 11.7 FTEs per 1,000 residents.

### *Employee Benefits*

The City offers comprehensive health insurance coverage to its full-time employees. The City's 2009 medical, dental, and vision insurance plans were administered by Anthem, Guardian, and VSP respectively. In 2009, there were 48 employees enrolled in the City's health insurance benefit plan. Participating employees contribute 10 percent toward the monthly premium, with the exception of the Mayor, Treasurer, City Engineer, and the Chief of Police. The full monthly premium for these officials are paid by the City. **Table 3-2** illustrates the City of Wellston's health insurance premiums and employee contributions compared with SERB and Kaiser benchmarks.

**Table 3-2: City of Wellston 2009 Insurance Premiums & Contributions**

	Single Coverage		Family Coverage	
	Monthly Total	Employee Share	Monthly Total	Employee Share
City of Wellston <sup>1</sup>	\$499.49	\$52.98	\$1,541.85	\$165.42
SERB Average Southeast	\$498.33	\$58.96	\$1,342.18	\$201.94
Kaiser Report Average 2009	\$448.00	\$65.00	\$1,144.00	\$293.00

**Source:** City of Wellston and SERB

<sup>1</sup> The City offers additional enrollment options for employee plus child at \$843.11 per month or employee plus spouse at \$1,097.85 per month.

The City of Wellston's monthly premiums exceed SERB and Kaiser for single and family coverage. While most City employees pay a share of the monthly premium, this amount, as a percentage of premium costs, is below the SERB and Kaiser averages for employee cost sharing (see **R3.8**). During the course of the audit, the City posted requests for proposals in an effort to obtain more favorable premium rates.

### *Workers Compensation*

The City of Wellston provides workers' compensation benefits, which are administered by Comp Management. The City is penalty-rated due to high claims costs. In 2009, it paid approximately \$166,000 in premiums to the Ohio Bureau of Workers' Compensation (BWC). Wellston has not implemented BWC programs that could assist it in reducing its premiums (see **R3.6**). Due to the City's financial condition, Wellston was delayed in submitting its May 2009 BWC premium payment within the required time frame, resulting in a lapse in its workers' compensation coverage from May to August and again from September to December. According to the BWC, the City's active status was reinstated as of December 2, 2009 and was current as of January 2010. However, there were non-covered claims that occurred during the lapse period which translated into additional liability to the City. Since claims filed during the lapse period had not been settled, the total associated cost was not available for inclusion in this report.

### *Compensation*

In general, the City's average salaries for employees were comparable to the peer averages. However, because of its financial condition, limiting future wage increases will reduce future financial liabilities of the City and help it avoid future deficits (see **R3.10**). City employees also use a substantial amount of overtime, with the average exceeding 10 percent of total payroll expenditures. High overtime costs and poorly-controlled overtime and leave usage have contributed to Wellston's financial condition (see also **R3.12**).

### *Negotiated Agreements*

The City has the following collective bargaining agreements and employment contracts with its service workers, police officers, and fire personnel, respectively:

- **The City of Wellston, Ohio and the Ohio Civil Service Employees Association (OCSEA LOCAL 11/AFSCME AFL-CIO) Effective January 1, 2008 to December 31, 2010:** This collective bargaining agreement covers all non-probationary, full-time service and clerical employees of the City, excluding all part-time, seasonal, police, fire, and exempt employees.
- **The City of Wellston, Ohio and Fraternal Order of Police, Ohio Labor Council Inc., (FOP) Effective December 1, 2006 to November 30, 2009:** This collective bargaining agreement covers all sworn full-time police officers employed by the Police Department, all full-time persons serving in the position of communications officer, dispatcher, or related position, and all sworn full-time sergeants employed by the Police Department. The Police Chief is excluded from the bargaining unit. This collective bargaining agreement expired on November 30, 2009. The FOP collective bargaining employees have agreed to work under the expired contract via a contract extension through 2010. Under fiscal emergency, the City is not permitted to extend collective bargaining agreements for longer than one year. The FOP agreement states that the City must notify the bargaining unit within 120 days of the expiration date if non-renewal of an existing agreement is intended (see **R4.1 in safety services**).
- **The City of Wellston and the Chief, First Assistant Chief and Second Assistant Chief of the Wellston Fire Department (Fire) Effective January 1, 2008 to December 31, 2010:** This employment contract covers three full-time fire officers and excludes all part-time, seasonal, and volunteer employees.

The City's Finance committee (consisting of three members of Council), with assistance from the previous City Auditor, were involved negotiating the collective bargaining agreements. The Safety Service Director stated that there are a number of provisions in the collective bargaining agreements that are costly to the City, especially provisions related to sick leave. The City retained counsel specializing in collective bargaining law to assist with FOP negotiations in 2009 but since the FOP unit agreed to a wage freeze for 2010, the City did not seek renegotiation of other provisions.

Collective bargaining and employee contractual agreements were reviewed as part of the performance audit to identify provisions that exceed ORC minimum standards or that represent excessive costs to the City. **Table 3-3** summarizes the key collective bargaining provisions analyzed.

**Table 3-3: Negotiated Agreement Contract Analysis**

<b>OCSEA Agreement</b>	
# of Sick Leave Days Paid Out at Retirement	60 percent of pay up to 45 days
# of Personal Days	5 days
Uniform Allowance	\$300 annually
Minimum Call-in	Four hours at overtime rate
Opt Out of Health Insurance	\$1,500 each year
Life Insurance	\$75,000
Longevity Pay	\$1.20 per hour after 20 years
Early Retirement Incentive	Offers two-year buyout
Cost of Living Adjustment (COLA)	5 percent
<b>FOP Agreement</b>	
Uniform Allowance	Sworn officers: \$600 annually Non-sworn officers: \$425 annually
# of Sick Leave Days Paid Out at Retirement	90 days
Uniform Maintenance	\$500 annually
Minimum Call-in	Four hours at overtime rate
Opt Out of Health Insurance	\$1,500 each year
Life Insurance	\$75,000
Longevity Pay	\$1.10 per hour after 20 years
<b>Fire Agreement</b>	
# of Personal Days	6 days
Uniform Allowance	\$550 annually
Uniform Maintenance	\$465 annually
Opt Out of Health Insurance	\$1,750 each year
Life Insurance	\$50,000
Cost of Living Adjustment (COLA)	3 percent
<b>All Employees</b>	
Vacation Accrual Schedule	Less than 5 years: 10 days; 5 to 10 years: 15 days; 10 to 15 years: 20 days; over 20 years: 30 days
# of Paid Holidays	13 days <sup>1</sup>
Retirement Contribution	Employee portion of Public Employees Retirement System (PERS) or Police and Fire Disability Fund (PFDF)

**Source:** City of Wellston collective bargaining agreements and employee contract

<sup>1</sup>Includes the employee's birthday

Each of the contractual issues listed in **Table 3-3** represents a potentially costly item to the City. These, as well as a number of additional contract terms, were reviewed and compared with the ORC and peers (see also **R3.8, R3.9, R3.10, R3.11, R3.12** and **R3.13**).

## Recommendations

### Staffing

**R3.1 The City should examine its organizational structure and use of human resources to ensure its personnel allocation and management reflect efficiency and prudent stewardship of public dollars. While the City has made recent staffing cuts in an effort to reduce expenditures, it should examine opportunities to consolidate management positions and departments with like functions. This would help the City better control costs while providing a greater degree of flexibility in deploying its staff.**

Wellston has reduced staff within its safety and service departments. In some cases, the reductions have created management-to-staff ratio imbalances which have not been addressed by the City. Furthermore, it has not taken steps to reduce its managerial personnel, despite reducing its workforce by about 20 percent. Finally, it has maintained separate departments for water purification, water distribution, wastewater treatment, and streets; though the personnel in these departments share similar skills and complete similar work. Each of these departments has its own supervisor, some of whom retain special licenses needed to perform their jobs. Wellston also contracts for the services of an engineer. There is little formal cross-training in the service functions. Although the Safety Service Director and the City Engineer supervise projects in Water, Wastewater, and Streets Departments, the City has historically allocated the costs for these two positions completely to the General Fund. In 2009, the Service Director and Engineer were paid approximately \$30,800 and \$69,500, respectively, in salary and benefits.

Combining administrative roles within government organizations can generate tangible financial benefits. Several examples are noted below:

- The Mayor of North Olmstead, Ohio eliminated the City Service Director position in December 2009 and redistributed its duties to other directors for an estimated savings of \$74,000.
- The City of Novi, Michigan (population 54,054 in 2008) uses a combined Service Director/City Engineer position to maximize the efficiency of its administrative staff and economize on employee costs.
- Chula Vista, California (population 230,000 in 2009) also employs a Service Director/Engineer who oversees and manages the city's public works departments and functions.
- Morgantown, West Virginia (population 29,642 in 2008) employs a similar model.

- The City of Lafayette, Indiana (population 26,165 in 2008) has arranged its service function so that the Public Works Director is also the City Engineer.
- The City of Muskegon, Michigan (population 39,401 in 2008) has consolidated several administrative positions including elevating the Police Chief to Public Safety Director, responsible for police, fire, and inspections.

According to the Volusia County (Florida) Manager, the County restructured by combining agencies, shuffling responsibilities, and deferring promotions. Under a consolidated structure, Volusia County has fewer managers responsible for various areas. Prior to the restructuring, the County had four department heads, each of whom would have a small part on a project. Now the County has one manager responsible for the same operations or projects. As a result, communication and accountability have improved which, in turn, has increased the efficiency and seamlessness of operations. The County estimated that its restructuring would save \$1 million per year. However, the Volusia County Manager noted that cities differ in structure, and unionized cities experience more challenges in streamlining. Still, he found that if cities sell employees on the idea of potentially higher salaries and increased job security or employability with advanced skill sets, most employees are amenable to the change.

In *Chelsea City Manager Urges Reorganization of Services* (Ann Arbor News, February 2008), the City Manager of Chelsea, Michigan indicated that reorganization was necessary to improve the operational efficiency, financial health, supervision, communication, and overall quality of services provided by the city. The City of Chelsea consolidated nine city departments into four service areas:

- Public Utilities – including water, wastewater, electric, public works, and solid waste;
- Administrative – including human resources, accounting services, accounts payable/receivable, information technology, procurement, risk management, assessor, clerk services, and elections;
- Community Development – including planning/zoning and engineering; and
- Public Safety – including police services, emergency management services, and dispatch services.

The new Chelsea Public Utilities Department has a single director managing the division with a superintendent and foreman for each department. The 20 employees in the departments are cross-trained to perform tasks in other areas. By combining the Water and Wastewater Departments, the City of Chelsea estimated that it would save \$154,000.

Consolidating departments and functions would help the City of Wellston better allocate staff to specialized projects and day-to-day work activities. The new structure would also allow the City to streamline staff while maintaining service levels. Furthermore, with

cross-trained employees, each employee could be called upon to perform a range of tasks within any of the service departments. This would provide the City with a greater level of flexibility in its staffing, as staffing could be shifted to the appropriate departments during peak workload times.

*Financial Implication:* Combining the Service Director and City Engineer positions into a single position would result in annual cost savings of approximately \$13,100 to the City. In addition, by redistributing 90 percent of the cost for the position equally to the Water Fund, Wastewater Fund, and Street Fund, the General Fund would save approximately \$89,600 annually.

**R3.2 Wellston should update its job descriptions to ensure they are current and consistent with the required duties of each position. The City should also adopt a regular cycle (e.g., every two years) for reviewing and modifying job descriptions to ensure they reflect current responsibilities, as well as the education, experience, and competency requirements for each position.**

**In addition, Wellston should develop performance appraisal forms that reflect the duties in the job descriptions. The City should subsequently begin conducting regular employee evaluations, at least annually.**

Wellston lacks a formal process for updating job descriptions. The City does not have a job description for each position. Those that do exist include general statements of duties, examples of work, required knowledge or skills, and acceptable experience and training. The job descriptions do not provide the immediate supervisor, pay class, whether the position is union or non-union, nor if the position is hourly or salary. Many were last updated when a vacancy occurred and a new employee was hired to fill the vacancy.

The City also does not provide formal feedback to its employees. Performance appraisals are not used to communicate expectations or provide feedback to employees on their work products.

The article *Performance Appraisal as an Employee Development Tool* (SHRM, 2002) states, “One of the critical human resource issues of the 21st century is an organization’s ability to refine and develop mechanisms to provide meaningful job performance feedback to all employees. A positive and coherent understanding between the employee and supervisor as to what is acceptable job performance is essential for all employee and management work relationships to survive.” In addition, the article indicates that an “enhanced understanding of job expectations can be accomplished in two basic ways:

- **Job Descriptions:** All employees must understand what is expected of them in the performance of their jobs. Behavioral research data clearly indicates

that many organizations throughout the global economy today continue to persist in assuming the employee knows what is expected without ever discussing the expectations of the job to be performed.

- **Performance Appraisal:** Employee opinion survey data indicates the need for employees to be given continuous performance feedback in a constructive, coaching, mentor relationship. Management creates a high percentage of its problems by totally ignoring the need to inform the employee how he/she is doing, thus creating a high level of uncertainty, anxiety, low productivity and in many cases the loss of a loyal and productive employee.”

Detailed job descriptions would help the City ensure it communicates the requirements of each job and would provide the basis for evaluating job performance. Evaluating job performance on a regular basis will help Wellston’s employees better understand the requirements of their respective positions, and receive feedback to improve future performance.

**R3.3 The Civil Service Commission should exercise its role as monitor of municipal employee classifications and should conduct appropriate tests based on minimum qualifications for successful job performance among City safety and service positions. In addition, the Commission should review and make appropriate updates to all civil service (classified and unclassified) job descriptions. The Civil Service Commission should meet regularly and formally document meeting activities. Finally, the Commission should monitor and maintain a certified list of eligible applicants.**

The City has not used the appropriate civil service process and it does not have a formal process for reviewing minimum qualifications of candidates for City employment. In accordance with statute, three Civil Service Commissioners were appointed by the Mayor. However, the Commission does not meet on a regular basis and no 2009 meeting minutes were available for review by auditors during the course of the audit.

According to a member of the Civil Service Commission, who acknowledged ongoing problems with hiring practices were a component of the City’s current personnel problems, the Commission has not been involved in screening, testing, or otherwise declaring a list of eligible (qualified) candidates as a result of the civil service process for an extended period of time. Furthermore, no City service employee positions were appointed based on the Commission’s determination of qualified candidacy. Likewise, the most recent positions filled in the Police Division were not done in accordance with civil service guidelines, including testing to ensure qualifications are met. Finally, the Commission has not reviewed or updated civil service job descriptions. This was confirmed through a sample of personnel records containing outdated position

descriptions, many of which contained references to the State of North Carolina (see **R3.2**).

Auditors reviewed hiring practices and personnel files to determine if civil service job applications, test results, or evidence the employee was screened for and met minimum qualifications for the position were included in the files. The review confirmed that civil service applications, tests, and screenings were not documented in employee files. In addition, auditor observation and prior financial audit findings revealed issues with staff qualifications and competence of staff. These are cited in the appropriate sections of this report (see **utility billing**).

According to ORC §124.11, municipal employees will be hired in accordance with civil service rules unless otherwise stipulated. Most Ohio cities have some form of Civil Service Commission or department, depending on the size of the public entity. Civil service in the United States was initially implemented in 1872 to ensure public sector appointments were made based on merit rather than by inheritance or patronage and to provide a measure of security to rank and file employees who had previously served “at will.” By 1909, over 60 percent of federal employees were appointed based on merit, with their qualifications measured by tests. Ohio’s civil service process are modeled after the federal process. Though the civil service process has its critics, it ensures that employees have appropriate qualifications at hiring and that the most skilled employees, as determined by the test, are selected for hiring.

Personnel issues in key positions reflect the circumvention of the City’s civil service process as unqualified candidates may have been hired for the position. To ensure equitable hiring of qualified candidates, the Civil Service Commission should monitor the classification system and administer appropriate testing to ensure candidates meet minimum qualifications for the job. In order for this process to work effectively, the Civil Service Commission should take responsibility for updating all City position descriptions and setting standards for minimum qualification. If the Commission members are unable to meet, the Mayor should seek to fill Commission positions with candidates who can dedicate sufficient time to their appointments. These actions can be accomplished by the Commission at no additional cost to the City.

- R3.4 The City should ensure that individuals meet the certification levels outlined in the job descriptions for the positions they were hired to perform. The Safety Service Director or his designee should be responsible for ensuring Wellston employees maintain their certifications for key functions, particularly within the water and wastewater treatment plants. Employee files should contain documentation of up-to-date, appropriate licensure and training and should be retained in the City Auditor’s Office as stipulated in the OCSEA contract.**

The City does not maintain records of employees' certifications or ensure that key certifications needed for maintaining City services are up-to-date. For example, Wellston has two working-supervisors in the Water Distribution Department. The job description states that the working-supervisor of the water and sewer distribution area must possess a valid driver's license and an Ohio Water Distribution I and Waste Water Collection I License. Only one of the working-supervisors has a water distribution certification. In addition, the other supervisor, who holds a Waste Water Collection I Certification had allowed his certification to lapse. It was renewed after auditors repeatedly requested documentation of his current certification.

According to the U.S. Department of Labor's Bureau of Labor Statistics, operators read, interpret, and adjust meters and gauges to make sure that plant equipment and processes are working properly. In small plants, operators work during the day and on-call in the evenings, nights, and weekends. A high school diploma is usually required in order for an individual to be a water or wastewater treatment plant operator. However, the Safe Drinking Water Act Amendments of 1996 specify national minimum standards for certification of public water system operators. Mandatory certification has been implemented within each state, and higher levels of certification qualify the operator to oversee a wider variety of treatment processes.

Ohio Administrative Code (OAC) 3745-7-03, *Public Water System Classification and Staffing Requirements*, requires each public water system or water treatment plant and distribution system within a public water system to be classified as a class A, I, II, III, or IV public water system or a class I or II distribution system and to provide the minimum staffing required for that classification of system. The rule contains guidelines for certifications and minimum staffing requirements, including staffing time requirements which may be less than full-time. OAC 3745-7-15 covers the expiration and renewal of licenses, including training requirements.

Several supervisory positions within the City have specific requirements for the position and qualifications which are outlined in the ORC or OAC. Wellston has not ensured employees have appropriate qualifications upon hiring (see **R3.3**) and has not designated an individual to monitor employee qualifications on an ongoing basis. In this particular case, the City is at risk of being sanctioned or fined by the Ohio EPA. In other cases, recent layoffs and the use of bumping rights have caused some employees to be transitioned into positions for which they may not be qualified (see **R3.2** and **R3.3**). By not ensuring that employees have valid certifications and appropriate continuing education across all departments, the City risks a broad range of civil penalties and exposes itself and its citizens to additional liability and risk.

**R3.5 The City of Wellston should implement a succession plan in order to plan ahead for the retirement of key supervisory and management positions. Developing a succession plan will help ensure transitions occur as smoothly as possible with no lapses in services or compliance. Effective succession planning starts with conducting annual employee performance reviews and identifying employees with leadership potential. Succession planning should be linked to the City's overall strategic planning strategies (see R2.1).**

Wellston has several key management employees who have expressed an intention to retire in the near future. Managers in several of the service departments are among this group. The City Water Department, in particular, requires certain employee certifications and licensures. Other positions, such as those in the Clerk's Office, require the employee to be bonded. With the recent layoffs and possible retirements, the City is not prepared to replace management-level personnel from within its current ranks (see **R3.1**).

According to the publication *Succession Planning: Career Development* (American Society for Training & Development, 2000), succession planning entails identification of employees who possess the skills to meet future organizational challenges. Some components of planning include the following:

- **Replacement Planning** - This is the primary component of succession planning and at its simplest, is an identification of employees who may potentially be able to fill positions as they become vacant.
- **Identifying High-Potential Employees** - This component focuses on identification of employees who have the ability to move into key positions within the organization. In identifying these employees, management must look at critical competencies and characteristics of potential candidates.
- **Employee Input** - This component focuses on linking employee career development goals and desires with organizational succession planning needs.
- **Development Programs** - This component includes providing a means for employee development and training. An effective employee development program would involve assessing the skills and development needs of high-potential employees, and making provisions for training and development to build specific competency requirements.

Wellston has not reviewed how staff retirements and turnover issues, such as layoffs and bumping rights, will affect the City. Without formally assessing each employee's potential within the organization, the City may not be efficiently directing training resources toward the most appropriate employees. Assessing future organizational

potential as part of the evaluation could help identify highly qualified employees who might be appropriate to include in the City's succession plan.

### *Work Conditions and Benefits*

**R3.6 The City should aggressively manage its workers' compensation claims and use training sessions provided by the Bureau of Workers' Compensation (BWC) to enhance its management of claims costs. Wellston should annually review the discount programs offered by the BWC to ensure it is taking advantage of all possible premium discounts.**

The City of Wellston previously participated in BWC discount programs: the Drug-Free Workplace (DFWP) and the Safety Council. However the DFWP only allows employers to receive discounts for a four-year period. In 2009, Wellston paid approximately \$166,000 in workers' compensation premiums and experienced a lapse in coverage during most of 2009 because of late premium payments. Claims that occurred during the lapse are not covered by the BWC, therefore, the City is required to pay those claims directly.

In interviews with auditors, managers and employees commented on the high number of lost work and disability claims occurring within the City. These claims increase Wellston's premium costs and decrease the productivity of its departments. In some cases, managers and employees noted that the workplace culture did not encourage BWC safety practices or efforts to return employees to work and avert lost time claims (see **Table 3-5**).

Public employers submit workers' compensation premiums in May of each year. The actual payroll and the employer modification rate (EMR) from the previous year is used to calculate the amount due. EMRs are based on the amount of claims costs incurred within a specific period. Those employers whose EMRs are above 100 are classified as penalty-rated, meaning that they will pay more than the base rate set by the BWC. **Table 3-4** shows the base rates and employer rate based on the City's EMR.

**Table 3-4: Wellston's BWC Rating**

BWC Job Classification	Base Rate per \$1,000 of Payroll	EMR	Employer Rate per \$1,000 of Payroll
<b>2009 Rates</b>			
City employees	\$4.51	109	\$4.92
Volunteer employees (and contract employees)	\$48.42	109	\$52.78
<b>2010 Rates</b>			
City employees	\$4.51	132	\$5.95
Volunteer employees (and contract employees)	\$48.42	132	\$63.91

Source: Bureau of Workers' Compensation

As illustrated in **Table 3-4**, the City's 2009 EMR was 109, which was used to calculate the May 2010 premium. The 2010 EMR of 132 will affect the payment submitted in 2011. **Table 3-5** outlines the amount of medical and lost time claims incurred affecting the 2010 EMR.

**Table 3-5: Wellston Workers' Compensation Claims**

	2006	2007	2008	2009 <sup>1</sup>
<b>Number of Claims</b>	11	14	8	5
<b>Medical Claims</b>	\$1,644	\$7,001	\$5,349	\$267
<b>Lost Time Claims</b>	\$53,176	\$42,863	\$51,868	\$0
<b>Total</b>	<b>\$54,820</b>	<b>\$49,864</b>	<b>\$57,217</b>	<b>\$267</b>

Source: City of Wellston

<sup>1</sup> Claims data is as of September 30, 2009

Though the number of claims decreased from 2007 to 2008 by 27 percent, as illustrated in **Table 3-5**, the City has not obtained training on managing workers' compensation claims. The Bureau of Workers' Compensation offers free trainings on various topics such as Controlling Cost through Claims Management, Controlling Workers' Compensation Costs, and Effective Safety Teams. These training sessions would assist the City in identifying methods to use in reducing claims cost, analyzing workplace accidents, and getting employees back to work. The BWC also offers programs to employers that could assist them in reducing annual premiums, such as the Deductible Program<sup>1</sup> and the Group Retrospective Rating Program.<sup>2</sup>

<sup>1</sup> The Deductible Program assists employers by lowering their premiums as a result of the employer paying a deductible for each claim. Deductibles in the program range from \$1,000 to \$10,000 per claim.

<sup>2</sup> The Group Retrospective Rating Program combines employers into retrospective rating groups. At the end of the policy year, the BWC calculates the group's claims losses and determines if the premiums paid by each employer were over or under the group level. Employers are then required to submit payment or are given a refund of premium.

By obtaining BWC training on workplace safety, more aggressively managing its lost work claims, and enrolling in a discount program, the City could reduce its BWC premium costs. The savings associated with future reductions in premium costs will depend on the amount of annual salaries, the EMR, and the discount awarded. While participating in BWC programs could result in cost savings, the savings are not readily quantifiable.

**R3.7 City administrators and elected officials should ensure that supervisors provide appropriate structure and guidance to employees and that employees are held accountable for productivity levels and the quality of work performed. In order to ensure appropriate supervisory relationships, the City should seek the removal of its supervisors from the collective bargaining units. Implementation of this recommendation would help improve the level of work performed within the City and bring employee management processes in line with leading practices.**

During the audit, auditors noted several instances of employees appearing to not have adequate supervision or direction. Time cards (see **financial management**) contain unapproved edits, overtime did not appear to be pre-approved or monitored (see **R3.12**), and on one occasion, City employees appeared to follow auditors on their work. In addition, benchmarks indicate that, on a per-employee basis, Wellston employees maintain a lower workload than the peers (see **safety services** and **public works**).

In one particular example, refuse collection employees are paid according to the OCSEA contract for eight-hour days. However, these employees usually only work partial days, leaving work at the completion of their routes. City administrators noted that the employees are among the most productive and are therefore typically permitted to work five-hour days. The OCSEA contract indicates that “mutually agreed hours” could be used in place of eight-hour days and timecards would be submitted with actual hours. However, the Streets Director, who supervises the refuse collection employees, noted that he is required to sign the employee timecards which reflect that these employees worked eight-hour days.

*Effective Supervisory Practices* (ICMA, 2005) provides practical direction to managers on supervisory responsibilities and effective leadership. ICMA notes that organizations must, in the face of shrinking resources, make the most of their employees through improving productivity, implementing quality management, and reengineering work processes. Effective supervision can improve how public servants work with citizens, help foster a positive public image, improve employees’ understanding of the local government budget, and help managers deal with regulations that affect local governments. Quality management emphasizes customer service and promotes the ethics of public service in the face of increasing distrust in public servants. Improving

supervisory practices can help local governments provide citizens with high-quality service by strengthening employees' willingness to work harder and more efficiently.

The City of San Antonio, Texas, created an Office of Municipal Integrity to investigate allegations of fraud, waste, and abuse related to City business. Its mission is to strengthen the public's confidence in the integrity of municipal government employees and raise the awareness of municipal officials and employees to integrity related issues. Among the specific issues included in its mandate is the investigation of payroll falsification or "theft of time." Without written confirmation that working fewer hours for the same salary has been approved, employees are vulnerable to being pursued criminally and financially for repayment due to falsification of timecards. Further, *How to Prevent Employee Theft* (American Society for Association Executives, 2010) underscores that illegal activities can decrease morale and productivity and management dishonesty sets a poor example for employees.

Improving supervision and adherence to work rules and contractual parameters will help Wellston enhance the productivity of its employees and improve the perceived integrity of the organization. Condoning or encouraging employees to circumvent work rules creates an atmosphere of inequity and dishonesty. Enforcing contractual work schedules ensures that employees are treated consistently and that the City does not lose valuable employee work time. Increased productivity would not only allow the City to expand its human resources allocation to public works and public safety, but over the long run, this increased productivity can create a financial savings for the City.

**R3.8 The City should negotiate an increase in employee health insurance premium contribution rates to 15 percent for all employees, including elected and contracted employees. Increasing employee contributions to 15 percent for all employees will establish more equitable cost-sharing practices and bring employee premium contributions more in line with industry averages.**

Wellston City employees contribute 10 percent toward the monthly health insurance premium which is less than the SERB average employee contribution rates for Ohio local governments. In 2008 and 2009, there were 48 employees enrolled in the City's medical insurance plan. The Mayor, Treasurer, City Engineer and Police Chief participate in the City's medical insurance; however, the City pays 100 percent of the premiums for these four individuals.

According to SERB, employees paid an average of 11 percent for single and 12 percent for family medical coverage Statewide in 2009. SERB also reported an average city employee contribution of 10 percent for dental and vision insurance. Kaiser, on the other hand, reported that employees contributed on average 17 percent for single coverage and

27 percent for family coverage on a nationwide basis. This is significantly higher than the City's employee contribution rates.

If Wellston were able to renegotiate this provision in its collective bargaining agreements and in addition, apply a 15 percent employee contribution toward medical insurance premiums for the four employees mentioned above, it could substantially reduce its costs in this area. In addition, higher rates of employee cost sharing will help buffer the City against future rate increases.

*Financial Implication:* Negotiating employee contribution rates of 15 percent of medical premiums would save approximately \$24,000 based on the 2009 premiums.

### *Collective Bargaining Agreement Provisions*

**R3.9 The City should reduce its retirement benefit costs by negotiating an end to its pick-up of the employee's share of retirement contributions. Wellston should also negotiate to reduce the maximum number of sick leave days paid out at retirement. Renegotiating these provisions would bring City practices more in line with peers and State minimums and represent substantial cost savings to Wellston.**

**Furthermore, the City should seek to renegotiate vacation accrual rates, the number of personal days, and the number of paid holidays to be more consistent with State guidelines and reduce associated costs. Wellston should seek a memorandum of understanding with its collective bargaining units so that it may negotiate these items prior to the termination of its current bargaining agreements.**

The City of Wellston's employment contracts and collective bargaining agreements were reviewed and selected provisions compared with State minimums and the peers. The following provisions appear more generous than ORC requirements, industry standards, and the peers:

- The City pays the employee portion of the employee's retirement contribution. According to Public Employees Retirement System (PERS) and Police and Fire Disability Fund (PFDF), employees must contribute 10 percent of their gross salaries. The City of Wellston pays this amount on behalf of its employees at a cost of approximately \$209,000.
- The City's sick leave payout at retirement is higher than ORC guidelines. For example, an OCSEA employee who retires with five or more continuous years of service is paid a lump sum for 60 percent of accrued sick leave days up to a maximum of 45 days. Employees covered under the FOP agreement receive a maximum payout of unused sick leave up to 90 days. By comparison, ORC §

124.39 states that employees with 10 or more years of service may receive payments not to exceed 30 days of unused sick leave. While political subdivisions may adopt more generous provisions, exceeding the ORC minimum standard places additional strain on the City's limited resources. For example, for each 15 additional days paid out at retirement, and based on a conservative average salary of \$15 per hour, this provision costs the City \$1,800 for each OCSEA retiree. For each 60 additional days paid out to FOP employees at retirement, the City pays an additional \$7,000.

- The City's vacation time accrual schedule is shorter compared to the peers and the minimum requirement outlined in ORC § 325.19. Employees at Wellston are eligible for 3 weeks of vacation after 5 years of service, and 5 weeks of vacation time after 15 years of service. In contrast, ORC minimums grant 3 weeks of vacation after 8 years of service, and 5 weeks of vacation per year after 25 years of service. Each additional week of vacation accrual reduces the City's productivity by 40 hours per employee or the equivalent of about \$600. Over an employee's tenure with the City, the increased accrual rates equate to an additional 13 weeks of vacation, which reduces productivity by 520 hours (\$7,800) per employee. Based on the current payroll and 2010 longevity, the City will lose an additional 34 weeks of productivity if employees use all vacation time for which they are eligible. This represents 1,360 hours or, in dollars of lost productivity, about \$20,400.
- The City's collective bargaining agreement with OCSEA and contract agreement with Fire employees allows employees five and six personal days respectively. The minimum, according to ORC § 124.386, is four personal days. Based on the 27 OCSEA members and 3 Fire employees, this equates to potentially 33 days of lost productivity, or 264 hours (\$3,900 in the cost of lost time).
- Wellston employees receive 13 paid holidays, one of which is the employee's birthday. The ORC recognizes a minimum of 10 paid holidays. Wellston also compensates employees covered under the Fire agreement at a higher rate of pay if they work the day before or after the holiday. Based on the 60 individuals in the City's employ in January 2010, this equates to 7,200 hours of lost productivity each year. Calculated in terms of dollar cost of lost productivity, this provision costs the City about \$108,000 using a conservative hourly wage rate of \$15 per hour.

Providing employees with more vacation and personal days increases expenditures and decreases productivity. Direct expenditure increases are due to increased overtime expenditures to cover shifts for absent employees. Reduced productivity occurs as there are fewer days dedicated to City operations. By renegotiating these provisions, the City

can, in some cases, reduce its costs, and can substantially boost its annual productivity. If it were successful in renegotiating each provision affecting productivity, it could gain up to an additional 8,800 hours of productivity from its employees, or the equivalent of an additional four full-time employees.

*Financial Implication:* By discontinuing paying the employee's portion of PERS and PFDF contributions, the City could save approximately \$140,500 annually.

**R3.10 The City should seek to renegotiate certain provisions within its collective bargaining agreements to bring the City in line with ORC minimum requirements, industry standards or peer benchmarks. The City should seek a memorandum of understanding from each bargaining unit to negotiate an amendment to its current contracts. By renegotiating provisions that are outside the norm and costly to the City, Wellston will be able to redirect some of its General Fund monies to citizen services.**

The City has agreed to several negotiated provisions within its collective bargaining agreements that are outside the norm of those found in peer agreements or industry standards. These provisions are costly to the City and represent generous provisions that should be considered for negotiation. They include the following:

- **Uniform Allowance:** The City should negotiate lower uniform allowance payments to \$300 per year for police officers and career fire employees, which is more consistent with peer agreements and industry standards. The City should discontinue payment of uniform allowances to Police Division communication staff, as well as all OCSEA members. Similar cities do not offer uniform allowances to non-uniformed employees. In addition, the City should eliminate payment of uniform maintenance allowance to all employees. Typically, cities provide either a uniform allowance or a uniform maintenance payment but not both. This provision costs the City approximately \$24,500 annually. By seeking concession from bargaining unit members on the current uniform allowance, the City could realize annual savings of \$10,800.
- **Minimum Call-in Pay:** The City should negotiate to eliminate the call-in pay minimum of four hours. Instead, it should pay OCSEA and FOP members at actual hours worked at overtime rate of pay (or one and one-half times number of hours worked). Alternatively, it should require employees who are called in to work the full four hours of their call-in pay. Several municipalities have renegotiated call-in pay provisions to either be based on actual hours worked or represent a lower number of guaranteed hours. This provision greatly increases annual overtime expenditures (see also **R3.12**).

- **Life Insurance:** The City should negotiate a lower life insurance plan that is commensurate with the DAS standard equal to the basic annual salary before benefits. Based on an average rate of \$15 per hour, basic life insurance coverage would be approximately \$31,000 per employee. More generous life insurance coverage as a fringe benefit increases the City's total insurance costs.
- **Longevity Pay:** The City should negotiate to reduce longevity pay to a level more in line with state standards based on DAS' longevity tables for OCSEA and FOP employees. In addition to reducing the rate, the City should delay extending longevity benefits until after at least five years of service. Maintaining higher longevity pay increases overall salary costs to the City.
- **Cost of Living Adjustment (COLA):** Considering the current financial situation of the City, it should negotiate to eliminate the cost of living adjustment provision with all its employees effective July 2010. Wellston should maintain a zero or 1 percent negotiated wage increase through the forecast period to control salary costs and help resolve the City's deficit. The current negotiated increases of 5 percent for FOP and OCSEA members, and 3 percent for fire employees, cost the City \$96,200 for the year 2010. By renegotiating the COLA, the City could potentially save an average of \$106,500 annually beginning January 2011.

*Financial Implication:* The City could potentially save \$10,200 in 2010 and an average of \$116,700 annually for the remainder of the forecast period by renegotiating costly provisions in its collective bargaining agreements.

**R3.11 The City should seek to negotiate the removal of early retirement incentives (ERIs) from its collective bargaining agreements. Inclusion of ERI clauses in its bargaining agreements represents a significant future financial risk to the City. Therefore, Council and administrators should carefully evaluate the use of ERIs and exercise caution when considering future ERI offers. When ERIs are considered appropriate and beneficial to the City, they should be offered on a one-time basis.**

The City of Wellston's OCSEA collective bargaining agreement provides an early buyout under the Public Employees Retirement System (PERS) to eligible employees as defined by resolution of Council. Specifically, the City will purchase up to two years of PERS service credit.

According to the Government Finance Officers Association's (GFOA) recommended practices, governments should exercise extreme caution if considering ERIs and should take several actions prior to the decision to offer an ERI, including (1) goal-setting, (2) cost/benefit analysis, and (3) budgetary analysis. Governments should also develop implementation plans. An explicit statement of goals is needed to judge the ultimate

success of an ERI initiative and to develop performance measures. Having a statement of goals also promotes transparency. Inappropriate goals such as rewarding a select group of staff should be explicitly rejected. Potential conflicts of interest among decision-makers who design ERIs should be monitored closely, since any self-dealing is costly and could harm the long-term credibility of the government entity.

If ERIs are offered, they should be offered very infrequently and without a predictable schedule to avoid the expectation that another ERI will be offered soon. Such an expectation would distort normal employee retirement patterns. In addition, a government should retain an actuary to assist in conducting a comprehensive cost/benefit and budgetary analysis which takes into account direct and indirect impacts, such as the cost of providing retiree health care costs. If implementing an ERI, at a minimum, governments should take into account the following points:

- A communication plan is desirable to help employees understand the ERI in the context of overall retirement planning;
- Input from collective bargaining units may be necessary;
- The impact upon service delivery after employees retire should be planned for (with identification of critical personnel whose services must be maintained);
- The duration of the window in which an ERI is in effect should take into account the ability of retirement staff to manage retirement application workloads, among other factors; and
- Performance measures should be used to ensure ERI goals are met. For financially-driven ERIs, governments should track and report direct and indirect costs and benefits to determine if goals are met, such as for vacancies and contract costs.

In light of the City's financial condition and budgetary constraints, ERI clauses should be omitted from future collective bargaining agreements. However, if ERIs are offered, they should be accompanied by detailed financial analyses demonstrating the costs/benefits of the ERIs.

### *Overtime and Leave Usage*

**R3.12 The City should limit overtime usage to approximately 2 percent of regular salary expenditures by increasing oversight and requiring administrative approval. Additionally, the City should institute effective overtime data analysis and management controls to ensure overtime costs are justified expenditures in terms of**

the work performed. Overtime should be used for emergencies or, when used in lieu of hiring additional staff, governed by a well-defined staffing plan. Preapproval should be required for any overtime used, except in the rare instances of emergency call-ins. Finally, during the next round of collective bargaining, the City should seek to institute a policy whereby overtime is only permitted in instances where 40 hours of regular work have been completed (e.g., vacation and sick leave do not count toward the 40 hours).

In 2009, Wellston employees earned overtime at a rate of 10.2 percent of regular pay, at a cost of \$237,500. **Table 3-6** shows the overtime attributable to various departments.

**Table 3-6: Wellston Overtime Use – 2009**

	Total Annual Overtime Hours	Weekly Overtime Hours	Overtime Hours As % of Regular Hours	Overtime Cost
Police	2,645.7	50.9	13.7%	\$62,606
Dispatch	1,633.1	31.4	24.1%	\$35,755
<b>Combined</b>	<b>4,278.8</b>	<b>82.3</b>	<b>14.8%</b>	<b>\$98,362</b>
Fire	39.0	0.8	0.5%	\$741
Water	3,895.6	74.9	15.5%	\$105,114
Sewer	563.5	10.8	15.1%	\$15,753
Cemetery	354.0	6.8	7.2%	\$8,623
Street	301.0	5.8	3.8%	\$7,307
Garbage	67.0	1.3	0.9%	\$1,583
Auditor	0.0	0.0	0.0%	\$0
Other	2.0	0.0	0.0%	\$21
<b>Total</b>	<b>9,500.8</b>	<b>182.7</b>	<b>10.2%</b>	<b>\$237,504</b>

Source: Wellston payroll

As **Table 3-6** indicates, several departments are especially high overtime users including the Dispatch, Water, Sewer, and Police Departments. The Water Department represents approximately 44 percent of the total overtime paid while the Police Department, including Dispatch, accounts for approximately 41 percent of the total.

On closer inspection, only 24 Wellston employees (36 percent) received overtime. Among those employees, the average overtime usage was 13.7 percent of regular hours. If employees accruing less than 1.0 percent overtime are omitted, the average overtime usage jumps to 17.1 percent. Finally, the top three overtime rates were 39.8 percent, 40.4 percent, and 44.7 percent, respectively. These high rates of overtime are indicative of poorly controlled overtime usage.

Auditors noted multiple incidents of other leave time – such as holiday, vacation, sick, and compensatory – being used so that employees worked fewer than 40 actual hours

during a week, but then accrued several hours of overtime. Payroll records showed that at times, employees took sick leave or compensatory time during “regular” hours, and then accrued at least two hours of overtime at the end of the day. The City’s OCSEA and FOP collective bargaining agreements permit the use of other leave in calculating overtime. City administrators, however, still can invoke the right of administrative approval to limit overtime use.

The Wellston Fire Department allows overtime to be earned only after 120 hours of regular work per pay period. It also limits overtime to no more than 36 hours per pay period. The Chief and Safety Service Director must approve any overtime. These controls contributed to the Fire Department’s low overtime costs of \$741 in 2009 (see noteworthy accomplishments in the **executive summary**).

In *Overtime Management: Significant City Expenditures Lack Policies and Safeguards* (City of Portland, Oregon, 2009), the City of Portland Auditor found that departmental management across Portland lacked policies, tools, and accurate budgeting to review overtime. Similar to Wellston, the City was dealing with aging infrastructure, especially in the Portland Water Department, and was experiencing high overtime due to emergencies. The Auditor recommended the creation of a strong overtime policy with clear and specific rules so that overtime would be used efficiently and managed effectively. Departments were directed to assess overtime and improve the tracking of abuse. Further, the Auditor directed the Portland Water Department to assess the condition of the water system to help prioritize work and reduce dependence on overtime spent on emergency repair work. *Best Practices: Maximizing Maintenance* (FacilitiesNet, 2003) recommends limiting overtime for staff to 2 percent of salaries.

Concerted efforts to reduce overtime should be a clear priority since the cost of overtime has a continuing detrimental impact on the General Fund. Administrators, supervisors, and department managers should incorporate overtime monitoring and preapproval as an integral part of their job functions. Managers of similar grades or positions should be required to receive their supervisor’s preapproval for overtime use, rather than approve each other’s overtime.

Tracking and limiting overtime use will reduce the burden of high overtime costs and allow the City to redirect its resources to other functions. Further, regularly reviewing overtime use and costs can help the City better identify potential incidents of overtime abuse and improve its management over employee work hours.

*Financial Implication:* By reducing overtime to 2.0 percent from its current level of 10.2 percent, the City would save \$108,900 in 2010.

**R3.13 Wellston should revise its sick leave policies and increase the monitoring of sick leave use in order to identify and reduce abuse. Sick leave policies should clearly define what constitutes abuse and the City should enforce disciplinary action for sick leave abuse. Revisions to sick leave policies and practices may require collective bargaining; however, improved management of sick leave can be accomplished through increased supervision.**

In 2009, Wellston employees took sick leave at a rate of 6.6 percent of pay, at a cost of lost productivity equating to \$109,024. **Table 3-7** shows the 2009 sick leave usage for the various departments.

**Table 3-7: Wellston 2009 Sick Leave Usage**

	Total Sick Leave Hours	Average Weekly Sick Leave Used	Percent of Total <sup>1</sup> Hours	Sick Leave Cost <sup>2</sup>
Police	1,307.5	25.1	6.3%	\$20,416
Dispatch	329.2	6.3	4.6%	\$4,876
<b>Combined</b>	<b>1,636.7</b>	<b>31.5</b>	<b>5.9%</b>	<b>\$25,292</b>
Fire	474.0	9.1	5.6%	\$6,085
Water	1,930.8	37.1	7.3%	\$34,326
Wastewater	103.0	2.0	2.7%	\$1,962
Cemetery	534.5	10.3	9.8%	\$8,560
Street	817.0	15.7	9.3%	\$13,444
Refuse Collection	200.0	3.8	2.6%	\$3,158
Auditor	284.8	5.5	7.5%	\$4,368
Other <sup>3</sup>	190.0	3.7	3.0%	\$2,064
<b>Total</b>	<b>6,170.8</b>	<b>118.7</b>	<b>6.6%</b>	<b>\$99,259</b>

**Source:** Wellston payroll

<sup>1</sup> Sick leave as percentage of total regular and sick leave hours.

<sup>2</sup> Sick leave cost excludes retired staff person who cashed out over 400 hours for additional cost of \$9,800.

<sup>3</sup> Includes all seasonal, salaried, and part-time employees.

As illustrated in **Table 3-7**, the Water Department and Police Division employees are responsible for 29 and 25 percent respectively of the total sick leave used, which equates to approximately 35 and 25 percent respectively of the total cost of sick leave. During the audit, the Chief of Police reported concerns of sick leave abuse in the Police Division. In 2008, the Department spent in excess of \$100,000 to provide shift coverage as a result of sick leave usage. The Chief anticipated costs surpassing that figure in 2009 based on November 2009 year-to-date sick leave usage of 183 days.

The Ohio Department of Administrative Services (DAS) tracks and reports average sick leave usage of State employees. **Table 3-9** shows a comparison between Wellston employees' sick leave usage and the DAS averages.

**Table 3-9: Sick Leave Comparison with State Averages**

	Wellston Average Leave per Employee (Hrs) <sup>1</sup>	DAS Average Leave per Employee (Hrs) <sup>2</sup>	Variance
Wellston FOP Employees (Includes Dispatchers)	102.3	40.3	62.0
Wellston OCSEA Employees	137.6	69.1	68.5

**Source:** Wellston sick leave and DAS State averages

<sup>1</sup> Employee sick leave was for OCSEA and FOP employees were averaged separately.

<sup>2</sup> The benchmark used for the Police employees is the State-reported 2009 average for Fraternal Order of Police bargaining members. The benchmark used for City employees is the State reported-average for OCSEA/AFSCME bargaining members.

As shown in **Table 3-9**, Wellston OCSEA and Police Division employees, on average, incurred more than twice as much sick leave per employee as the DAS State average in 2009.

Although the City has contractual provisions addressing sick leave, the bargaining agreements do not clearly state what constitutes a pattern of abuse. Further, required submission of physician statements to substantiate sick leave use is not consistently enforced or verified. Some City supervisors indicated that excessive leave use represents a significant problem in their departments, but that efforts to curtail high sick leave use have been resisted.

The State of Ohio collective bargaining agreements with the OCSEA and the Fraternal Order of Police Ohio Labor Council both contain provisions for disciplining employees for sick leave abuse and for pattern abuse, defined as consistent periods of sick leave use. The agreements provide the following as examples of pattern abuse:

- Before and/or after holidays;
- Before and/or after weekends or regular days off;
- After pay days;
- Any one specific day of the week;
- Absence following overtime worked;
- Half days;
- Continued pattern of maintaining zero or near zero balances; and
- Excessive absenteeism.

The agreements include pay rates for the number of sick leave hours used within a one-year period. Specifically, employees are compensated for sick leave at 100 percent for the first 40 hours used. For sick leave between 40.1 and 80 hours, employees are paid 70 percent of their regular pay rates.

According to the article, *Sick Leave Abuse: A Chronic Workplace Ill?* (ASPA Times, 2002), determining if and why employees exploit leave policies is important. The following explains common guidelines all employers can follow to manage sick leave effectively:

- Recognize the problem and take immediate action to enforce leave policies;
- Uncover the root cause of employee leave abuse;
- Learn to say no. Do not ignore employee abuse of leave policies;
- Use procedures, regulations, practices, and knowledge to benefit management as well as the employee; and
- Document everything to learn from past mistakes.

Developing formal policies that effectively communicate specific leave expectations with employees as well as procedures for officials or department heads to use in monitoring sick leave use may allow the City to reduce cumulative leave usage. Defining patterns that are considered abuse and communicating possible disciplinary actions with employees will assist in this endeavor. Policies should be communicated across all departments and included in a comprehensive employee policy and procedures manual or renegotiated in each collective bargaining agreement as appropriate.

**R3.14 Newly-elected City officials should take advantage of the Leadership Training Academy offered by the Ohio Municipal League (OML). In addition, the City should consider renewing its membership to the OML so it may take advantage of publications, educational discounts and other resources. Using these resources would help improve the current level of understanding of governance and management and assist leaders in making decisions that are in the public interest. The cost to attend the New Council Seminar within OML's Leadership Training Academy is \$100 per person (for non-OML members).**

The City of Wellston has three new members of Council as of January 2010. The City does not offer training to new Council members. Several Council members, both new and veteran elected officials, stated they had a limited understanding of what their role on Council actually entailed. In some cases, the limited understanding of the role of Council in relation to the City's administration has contributed to the issues identified in this audit.

The Ohio Municipal League hosts a Leadership Training Academy each year designed to educate elected or appointed officials including mayors, members of council, council clerks and service directors. This training opportunity is hosted at various times and locations across the State each year. Attendance of such training could provide the following benefits:

- Increase awareness of current and emerging issues affecting municipalities;
- Develop knowledge of laws guiding municipal government
- Develop skills necessary to gain expertise and help govern the community; and
- Improve decision-making and management competency.

Topics generally covered in the Leadership Training Academy include the following:

- General powers of municipalities and offices;
- Fiscal management;
- Public personnel management;
- Ethics, and
- Networking and communications.

In addition to the Leadership Training Academy, the City should invest in Ohio Municipal League publications including *Municipal Government in Ohio* (an explanation of the powers and duties of municipal officials, organization of municipalities, municipal finance and debt limitations), *Powers and Duties of Mayors in Ohio* (a guide to Ohio law regarding the powers and duties of mayors), and *The Municipal Legislature in Action/ A Source Book* (a guide to council operations). The cost to renew the City's OML membership is \$1,096, which the City should consider as financial conditions improve.

Newly elected City officials should avail themselves of training on the powers and duties of their respective offices. Training would be beneficial to assist City leaders in making future decisions that are in the best interest of the public and would enhance the legislative body's ability to respond to problematic issues in a timely fashion.

*Financial implication:* The cost for three newly elected members of council to attend the seminar is \$300.



# Safety Services

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This section of the performance audit focuses on the City of Wellston’s (the City) safety services operations, which includes the following divisions:

- A. The Division of Police, and
  - B. The Division of Fire.
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## A. Division of Police

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### Background

This section of the performance audit focuses on the City of Wellston’s Division of Police (CWDP or Division). Auditors compared CWDP’s practices with leading or recommended practices, industry benchmarks, and selected peer cities.<sup>1</sup> Sources of leading or recommended practices and industry standards include the Federal Bureau of Investigation (FBI), the U.S. Department of Justice, the Ohio Office of Criminal Justice Services, and the International Association of Chiefs of Police.

### *Staffing*

The Chief of Police reports to the Director of Public Safety and Service, and is responsible for developing departmental budgets, managing officers, and representing the CWDP in all external relations matters. CWDP employs 12.0 full-time equivalent (FTE) sworn personnel. All CWDP positions, excluding the Chief, are represented by the local Fraternal Order of Police/Ohio Labor Council for Rank Officers (FOP) bargaining unit. The bargaining unit agreement between the City and the FOP expired November 30, 2009, and at the time of the performance audit, was operating under the previous agreement pending negotiations.

CWDP staffing includes the Chief of Police; 1.0 FTE Sergeant, who assists the Police Chief in supervising and directing the activities of the division on an assigned shift;<sup>2</sup> 10.0 FTE patrol officers, (including one investigator) who provide routine patrol of assigned areas, conduct

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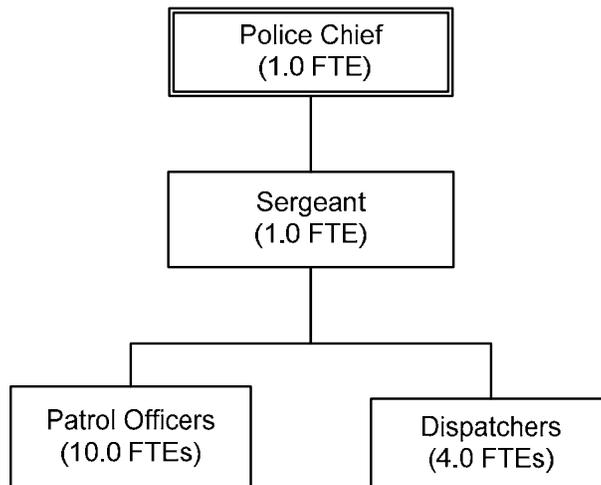
<sup>1</sup> Includes the cities of Carlisle, Deer Park and Logan..

<sup>2</sup> In addition to patrol duties, the Police Sergeant supervises the communications officers, fills in for the Chief of Police in his absence, and serves as the department’s drug enforcement and narcotics officer.

preliminary investigations, and perform miscellaneous related work as assigned. CWPD provides 24-hour patrol services throughout the City. CWDP also employs 4.0 civilian FTEs, which are dispatchers (also referred to as communication officers). The dispatchers transmit and receive all radio traffic and 911 calls in compliance with established procedures and Federal Communications Commission (FCC) regulations. They dispatch the appropriate personnel and equipment for police, fire, and emergency medical services (EMS). In addition, they provide the necessary assistances to all officers on duty by radio. They operate the Law Enforcement Automated Data System (LEADS) in accordance with the LEADS Steering Committee rules, and they type all arrest reports, related paperwork, and other documents as directed.

**Chart 4-1** illustrates the organizational structure of the CWDP<sup>3</sup>.

**Chart 4-1: Police Division Organizational Structure**



**Source:** City of Wellston

<sup>3</sup> Does not include the Wellston Police Auxiliary. In 1980, Council approved establishment of the Wellston Police Auxiliary and adopted rules for governance per ORC 737.05. By ordinance, the City will pay auxiliary officers \$1 per year and provide liability and Worker’s Compensation Insurance. The Wellston Police Auxiliary consists seven officers who are non-City employees that spend 16 hours per month assisting in the Police Division accompanying officers on patrol or providing security at community events.

**Table 4-1** compares CWDP's 2009 sworn staffing levels and workload measures with the peers.

**Table 4-1: City of Wellston and Peer PD Workload Measures Comparison**

City	Wellston	Carlisle	Deer Park	Logan	Peer Average	Difference
Population	6,078	5,983	5,653	6,704	6,113	(35)
Sworn Police Officers <sup>1</sup>	12.0	6.0	12.0	13.0 <sup>2</sup>	10.0	1.7
Officers Per 1,000 Residents	2.0	1.0	2.1	1.9	1.7	0.3
Residents Per Officer	507	997	471	516	661	(155)
Police Dept. Budget	\$1,300,000	\$633,950	\$1,200,000	\$1,237,900	\$1,023,950	\$276,050
Police Spending Per 1,000 Residents	\$213,115	\$105,959	\$212,276	\$184,651	\$167,629	\$46,257
Calls for Service	3,968	5,535	9,000	n/a	7,268	(3,300)
Calls for Service Per 1,000 Residents	653	925	1,592	n/a	1,259	(606)
Calls for Service Per Officer	331	923	750	n/a	836	(506)

**Source:** City of Wellston and the peers

<sup>1</sup> Includes only FTE uniformed sworn police officers.

<sup>2</sup> Excludes school resource officers.

As illustrated in **Table 4-1**, CWDP has 1.7 FTE more sworn officers than the peer average and serve 155 fewer residents per officer. However, CWDP's annual budget exceeds the peer average by approximately \$383,025. Furthermore, the CWDP handles 3,300 fewer calls for service than the peer average, or 506 fewer calls per officer.

Because of its financial condition, the City has notified the CWDP that it will institute layoffs on March 5, 2010 involving 3.0 FTE sworn officers and 1.0 FTE dispatcher. Doing so would bring staffing levels and workload measures in line or under the peer benchmark.

### *Financial Data*

**Table 4-2** summarizes CWDP's actual General Fund operating expenditures for 2007 through 2009 by object.

**Table 4-2: City of Wellston Division of Police Operating Expenditures**

	2006	2007	Percent Change	2008	Percent Change	2009	Percent Change
Salaries and Wages	\$535,208	\$554,616	3.6%	\$655,892	18.3%	\$663,403	1.2%
Benefits	\$362,054	\$367,865	1.6%	\$399,628	8.6%	\$476,438	19.2%
Purchased Services	\$137,997	\$189,952	37.7%	\$150,044	(21.0%)	\$51,585	(65.6%)
Supplies and Materials	\$43,147	\$62,567	45.0%	\$56,828	(9.2%)	\$47,330	(16.7%)
Capital Outlay	\$4,227	\$4,542	7.5%	\$9,184	102.2%	\$2,958	(67.8%)
Other	\$21,212	\$18,186	(14.3%)	\$24,148	32.8%	\$3,724	(84.6%)
<b>Total</b>	<b>\$1,103,846</b>	<b>\$1,197,727</b>	<b>8.5%</b>	<b>\$1,295,723</b>	<b>8.2%</b>	<b>\$1,245,437</b>	<b>(3.9%)</b>

Source: City of Wellston financial expenditures

As **Table 4-2** illustrates, CWDP's total expenditures increased annually from 2006 through 2008 by more than 16 percent. The apparent decline of nearly 4 percent in 2009 is due to the City's non-payment of outstanding encumbrances within several line items as noted by the following:

- **Salaries:** Salaries and wages steadily increased from 2006 through 2009 with a significant increase of approximately 18 percent in 2008, which, according to the Chief, was due to increased overtime expenditures.
- **Employee Benefits:** Benefit costs increased by approximately 8.6 percent and 19.2 percent in 2008 and 2009 respectively, due to increased health insurance costs and employee pension payments.
- **Purchased Services:** This represents telephone charges, monthly fees for the use of LEADS, training, and prisoner housing and medical services. In 2008, the prisoner housing and medical costs appear substantially higher since the City has encumbered but not paid housing fees due the County. As of January 2010, there was an additional \$30,000 in outstanding encumbrances for prisoner housing and medical service fees.
- **Supplies and Materials:** Supply and material expenditures have declined consistently since 2007. These expenditures represented over 4 percent of the total expenditures in 2008 and approximately 3.8 percent of the total expenditures in 2009. The Chief of Police indicated that this line item represents costs associated with the purchase of office supplies, police vests, training targets, vehicle maintenance and fuel charges. Similar to Purchased Services, expenditures in this category appear to have dropped significantly. However, the City has not paid for its encumbered expenses. As of January 2010, there were \$9,746 in outstanding encumbrances attributed to the Police Division, of which \$129 was for a Nintendo DS replacement purchased from Wal-Mart on December 28, 2009.

- **Capital Outlay:** Capital outlay represents costs for various types of police equipment including a \$186 per month installment payment for police recording equipment. Final payment for this equipment will occur in February 2011. In 2008, expenditures in this line item increased due to \$6,000 in taser cartridges. As of January 2010, there was \$372 in encumbered but unpaid expenses for this category. (See **financial management** for a discussion on capital planning and replacement)
- **Other:** This line item represents costs associated with paying for miscellaneous items in the Division, such as vehicle insurance and/or vehicle loan payments. Liability insurance in 2008 was \$21,512 compared to \$1,434 in 2009. There was nothing in the outstanding encumbrances for this line item as of January 2010.

## Recommendations

**R4.1 Based on the analysis requested by the Financial Planning and Supervision Commission and recent discussions by Council, the City should consider contracting for shared safety services due to its severe financial constraints and an inability to sustain current police operations. The City should work with its legal counsel to resolve any issues (even significant issues they may encounter) with regard to its collective bargaining agreement with the FOP. Using a shared-services agreement through the Jackson County Sheriff would allow the City to continue its current level of service to residents at a reduced cost.**

According to the Safety Service Director, the City has had past discussions with the Jackson County Sheriff's Office regarding opportunities to contract for shared services. CWDP's current annual budget exceeds \$1.2 million and is projected to rise to approximately \$1.4 million by 2014 (see **financial management**). The budget is comprised primarily of wages, benefits, and overtime costs. Because of the City's financial condition, shared services represent an opportunity to maintain service levels in a more economical manner.

The Jackson County Sheriff's Office has developed estimates for providing services to the City of Wellston, and would save the City approximately \$484,000 per year over existing expenditures. The estimate includes costs for police patrol, dispatch, clerk, equipment, vehicles, and uniforms.

Several governments within Ohio and other states have used shared-services agreements to reduce costs. Some notable examples are listed below:

- The Southwest Regional Council of Governments (Cuyahoga County) provides multi-jurisdictional police and fire specialty teams. This practice is estimated to save Ohio taxpayers of the participating jurisdictions \$1.5 million annually.
- The Village of Lakemore (Summit County) eliminated its policing operations and contracts with neighboring Springfield Township for policing services. The contract is projected to save the Village of Lakemore \$250,000 annually, although first-year cost savings were higher.
- The City of Greene (Summit County) provides safety services under a shared-services agreement with the Summit County Sheriff. The city's police contract cost for 2008 was \$1.5 million. The estimated savings under the shared-services agreement is \$1 million per year.

- The City of Hilliard (Franklin County) provides police services under contract to Norwich Township. The city estimates that the joint safety-services agreement has saved taxpayers over \$3 million since its inception in 2004.

Other examples from U.S. cities and townships include:

- The City of Ketchum, Idaho obtains its police services through a partnership with Blaine County, Idaho. The City of Ketchum estimates the partnership will save \$200,000 annually.
- The Town of Clay, New York, merged its police department with the Onondaga County Sheriff’s Office. The merger is projected to achieve annual savings of \$1.7 million. The consolidation reduced the town’s tax bills by 20 percent.
- In July 2008, the City Council of Crescent Springs, Kentucky decided to contract for police services with the neighboring City of Erlanger. These two cities saved \$300,000 combined in the merger, according to the Erlanger Police Chief.

As illustrated through the examples, providing safety services under a partnership, shared-services agreement, or consolidated model can significantly reduce the costs for services. However, it should be noted that shared-services agreements, like all contractual arrangements, require careful monitoring to ensure the contracting party receives the full benefits of the agreement.

**Table 4-3** outlines the CWDP expenditures for 2009 and the estimated savings should the City obtain police services through a shared-services agreement.

**Table 4-3: Police and Dispatch Costs and Potential Savings**

	<b>2009</b>
<b>Police Division Expenditures</b>	\$1,245,000
<b>Jackson County Sheriff’s Office annual estimate for service</b>	\$761,000
<b>Estimated Savings</b>	<b>\$484,000</b>

**Source:** City of Wellston Auditor’s Office, Jackson County Sheriff’s Office

As illustrated in **Table 4-3**, Wellston would experience about a 40 percent savings through a service agreement with the Jackson County Sheriff’s Office. Though the Sheriff’s Office estimate includes service levels comparable to those provided by the CWDP, the City would need to monitor the agreement and regularly seek citizen feedback on the services to ensure it received the full value for its contract.

*Financial Implications:* If the City entered into a shared-services agreement with the Jackson County Sheriff to provide all police services, it could save approximately \$484,000 annually. Additionally the City would realize one-time revenue of approximately \$8,000 from the sale of police vehicles.

- R4.2 If the City elects to retain its police services, it should consider, at a minimum, consolidating its dispatching services with the County since Wellston residents currently receive 911 emergency dispatch coverage through the County system. Based on an analysis of current workload, inbound calls could be answered by sworn on-duty officers or, in the case of non-emergency calls, an administrative employee in another office could answer the calls during regular business hours. The City should consult its legal counsel regarding the collective bargaining agreement and the impact the agreement might have on its ability to consolidate this service. Changes in procedures for handling calls should be clearly communicated to the public through a format such as an insert in the water bill. The elimination of the local Wellston 911 satellite for police dispatch operations could be achieved without loss of 911 emergency services to Wellston residents.**

The CWDP includes dispatching operations performed by civilian dispatch personnel who receive inbound telephone calls from residents for emergency and non-emergency services. Communications officers also transmit alerts to the CWDP, the Fire Division, and the Southeast Ohio Emergency Medical Services (SEOEMS). The CWDP dispatch center assists the Jackson County Sheriff's Office by acting as an alternative call center for the Primary Public Service Answering Point (PSAP) system. In the event that the primary PSAP call center in Jackson is unable to promptly answer, calls are routed to Wellston to ensure that the system is not overwhelmed. There is at least one dispatcher on duty at all times, requiring 3.0 FTEs working 8-hour shifts each to cover a 24-hour period. According to the City of Wellston Fire Chief, the Fire Division provides backup dispatching services for the Police Division.

The City experiences low call volume. In 2008, the Division reported receiving approximately 3,968 calls. This included 1,403 emergency calls consisting of 797 calls for police, 57 calls for fire, and 549 calls for EMS. In 2009, the Division reported receiving 3,162 calls, of which 1,197 were 911 emergencies. The 911 calls for 2009 included 684 calls for police, 44 calls for fire, 459 calls for EMS, and 10 calls for other agencies.

**Table 4-4** illustrates the dispatch calls received by the CWDP during 2008 and 2009.

**Table 4-4: CWDP Dispatch Incident Calls Analysis**

	2008	2009
<b>All Calls Received</b>	3,968	3,162
<b>Emergency (911) Calls</b>	1,403	1,197
<b>Non-Emergency Calls</b>	<b>2,565</b>	<b>1,965</b>
<b>Average Monthly Non-Emergency Calls</b>	213.8	163.75
<b>Average Daily Non-Emergency Calls</b>	<b>7.1</b>	<b>5.5</b>
<b>Average Daily Calls (Emergency and Non-Emergency)</b>	<b>10.9</b>	<b>8.7</b>

Source: Chief of Police, City of Wellston

As illustrated in **Table 4-4**, the total number of calls decreased from 2008 to 2009 by 20.3 percent. The average number of non-emergency calls dropped from 7.1 to 5.5 calls per day, which is fewer than 3 calls per dispatcher per eight-hour shift. Based on this analysis, it is not cost-effective to retain current staffing levels in order to handle such low call volumes.

As in the example for sharing police services, many Ohio communities have consolidated dispatch services with the county sheriff's office or other municipalities.

- The Lake County Sheriff's Office provides dispatch services to 11 communities;
- The Westshore Council of Governments (Cuyahoga/Lorain counties) uses consolidated police and fire dispatching;
- The Southwest Regional Council of Governments also provide multi-jurisdictional police and fire dispatch;
- Copley Township and the City of Norton (Summit County) operate a joint dispatch center;
- Ashland County has partnered with the City of Ashland and the Village of Loudonville to consolidate and upgrade 911 dispatch;
- The cities of Stow, Tallmadge, and Mogadore (Summit/Portage counties) consolidated dispatch centers and, on April 1, 2009, began providing dispatch for Randolph Township in Portage County as well;
- Hamilton County's Public Safety Communications Division is a consolidated Enhanced 911 (E911) center that serves the emergency communications needs of more than 105 police, fire, and EMS agencies in 42 political jurisdictions; and
- The Stark County Council of Governments is entering into a collaborative effort to consolidate ten dispatch centers and one call center into a county-wide dispatch center, for a projected savings of \$6.5 million each year.

Elsewhere, efforts include:

- The City of Batavia, New York consolidated its police dispatch service with the Genesee County E911 for estimated savings of \$200,000.
- The individual municipalities of St. Clair County, Michigan either eliminated or merged their individual emergency dispatch services with that of the County. The City of Port Huron, a participating municipality, projects an annual savings of \$500,000.
- Waukesha County, Wisconsin consolidated nine public service answering points (PSAPs) serving 37 municipalities with a combined population of more than 370,000 residents. The consolidation allowed the county and participating jurisdictions to upgrade equipment, and led to annual savings of almost \$3 million.

As Wellston already receives 911 dispatch services from the County, residents would experience no change in emergency services dispatching if the City decides to eliminate its in-house dispatch operations. The City would need to provide residents with a non-emergency contact number and arrange for a voice mailbox during non-business hours and weekends.

*Financial Implication:* By eliminating dispatch services, the City could save approximately \$212,000 annually.

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## B. Division of Fire

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### Background

This section of the performance audit focuses on the City of Wellston's Division of Fire (CWDF or the Division). The objective of this section is to assess CWDF's practices against leading or recommended practices, industry benchmarks, and selected peer cities. Additional comparisons using other benchmarks and best practices are identified throughout the report to include the State Fire Marshal, Government Finance Officers Association (GFOA), Ohio Administrative Code (OAC), Federal Emergency Management Administration (FEMA), and the National Fire Protection Association (NFPA).

The Division is responsible for safeguarding and preserving life and property through fire suppression activities. CWDF also performs fire incident investigations, fire safety inspections, and fire prevention activities. The Southeast Ohio Emergency Medical Services (SEOEMS) has three EMS District offices located in Jackson, Oak Hill, and Wellston (employees of the Wellston EMS District are not City employees). CWDF provides first responder and emergency backup when the EMS District is on a call outside the City, or for some other reason is unavailable for immediate response.

### *Staffing and Organizational Function*

CWDF operates one fire station on a three-shift system with three engines and one ladder truck. The Division also operates an EMS station. CWDF's full-time fire personnel consist of 1.0 FTE Fire Chief, who oversees both fire and EMS operations; 2.0 FTE Assistant Fire Chiefs; 25 part-time (or paid on-call) fire personnel who are paid on an hourly basis when called to work and 8 volunteer firefighters who do not receive pay.<sup>4</sup>

The City's EMS staff includes a combination of full-time and paid on-call and volunteer staff. The 3.0 FTE career firefighters in the CWDF, including the Fire Chief and the two Assistant Fire Chiefs, are all trained and certified in EMS. One of the paid on-call firefighters in the Division is also the only emergency medical technician-paramedic (EMT) employed by the City, and is responsible for providing pre-hospital care to patients in emergency medical situations. The EMT is also responsible for maintaining equipment and supplies necessary to respond to emergencies.

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<sup>4</sup> Of the 33 part-time and volunteer firefighters, 11 are firefighter/EMTs who provide both fire suppression and EMS services.

The Chief and Assistants work rotating 24-hour shifts on duty followed by 48 hours off duty, with a 56-hour average workweek. Staffing levels in the CWDF have remained unchanged for several years. The CWDF employee functions, as described in the respective job descriptions, include the following:

- **Fire Chief:** The Fire Chief oversees the operations of CWDF, which includes developing the annual budget, approving all purchases and employee leave time, and reviewing and signing all policies and procedures. The Fire Chief performs administrative and skilled firefighting work in directing the activities and personnel of the Fire Division, and related work including preservation of documents relating to emergency and non-emergency information as required.
- **Assistant Fire Chiefs (2.0 FTEs):** In addition to assisting the Fire Chief in carrying out administrative duties, the Assistant Fire Chiefs analyze problems of fire fighting and make recommendations to the Fire Chief for more effective utilization of manpower and equipment pertaining to all activities of the Division. This position also directs fire fighting operations on a City-wide basis, assists the Fire Chief in planning and directing the activities of the Division, makes reports concerning personnel and activities as directed by Fire Chief, directs and oversees inspection of buildings and premises for fire hazards, and does other related work as required.
- **Utility Men, Firemen, and Volunteer Firemen:** This classification consists of 25 part-time (or paid on-call) fire personnel and 8 volunteer firefighters. The part-time and volunteer firefighters include three captains; three lieutenants; a safety officer; a photographer; one student volunteer, four first responders, including one EMT; three water rescue staff; and seventeen firefighters. These positions engage directly in fire prevention and fire fighting activities to protect and safeguard lives and property. These positions assist in maintenance and repair of the fire station and equipment, and do related work as needed. These employees are also responsible for conducting fire/rescue and medical response operations, and responding to hazardous conditions such as gas leaks, downed power lines, and chemical emergencies.

The Division's three full-time employees are primarily responsible for fire inspections and fire prevention within the City. The Division provides fire-prevention and safety services to the community including child safety seat inspections, public education events, fire investigations, and fire drill assistance for the schools. CWDF also provides informal education and training of its paid-on-call and volunteer staff on the legality of open burning laws and Ohio EPA guidelines so they may be appropriately enforced.

**Table 4-5** compares CWDF's 2008 staffing and workload measures by career officer with peer cities.

**Table 4-5: City of Wellston Staffing and Workload Measures Comparison**

City	Wellston	Bellevue	Deer Park	Taylor Mill	Peer Average	Difference	% Difference
Population	6,078	5,887	5,653	6,744	6,095	(17)	(0.3%)
Firefighters <sup>1</sup>	3.0	6.0	9.0	7.0	7.33	(4.33)	(59.1%)
Firefighter Per 1,000 Residents	0.49	1.02	1.59	1.04	1.22	(0.73)	(59.8%)
Residents Per Firefighter	2,026	981.17	628.11	963.43	857.57	1,168.43	136.3%
Annual Budget <sup>2</sup>	\$427,402	\$769,000	\$2.3M	\$1.1M	\$1.4M	(\$959,837)	(69.2%)
Fire Spending Per 1,000 Residents	\$70,320	\$130,627	\$405,575	\$163,108	\$233,103	(\$162,784)	(69.8%)
Calls for Service	596	337	2,300	1,070	1,235.67	(639.67)	(51.8%)
Calls for Service Per 1,000 Residents	98.06	57.25	406.86	158.66	207.59	(109.53)	(52.8%)
Calls for Service Per Firefighter	198.67	56.17	255.56	152.86	154.86	43.81	28.3%

**Source:** City of Wellston and peers

<sup>1</sup> Includes only FTE Career Fire Officers.

<sup>2</sup> Fire budgets in millions indicated by "M."

As **Table 4-5** illustrates, CWDF has 59.8 percent fewer career firefighters per 1,000 residents than the peer average. In addition, CWDF spends approximately 70 percent less per 1,000 residents than the peer average. Finally, CWDF responded to approximately 44 more calls per firefighter than the peer average.

CWDF operates more efficiently than its peers based on staffing, expenditure and workload measures. CWDF maintains lower staffing levels than peer fire departments when compared on the number of career officers, officers per 1,000 residents, department budget, spending per 1,000 residents, total calls for service, and calls for service per 1,000 incidents. Furthermore, CWDF serves approximately 136 percent more residents per career firefighter, and receives 28.3 percent more calls for service per firefighter than the peer average. See also *noteworthy accomplishments* in the **executive summary**.

### *Financial Data*

**Table 4-6** shows CWDF's actual General Fund operating expenditures for 2007 through 2009 by object.

**Table 4-6: City of Wellston Division of Fire Operating Expenditures**

	2006	2007	Percent Change	2008	Percent Change	2009	Percent Change
Salaries and Wages	\$156,414	\$177,842	13.7%	\$166,507	(6.4%)	\$157,876	(5.2%)
Benefits	\$67,355	\$70,209	4.2%	\$67,962	(3.2%)	\$86,733	27.6%
Purchased Services	\$11,895	\$12,314	3.5%	\$15,091	22.6%	\$12,782	(15.3%)
Supplies and Materials	\$20,348	\$40,115	97.3%	\$35,250	(12.1%)	\$53,018	50.4%
Capital Outlay	\$9,058	\$66,087	629.6%	\$134,626	103.7%	(\$38,011) <sup>1</sup>	(128.2%)
<b>Other</b>	\$28,149	\$26,627	(5.4%)	\$7,965	(70.1%)	\$6,482	(18.6%)
<b>Total</b>	<b>\$293,219</b>	<b>\$393,194</b>	<b>34.1%</b>	<b>\$427,402</b>	<b>8.7%</b>	<b>\$278,880</b>	<b>(34.8%)</b>

**Source:** City of Wellston financial expenditures

<sup>1</sup> This represents a credit for extra payments on the City's fire truck made in 2008 after the payments were transferred to the General Fund.

**Table 4-6** illustrates that although CWDF's total expenditures increased annually from 2006 through 2008, expenditures declined significantly, by 34.8 percent, in 2009 due to approximately \$43,113 in Fire Fund encumbrances that were unpaid as of January 2010. A summary analysis of expenditures and variances includes the following:

- **Salaries:** Salaries increased by approximately 13.7 percent in 2007, but declined in 2008 and 2009. In 2007, CWDF allowed employees to work and receive pay for significant overtime hours, but took steps to reduce overtime since 2008.
- **Employee Benefits:** Benefit costs increased by approximately 4.2 percent in 2007, declined by 3.2 percent in 2008, and rose again by 27.6 percent in 2009. These fluctuations can be attributed to the changes in the cost of medical insurance and employees' pensions, which depends on the number of CWDF employees who participate.
- **Purchased Services:** These costs are associated with paying utility charges such as electric, gas, and telephone, as well as computer maintenance and support. The increase in 2008 and decline in 2009 were immaterial.
- **Supplies and Materials:** CWDF's supply and material expenditures includes maintenance and fuel costs, which tend to fluctuate. Expenditures decreased by approximately 12 percent in 2008 then increased by approximately 50 percent in 2009. As of January 2010, encumbered expenses for supplies and materials amounted to \$8,932 or approximately 21 percent of the total encumbrances for the Fire Fund.
- **Capital Outlay:** Capital outlay expenditures account for fire truck loan payments. Expenditures for this line item increased exponentially in 2007 by 629.6 percent and in 2008 by 103.7 percent. These costs significantly declined by 128.2 percent in 2009 due

to \$9,038 (or approximately 21 percent) in encumbered loan payments that the City has not made as of January 2010.

The Fire Division receives the majority of its funding through a 3.5 mill Fire/EMS operating levy, which collected \$225,836 in 2008 and \$286,388 in 2009. In addition, CWDF receives about \$18,100 in contract payments for providing fire suppression to two neighboring townships. CWDF also received a Federal Emergency Management Agency (FEMA) grant in the amount \$64,600 in 2007.

Issues confronting the Division concerning revenue surround the use of levy and income tax proceeds that have been designated for specific purposes. The Fire/EMS levy, initially passed in 2000 and renewed in 2006 and 2009, is supposed to be used for the operation of the Fire Division including the payment of salaries and purchases. However, since 2006, the City has used part of the levy fund to make \$68,500 in annual payments for two fire trucks purchased in 2004 and 2005, even though this payment was designated to come from the General Fund, according to a 2003 City Ordinance. (There is another annual truck payment for \$9,000 made from the Fire Fund). Second, the Fire Division was designated to receive 17 percent of income tax collected by the City each year, but the Division has not received this money since 2006.

## Recommendations

- R4.3 The City should establish workload measures for the Fire Division based on peer or national benchmarks to ensure ongoing staffing levels are appropriate and contribute to the safety of its personnel. Based on the staffing analysis of career fire officers, CWDF should consider establishing workload measures based on the peer benchmark, factoring in its paid on-call and volunteer firefighters, and determine staffing level needs accordingly.**

The City of Wellston Fire Division uses limited full-time professional staff and relies on paid-on-call and volunteer personnel for a majority of its fire suppression activities. Paid-on-call employees receive hourly pay if called to work, but they do not receive benefits and are not covered by the employment agreement. Volunteers do not receive any hourly compensation. The Division does not have a minimum man-power level per shift. However, it seeks to maintain a staffing level of at least one career fire employee or a paid-on-call employee with appropriate certification to be scheduled for each shift. Four volunteer employees have the appropriate certification and can fill in for the career officers. Further, the Fire Chief indicated that CWDF tries to meet the Insurance Service Organization Standard (ISOS) as well as State of Ohio guidelines and National Fire Protection Association (NFPA) requirements.

According to the NFPA survey (2001), each fire apparatus should ideally be staffed with at least four firefighters at all times, and response times should be not more than four minutes after leaving the firehouse for the first arriving company. Though its initial staffing is lower because of its largely on-call and volunteer organization, CWDF has initial response times of three to four minutes.

CWDF has been relatively effective and efficient in running its operations with fewer career staff and does not see the need to establish workload measures to evaluate staffing levels at this time. However, establishing workload measures and evaluating staffing levels accordingly would help ensure appropriate coverage and certifications and help the professional staff identify potential personnel shortages in sufficient time to conduct additional recruiting.

- R4.4 The City of Wellston should develop a fee schedule for the Fire Division to recoup the cost of fire prevention services provided to residential and commercial consumers. In the process of developing a fee schedule for fire prevention, the City should adopt policies that outline the manner in which fees and charges are established, and the extent to which fees will cover the cost of the service provided.**

**In addition, CWDF should initiate inspections to improve fire prevention within the City. It should encourage City residents to follow fire prevention practices and ensure that applicable Ohio codes are enforced.**

The CWDF provides an array of services to residents. Though it performs commercial fire inspections, it does not charge a fee for them and does not keep records of inspection services. In the past, City officials felt that fire inspections were a service of the Division and that a fee should not be associated with inspections. The CWDF bills residents for the cleanup and containment of hazardous materials, as allowed by Federal Law, to cover the cost of supplies used for such cleaning. CWDF collected approximately \$7,627 and \$5,090 in hazardous materials fees during 2008 and 2009, respectively. Furthermore, the City has ongoing contracts to provide fire service to two neighboring townships, Milton Township (for \$16,000 in 2009) and Washington Township (for \$2,100 annually).<sup>5</sup>

*Best Practice in Public Budgeting – Develop Policy on Fees and Charges* (GFOA, 2000)<sup>6</sup> recommends that a government adopt policies that identify the manner in which fees and charges are set, and the extent to which they cover the cost of the service provided. The cost associated with the fees should include direct or indirect costs, such as operating and maintenance costs, overhead, and charges for any capital assets involved in the process. The policies should also be used during the budgeting, planning, and management reporting processes. This insures that any potential revenue and workload issues will be considered.

The State Fire Marshal has established a fee schedule for the issuance of permits and for inspections services. For example, Section 112.2 of the 2007 Ohio Fire Code outlines the fee schedule of new construction inspections, ranging from \$200 for the initial inspection to \$300 for the fourth follow-up. Section 112.3 outlines fees for fire safety inspections, with the initial inspection fee being \$100 and re-inspection fees of \$50. The section also lists several exemptions to the fees for fire safety inspections.

The Cedarville Township, Ohio Fire Department conducts annual commercial inspections to enhance fire prevention within its jurisdiction. In addition, the Department provides residents with helpful fire prevention and fire safety information on its web site. Finally, Cedarville Township ensures residents are aware of Ohio outdoor burning regulations under OAC 3745-19 by including an outline of the code on its community page.

CWDF could enhance its fire prevention activities and ensure residents are adhering to Ohio burning regulations through an increased focus on fire prevention. In addition, conducting and charging for routine commercial inspections would enhance the safety of

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<sup>5</sup> The contract with Washington Township expired in 2007 and a new contract has not yet been signed. However, according to the Assistant Fire Chief, the contract is still in effect and CWDF is trying update the contract.

<sup>6</sup> <http://www.gfoa.org/>

commercial structures within the City and allow the CWDF to recoup some of the costs associated with fire prevention activities. Wellston has more than two hundred commercial enterprises within the City boundaries (based on the Wellston Business Directory on the Wellston Forum), so the CWDF might be able to generate \$20,000 the first year of the program and \$10,000 annually to support the cost of commercial inspections and ensure the safety of business premises in Wellston. The City Council could examine the inspection and permitting processes in other jurisdictions to determine if the application of additional service charges would be appropriate.

*Financial Implication:* By charging the fees authorized by the Ohio Fire Marshall for commercial inspections, CWDF could recoup an estimated \$10,000 annually to cover the cost of commercial fire prevention activities.

**R4.5 The City and Fire Division should prepare policies and plans for capital asset acquisition, maintenance, replacement, and retirement. These policies should form the basis for developing long-term plans to address CWDF's capital needs and ensure that these needs receive appropriate consideration in the budgeting process.**

The City of Wellston's Fire Division does not have a formal plan for the acquisition, maintenance, replacement, and retirement of capital assets, such as trucks or equipment. The Division receives appropriations from the City based on need and the availability of funds. CWDF only replaces equipment as needed; it performs its own maintenance services, such as oil and filter changes as needed, and does not have formal preventive maintenance plans. The Fire Chief recognizes the need and importance of having some type of long-range planning, but feels the Division is limited by a lack of financial resources.

The GFOA states that governments should adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement. These policies help ensure that needed capital assets or improvements receive appropriate consideration in the budgeting process and that older capital assets are considered for retirement or replacement. These policies and plans are necessary to plan for large expenditures and to minimize deferred maintenance. The policies can address inventorying of capital assets, evaluate the difference between maintenance and replacement, and determine the source of funding for the capital assets. Stakeholders should have an opportunity to provide input as policies and plans are developed. Once the policies and plans have been adopted, they should be publicly available, and should be used during the budgeting process.

Using City policies as a guideline, the CWDF could develop replacement plans that, as monies were available through the Fire/EMS levy and other special revenue funds, could be incorporated into the budget. As a component of the plan, CWDF should determine the longevity or condition of the equipment, calculate the cost of obtaining new capital

assets, and make suggestions on how the cost can be absorbed in the budgeting process. (See **finance** for a more detailed discussion on capital budgeting practices.)

**R4.6 The City should explore alternative funding options for the Division beyond traditional methods. As a means of offsetting costs, CWDF should evaluate options for grant funding. It could consider training a paid on-call or volunteer firefighter to assist in this effort.**

The CWDF relies almost exclusively on its levy and any General Fund appropriations for operations. Other revenue, approximately \$18,100 annually, is generated through a contract to provide service to two neighboring townships. (The City's contractual agreement with Milton Township runs through 2014; a separate agreement with Washington Township is currently being renegotiated.) In addition, the CWDF received a Federal Emergency Management Agency's (FEMA) grant in the amount \$64,600 in 2007, but has not received any other grant funding since. The grant application process has been very limited because employees are responsible for researching and applying for grants.

The Fire Chief stated that the Division had not been able to receive more grants it had applied for because of the limited knowledge of the grant application process in the Division, and in the entire City government. The Chief further stated that the lack of success in obtaining grants has resulted in the Division not spending the time to actively pursue additional grant applications.

Fire departments across the United States have begun more actively seeking alternative funding to offset decreased local government revenues. Grant funding can be obtained from the local and state level and private institutes. The State of Ohio web site<sup>7</sup> is a resource for information on federal funds administered by the State. Many states offer grants, loans, services-in-kind (especially training), and access to federal grant programs to their local fire and EMS agencies. The State Fire Marshal and the State EMS Coordinator's office are two starting points to check, but a variety of other State offices such as health, occupational safety, forestry, and transportation also may have programs. Fire departments also receive private grant funding as a means to offset operational deficits, purchase new equipment, or implement functional programs. There are approximately 25,000 private foundations that provide grants and grant management assistance.

The U.S. Fire Administration, a division of FEMA, provides a manual titled *Funding Alternatives for Fire and Emergency Services* that includes a special section to assist fire and emergency medical service agencies in developing grant requests and proposals. The

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<sup>7</sup> [www.ohio.gov](http://www.ohio.gov)

manual provides detailed guidance on initial proposal development, review, writing the grant proposal, and interaction and networking. The manual notes that budget pressures have forced local governments to consider reducing services, increasing efficiency, or finding new funding sources. The impacts of budget pressures have been especially complex for fire protection and emergency medical services to deal with because they come at a time when there are increasing concerns for firefighter safety, increasing demand for emergency medical services, and often an increasing array of other services required to be provided by fire and EMS departments such as responding to hazardous materials spills, technical rescue incidents, and providing advanced life support. The addition of new services also offers new opportunities for funding. While charging for the additional services can sometimes offset some or all of the costs of services, seeking alternative funding sources may help relieve some of the financial pressures attributable to the City’s deficit.

**Table 4-7: Sources for Alternative Funding for Fire Services**

Resources	Website
<b>Federal Grant Resources</b>	
Catalog of Federal Domestic Assistance (CFDA)	<a href="http://www.cfda.gov">www.cfda.gov</a>
The Foundation Grants Index	<a href="http://www.fdncenter.org">www.fdncenter.org</a>
National Directory of Corporate Giving	<a href="http://www.fdncenter.org">www.fdncenter.org</a>
Federal Register	<a href="http://www.gpoaccess.gov/nara">www.gpoaccess.gov/nara</a>
Grants.Gov	<a href="http://www.grants.gov">www.grants.gov</a>
Foundation Directory - Cleveland	<a href="http://www.fdncenter.org/cleveland">www.fdncenter.org/cleveland</a>
<b>Federal Grantors</b>	
USFA – United States Fire Administration	<a href="http://www.usfa.dhs.gov/">http://www.usfa.dhs.gov/</a>
HUD – United States Housing and Urban Development	<a href="http://www.hud.gov/offices/cpd/communitydevelopment/programs/">http://www.hud.gov/offices/cpd/communitydevelopment/programs/</a>
United States Department of Transportation Highway Safety Funds	<a href="http://www.dot.gov/">http://www.dot.gov/</a>
United States Department of Agriculture	<a href="http://www.usda.gov/wps/portal/usdahome">http://www.usda.gov/wps/portal/usdahome</a>
<b>Private Grant sources</b>	
Commission of Fire Accreditation International – Commission of Chief Fire Officer Designation	<a href="http://www.publicsafetyexcellence.org/">http://www.publicsafetyexcellence.org/</a>
ESRI	<a href="http://www.esri.com/grants/">http://www.esri.com/grants/</a>
National Institute of Standards and Technology	<a href="http://www.nist.gov/public_affairs/grants.htm">http://www.nist.gov/public_affairs/grants.htm</a>
Chief Supply	<a href="http://www.chiefsupply.com/grants/">http://www.chiefsupply.com/grants/</a>

Source: AOS

While grant funding may not provide a revenue source for ongoing CWDF operational costs, grants may help offset costs for equipment and other capital expenses, as well as training, system improvements, and other one-time or episodic expenses. Any grant funding received by the City could reduce the need for total dependence on the Fire/EMS levy fund and General Fund revenue to support fire and EMS services. Without alternative funding, CWDF must rely on levy funds and General Fund appropriations to function and to replace equipment.



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# Public Works and Services

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This section of the performance audit focuses on the City of Wellston’s (the City) services which includes the following areas or departments:

- A. Water and Wastewater Operations
  - B. Utility Billing/Meter Reading
  - C. Streets and Vehicle Maintenance
  - D. Refuse Collection
  - E. Cemetery Maintenance
  - F. Recreation
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## A. Water and Wastewater Operations

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### Background

This section of the report focuses on the operations of the City of Wellston’s Water and Wastewater departments. Processes were reviewed, evaluated, and compared with leading practices, industry benchmarks, operational standards,<sup>1</sup> and the Ohio Revised Code (ORC). Likewise, peer cities were used for comparison purposes, and included Hillsboro, Logan, and Wapakoneta.

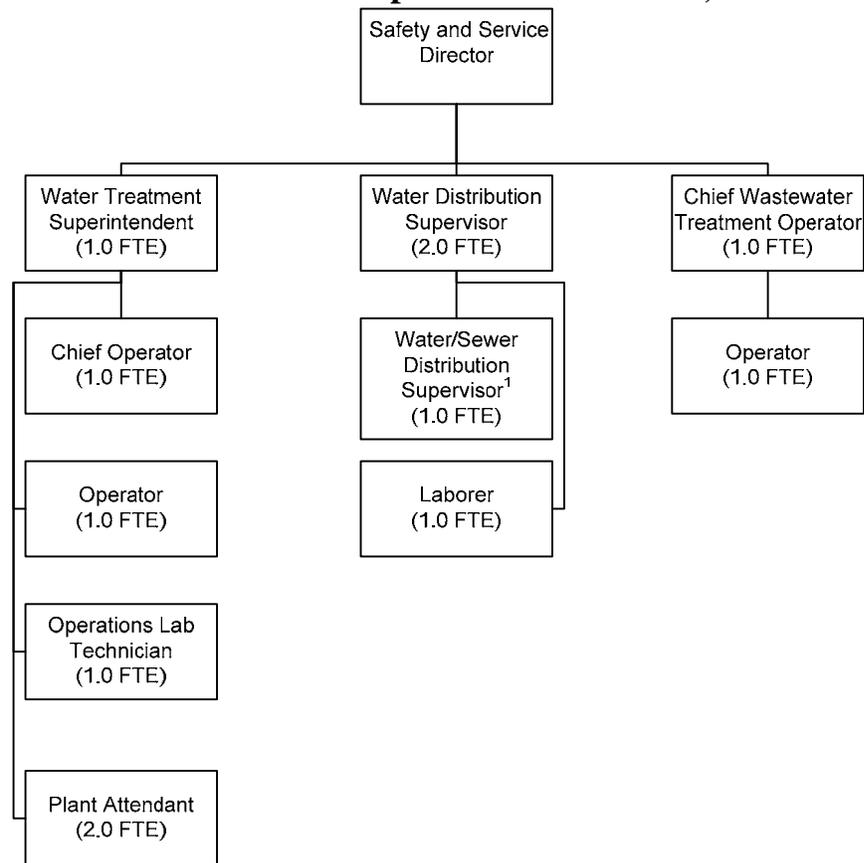
The City of Wellston Water Department is responsible for treating and distributing water to residents. The Wastewater Department is responsible for the treatment of wastewater. The Water and Wastewater departments consist of 6.0 full-time equivalents (FTEs) in water treatment, 4.0 FTEs in water distribution, and 2.0 FTEs in wastewater treatment

### *Organization and Operations*

**Chart 5-1** outlines the reporting structure of the Water and Wastewater departments.

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<sup>1</sup> Leading practices and industry standards were drawn from several sources; including the Environmental Protection Agency (EPA)

**Chart 5-1: Water and Wastewater Departments Structure, December 31, 2009**

Source: Wellston Job Descriptions and Interviews

<sup>1</sup> Also referred to as the Chief Maintenance and Repairman

As illustrated in **Chart 5-1**, the City's Water and Wastewater departments have generally narrow spans of control, meaning that the ratio of employees to supervisors is low. For example, the Water Distribution Division had two working supervisors overseeing one full-time laborer position. During the course of the audit, the City took steps to adjust staffing in this area to one supervisor and two line staff.

As illustrated in **Chart 5-1**, the City's Water Treatment division is organized as follows:

- Water Treatment Superintendent (1.0 FTE), who oversees all water treatment operations and the north and south plants, compiles reports for the EPA, manages compliance, schedules and manages employees, manages purchasing, and maintains records for system performance.
- Chief Operator (1.0 FTE), who operates the treatment plant by monitoring performance parameters, maintaining hourly records of plant performance, filling

feeders<sup>2</sup> and maintaining the chemical feeder operation, monitoring process equipment for proper operation, back-washing filters, draining residual sludge,<sup>3</sup> entering plant performance computer data, cleaning the plant, and mowing the grounds around the plant.

- Operator (1.0 FTE), who performs routine laboratory analysis, operates the treatment plant through computerized performance parameters, enters plant performance data into the computer, and shares responsibility with the Chief Operator for cleaning inside the plant and mowing the grounds around the plant.
- Operations Laboratory Technician (1.0 FTE), who is responsible for performing routine laboratory analysis, managing lab calibrations, monitoring chemical feeder operations, and monitoring process equipment for proper operations, including back-washing filters and residual sludge.
- Plant Attendants (2.0 FTE), who repair, adjust, and inspect water treatment plant machinery and equipment to maintain the proper operation of the plant. Other responsibilities include performing routine electrical, plumbing, and mechanical repair work, as well as installing new equipment.

The Water Distribution division is responsible for installation, repair, and maintenance of water and wastewater lines. According to the City's job descriptions, the Water Distribution Supervisor is required to possess a Water Distribution I and Wastewater Collection I certification, while the Water/Wastewater Distribution Supervisor (aka., Chief Maintenance and Repairman), following the probationary period, is required to obtain a Class 1 Water Distribution and Wastewater Collection I certification. Although the City has 2.0 FTE Water Distribution Supervisors, only one holds the required certifications (see **R4.5**).

The Chief Wastewater Treatment Operator oversees the operation of the wastewater treatment plant, inspects equipment, collects samples, reads gauges, activates switches, completes reports as required by Ohio Environmental Protection Agency (EPA), and maintains records. The Chief Wastewater Treatment Operator holds a Class III Wastewater Treatment Operator certification. The Wastewater division also has an Operator who assists the Chief Operator in completing laboratory work.

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<sup>2</sup> Feeders are storage tanks that hold the chemicals used in water treatment. Chemicals are placed into individual feeders. The appropriate levels of the chemicals are then disbursed into a large mixing container.

<sup>3</sup> Sludge is the settled materials from the treatment of drinking water. The sludge (byproducts) are drained and then dried. The dried sludge is then hauled to the dump.

### Financial Data and Statistical Data

**Table 5-1** compares staffing, water usage, and amount of water treated by the City of Wellston with other statutory cities.

**Table 5-1: Department Staffing and Water Usage Comparison (2009)<sup>1</sup>**

	Wellston	Hillsboro	Logan	Wapakoneta	Peer Average
Water /Wastewater Distribution	4.0	5.0	6.0	2.0	4.0
Meter Readers	2.0	2.0	2.0	2.0	2.0
Utility Clerks	2.5	2.0	2.0	2.0	2.0
Water Treatment Plant (WTP)	6.0	4.0	6.0	4.0	5.0
Wastewater Treatment Plant	2.0	4.0	3.0	5.0	4.0
<b>Total FTEs</b>	<b>16.5</b>	<b>17.0</b>	<b>19.0</b>	<b>15.0</b>	<b>17.0</b>
Millions of Gallons Used/Billed	149	158	329	404	297
Millions of Gallons per Treatment and Distribution Staff FTE	14.9	17.6	27.4	67.3	33.0
Millions of Gallons Treated	319	260	394	335	330
Percentage Water Loss	53.3%	39.2%	16.5%	(20.5%)	9.9%
Residents	6,078	6,368	6,704	9,474	7,515
Staff per 1,000 Residents	2.7	2.7	2.8	1.6	2.3
<b>Million Gallons Treated per FTE</b>	<b>19</b>	<b>15</b>	<b>21</b>	<b>22</b>	<b>19</b>
<b>Million Gallons Treated per WTP FTE</b>	<b>53</b>	<b>65</b>	<b>66</b>	<b>84</b>	<b>71</b>

**Source:** City of Wellston, City of Hillsboro, City of Logan, and City of Wapakoneta

**Note:** The City of Wapakoneta produces more water than it treats due to water usage that does not enter the wastewater system such as watering of lawns and filling swimming pools.

<sup>1</sup>Includes utility billing personnel

As illustrated in **Table 5-1**, the number of gallons of treated water and total FTE is in line with the peer averages. In December 2009, the City eliminated 1.0 FTE water distribution operator position and 0.5 FTE clerical support position (reductions are not reflected in the table). Although these staffing changes bring Wellston's Water and Wastewater staffing below the peer average on a raw FTE basis, Wellston still exceeds the peers in staffing based on productivity and service levels (see **R5.3**).

In 1987, Wellston established capital improvement funds for water and wastewater improvements. The capital improvement funds are funded from a portion of the charges collected for water and wastewater services (**R5.2**). The remainder of these charges finance the City's water and wastewater operating funds. **Table 5-2** presents the revenues and expenditures associated with the Water Operating Fund.

**Table 5-2: Wellston Water Operating Fund**

	2007	2008	%	2009	%
Revenues	\$1,403,245	\$1,279,676	(8.8%)	\$1,521,582	18.9%
Expenditures	\$1,464,493	\$1,482,479	1.2%	\$1,514,907	2.2%
<b>Balance</b>	<b>(\$61,248)</b>	<b>(\$202,803)</b>	<b>(231.1%)</b>	<b>\$6,674</b>	<b>103.3%</b>
<b>Ending Fund Balance</b>	<b>(\$269,072)</b>	<b>(\$471,874)</b>	<b>(75.4%)</b>	<b>(\$465,200)</b>	<b>1.4%</b>

Source: Wellston Revenues and Expenditures (Fund 601)

As **Table 5-2** indicates, the City's expenditures exceeded revenues in the Water Operating Fund in 2007 and 2008. Since the Water Operating Fund is an enterprise fund, the City is supposed to collect the majority of its fund revenue from fees charged to customers (see **R5.11**). This is used to offset the costs associated with operation of the utility. In 2009, 71.9 percent of fee revenue was collected from residents and most local businesses and 18.7 percent was collected from the local General Mills plant. Due to increases in water rates for utility customers, revenues increased 18.9 percent in 2009. This sharp increase contributed to a small positive ending fund balance at the end of the year. However, this small surplus was not enough to offset the large cumulative fund deficit of \$465,200 at the end of 2009. A contributing factor to the negative balance was the high percentage of lost water (see **R5.1**).<sup>4</sup>

**Table 5-3** presents the revenues and expenditures associated with the wastewater operating fund.

**Table 5-3: Wellston Wastewater Operating Fund**

	2007	2008	Percent Change	2009	Percent Change
Revenues	\$775,040	\$752,810	(2.9%)	\$860,698	14.3%
Expenditures	\$798,363	\$759,083	(4.9%)	\$792,554	4.4%
<b>Balance</b>	<b>(\$23,322)</b>	<b>(\$6,273)</b>	<b>73.1%</b>	<b>\$68,144</b>	<b>1,186.4%</b>
<b>Ending Fund Balance</b>	<b>(\$468,739)</b>	<b>(\$475,011)</b>	<b>(1.3%)</b>	<b>(\$406,867)</b>	<b>14.3%</b>

Source: Wellston Revenues and Expenditures (Fund 606)

As shown in **Table 5-3**, the City's expenditures exceeded revenues in the Wastewater Operating Fund in 2007 and 2008. Like the Water Operating Fund, the Wastewater Operating Fund is an enterprise fund and collects the majority of revenue from sewerage fees charged to customers (see **R4.7**). In 2009, 97.6 percent of revenue was collected from residents and local businesses. Wastewater rates increased at the same time as water rates, and this contributed to the 14.3 percent increase in revenue in 2009. This increase offset expenditures and created a surplus for 2009, but like the Water Operating Fund, this was not sufficient to eliminate the cumulative fund deficit of \$406,900 at the end of 2009.

<sup>4</sup> Lost water represents the difference between the amount of water treated and the amount of water billed. Normal loss rates are about 15 percent. Loss occurs from leakage, water pipe breaks, and planned events, like hydrant testing and system flushing.

## Recommendations

**R5.1 The City should identify and reduce its sources of water loss to reduce its water treatment costs. Specifically, Wellston should install water meters in buildings that rely on the City’s water and ensure water use is metered and billed for all entities. The meter placement information should be accurately recorded and maintained. In addition, knowing when the Fire Department uses water from hydrants would allow the City to more accurately distinguish actual loss from infrastructure in need of repair or replacement (water main breaks) and theft. The City should ensure it is accurately capturing data pertaining to water treatment and billing, and continuously monitor the amount of treated water that is sold and the amount of lost water to maintain the integrity of its assets.**

Wellston’s water loss<sup>5</sup> from 2006 to 2009 substantially exceeds the Ohio Environmental Protection Agency’s (EPA) benchmark of no more than 15 percent. **Table 5-4** compares total water treated, total water sold, and the percent unaccounted for the last three years.

**Table 5-4: Unaccountable Water**

Category	2006	2007	2008	2009 <sup>1</sup>
Total Million Gallons of Water Produced	319	335	342	319
Total Million Gallons of Water Billed	176	190	198	149
Difference between Gallons Produced and Gallons Billed (Unaccounted-for Water)	(143)	(145)	(143)	(170)
<b>Unaccounted-for Water as a Percentage of Water Purchased</b>	<b>44.9%</b>	<b>43.3%</b>	<b>42.0%</b>	<b>53.2%</b>
<b>Unaccounted-for Water over EPA benchmark</b>	<b>29.9%</b>	<b>28.3%</b>	<b>27.0%</b>	<b>38.2%</b>

Source: City of Wellston

<sup>1</sup> The figures for 2009 are for the period of January through October

As shown in **Table 5-4**, water loss has averaged approximately 46 percent per year. This can be attributed, in part, to unmetered water use, unread water meters, inaccurately read water meters, water loss due to leaks or aging infrastructure, and unauthorized adjustments. Wellston’s water loss is also caused by theft, though this could be controlled through improved meter reading and fully functional meters.

The City provides unmetered water through its water distribution system at a number of municipal locations. However, the City does not know how much of the water loss is due to its own use. Likewise, the City does not know how much water is being lost through

<sup>5</sup> Water loss is described in this section as unaccountable water. Unaccounted-for water is treated by the City, but is used or lost prior to going through a meter. According to Wellston, there are unmetered City buildings. Likewise, unmetered water is provided to local parks and for city festivals via fire hydrants.

fire hydrants, from aging infrastructure (leaks or water main breaks), or as a result of customers stealing water.

In a May 2008 letter to the City, the Ohio EPA indicated that water loss should be calculated on a regular basis and should not exceed 15 percent. Furthermore, the Ohio EPA stated in this same letter that the Wellston Water Department could reach optimal operation by obtaining better control of fire hydrant usage. The Ohio EPA recommended that an accounting of water usage at City buildings be completed, even if they are not charged for water. The Ohio EPA believes this will help in the calculation of the City's water loss. The costs associated with unaccounted-for water are borne by all consumers because the City is still treating this water and incurs the associated costs. In the case of Wellston, residents pay for the treatment of almost twice as much water as they use.

*Municipal Benchmarks: Assessing Local Performance and Establishing Community Standards* (Ammons, 2001) explains that steady leakage and intermittent main breaks (i.e., line loss) are major culprits of unaccounted-for water, but it may also result from inaccurate meters, theft, and unmetered water used for fire fighting, hydrant flushing, street cleaning, and other legitimate municipal purposes. The *Water Loss Manual* (Texas Water Development Board, 2005) explains that all meters within a water system are important because they record water flow and provide data that determines water loss and revenue. It is impossible to accurately determine water loss when the system is hampered by broken and faulty meters and the entity is, therefore, unable to verify volume of use.

Metering all water consumption would require Wellston to install meters at its municipal buildings. Maintaining appropriate methods for identifying infrastructure replacement needs, properly recording meter installation, and tracking hydrant usage and flushing schedules, coupled with increased efforts to address water theft, will help improve the City's ability to bring overall water loss more in line with industry standards.

*Financial Implication:* On average, the City of Wellston spends about \$7,400 to treat and distribute a million gallons of water. This includes direct treatment costs as well as personnel and operating costs. Assuming the City were able to save half that amount (to allow for fixed costs) for each million gallons of water that it is able to avoid producing through improved water loss management, and that it is able to bring its water loss to the 15 percent threshold recommended by the EPA, it could save \$344,000 in annual operating costs based on 2008 data. If the City were able to reduce just its electrical usage and chemical expenditures by 37 percent (to bring it in line with acceptable water loss rates), it could save \$95,000 annually.

**R5.2 The City should review existing ordinances related to capital allocations for its Water and Wastewater Capital Projects funds. Council should determine the projected annual expenditures based on a Water and Wastewater Capital Plan**

(including loan payments for capital projects) and adjust the percentage allocations to the Capital Projects funds accordingly. If the Water and Wastewater Operating funds do not generate sufficient revenue to cover operating costs, then Council should revise its allocations to Capital Projects funds. The City should ensure its operating and capital funds contain sufficient reserves to honor any debt covenants or other legal obligations.

City ordinance requires 5 percent of water fees and 25 percent of wastewater fees be diverted to capital funds. Thus, despite deficits in both operating funds (see **Table 5-2** and **Table 5-3**), the City has continued to fund its capital set-asides at the rates established under ordinance. However, since the capital funds are typically drawn down for repairs, Wellston pays loan payments related to water and wastewater capital improvements out of its Water and Wastewater Operating funds.

**Table 5-5** presents the revenues and expenditures associated with the Water Capital Fund.

**Table 5-5: Wellston Water Capital Fund**

	2007	2008	Percent Change	2009	Percent Change
Revenues	\$66,080	\$65,508	(0.9%)	\$79,391	21.2%
Expenditures	\$112,691	\$7,591	(93.3%)	\$0	(100.0%)
<b>Balance</b>	<b>(\$46,612)</b>	<b>\$57,916</b>	<b>224.3%</b>	<b>\$79,391</b>	<b>37.1%</b>
<b>Ending Fund Balance</b>	<b>\$17,908</b>	<b>\$75,824</b>	<b>323.4%</b>	<b>\$153,220</b>	<b>102.1%</b>

Source: Wellston Revenues and Expenditures (Fund 602)

As **Table 5-5** indicates, expenditures exceeded revenues in 2007 but the City significantly reduced expenditures in 2008 and spent nothing from the fund in 2009. The City continued to deposit 5 percent of revenue from water usage fees into the account in each of these fiscal years. The Water Capital Fund contained a balance of \$153,200 in 2009 despite a \$465,200 deficit in the Water Operating Fund.

**Table 5-6** presents the revenues and expenditures associated with the Wastewater Capital Fund.

**Table 5-6: Wellston Wastewater Capital Fund**

	2007	2008	Percent Change	2009	Percent Change
Revenues	\$251,714	\$241,380	(4.1%)	\$279,882	16.0%
Expenditures	\$179,938	\$170,625	(5.2%)	\$182,132	6.7%
<b>Balance</b>	<b>\$71,776</b>	<b>\$70,755</b>	<b>(1.4%)</b>	<b>\$97,750</b>	<b>38.2%</b>
<b>Ending Fund Balance</b>	<b>\$180,193</b>	<b>\$250,948</b>	<b>39.3%</b>	<b>\$348,698</b>	<b>39.0%</b>

Source: Wellston Revenues and Expenditures (Fund 610)

As illustrated in **Table 5-6**, the City continued to have a fairly stable surplus in the Wastewater Capital Fund even with expenditures of \$182,100 in 2009. During this three-year period, the City continued to deposit 25 percent of revenue from wastewater fees into its Wastewater Capital Fund, creating a \$348,700 surplus despite a \$406,900 deficit in the Wastewater Operating Fund.

ORC § 743.05 directs a City to place 5 percent of any surplus of net revenue from water and wastewater funds toward capital projects. The intent is to create a mechanism for ensuring funding for large capital projects. The City exceeds this rate of revenue allocation, which requires the Auditor to divert funds from operations and create deficits in those funds because insufficient revenue was generated to cover expenditures. This causes a violation of ORC § 5705.10, which requires revenues from the operation of the water and wastewater functions to be used to address any operating fund deficits. It also negatively affects the positions of the City's enterprise funds.

**R5.3 The City of Wellston should eliminate at least one additional full-time employee in the Water Treatment Operator classification. It should then adjust its staffing levels and workloads in the Water Department to be consistent with peers and recommended workloads once it has identified the amount of water actually used by the system. Reduced staffing will need to be supported through improved training (see R5.6).**

As shown in **Table 5-1**, the City employs slightly more personnel in its water treatment function than the peers. An examination of workloads indicated that Wellston personnel treated less than half the amount as the peers per FTE (14.9 million gallons of treated water per WTP and distribution employee compared with the peer average of 33.0 million). Wellston could reduce 1.0 FTE in this classification immediately (an approximate savings of \$29,700 annually), and up to a total of 3.0 FTEs in this classification in the future (a savings of \$89,000), to bring its staffing in line with the peer average.

As noted throughout this report, the City has several challenges facing its water treatment and distribution functions. Additional personnel could be directed to rectifying some of the problems within the system, in order to reduce the water loss and bring the City's plants into compliance with the Ohio EPA (see **R5.4**). However, once the City reduces its water loss, it should bring its staffing more in line with peer operations and reduce its operating costs accordingly.

By capitalizing on workload measures and employee development, the Water Department can generate cost savings through reductions in staff. Though this will not benefit the General Fund, it will ensure the Water and Wastewater Treatment funds remain solvent and that sufficient reserves are generated to meet capital needs. The City should continue

to identify and implement practices that would bring the productivity of its staff to a level commensurate with the peers.

*Financial Implication:* By eliminating 1.0 FTE water treatment operator, the City could save approximately \$49,700 annually.

**R5.4 The City of Wellston should implement the Ohio EPA’s recommendations on improvements and repairs to its infrastructure and integration of basic training and operating standards for its employees. Although the City has noted in its response to the EPA an inability to complete critical repairs because of its financial condition, these repairs are essential for the safe operation of Wellston’s water treatment and distribution system.**

**Because of the high number of needed repairs, Council and the Administration should require the Water Superintendent to create a plan within 90 days of the release of this report for completing the EPA’s recommended repairs and addressing the water loss and meter operability issues. The repairs should be ordered from most critical to optional and completion spread over a three to five-year period. The cost of repairs and basic preventive maintenance should be included in the plan and the proportion to be paid from the Capital Project funds should be identified. Annual updates should also be required to ensure that the needed work is completed. Finally, the administration should ensure that all employees receive training through the Ohio EPA, as recommended in the EPA’s 2008 survey report.**

The Ohio EPA conducts routine survey inspections of municipal water facilities. The City of Wellston received a survey report in July 2006 that enumerated several deficiencies. A follow up inspection survey, conducted in early 2008 noted that the deficiencies had, in general, not been addressed by the City. The Ohio EPA inspector identified 20 regulatory violations, which ranged from filter issues that could result in an “immanent failure for the system to adequately treat the sources of water used by the City” to the excessive water loss within the system. The report included recommendations for corrective action and required the City to respond with a plan for corrective action within 45 days of receipt of the report.

The City missed the deadline for response and, when it did respond, only addressed certain issues associated with the Water Treatment portion of the report. In some areas, the Water Superintendent responded that corrective action was not within his job parameters and on these issues, no other City officials responded to the EPA letter. The Superintendent noted that the Engineer would be consulted on a means of implementing a preventive maintenance program, but the status of this plan was not available at the time of this report. Finally, the City’s response noted in five of the 13 items to which it

responded, that action would be taken “as soon as financial resources become available.” However, in 2009, no capital resources were used from the Water Capital Projects Fund to correct these deficiencies.

Finally, in its 2008 report, the Ohio EPA stated: “The large number of violations, sanitary risks, and general maintenance problems noted in this inspection indicates a chronic lack of managerial capacity to operate a public water system.” The Ohio EPA directed the City to provide all City employees, including the Mayor, City Council, and the Service Director, with training that is available through the Ohio EPA at no cost. The Ohio EPA also recommended that the City review free trainings available through the Ohio Rural Community Assistance Program (RCAP) at [www.glrcap.org/ohio](http://www.glrcap.org/ohio). The City has not availed itself of this training at the time of reporting.

*Multi-Year Capital Planning* (GFOA, 2006) encourages state and local governments to prepare and adopt comprehensive multi-year capital plans to ensure effective management of capital assets. A capital plan is a component of an entity’s strategic plan and is essential to the future financial health of an organization and continued delivery of services to citizens and businesses. A capital plan should not be less than three years in length and should do the following:

- **Identify Needs:** Governments should identify present and future service needs that require capital infrastructure or equipment.
- **Determine Costs:** The full extent of project costs should be determined when developing the multi-year capital plan.
- **Prioritize Capital Requests:** Continually faced with extensive capital needs and limited financial resources, governments should properly evaluate project submittals.
- **Develop Financing Strategies:** Financing strategies should align with expected project requirements while sustaining the financial health of the organization.

RCAP provides free trainings on topics such as applied asset management, asset management, budgeting, and rate-setting. The classes offered through RCAP are sponsored by the Ohio EPA’s Division of Drinking and Groundwater.

Because of the effects of long-term neglect and inattention to replacement and capital needs, prioritization of the many projects in its water purification and distribution functions will be difficult. However, without pursuing the replacement of filters and other capital projects, Wellston will be at risk of distributing water that does not meet Ohio EPA requirements for safety. This requires the City to actively plan for replacement and

repair needs and allocate funds for these projects. Finally, by requiring employees and the Administration to obtain training, the City could strengthen its workforce with and improve its ability to effectively manage its water system.

**R5.5 Although the City of Wellston has significant financial constraints, it should continue to actively research grant opportunities and use matching funds from its Water and Sewer Capital funds to leverage additional public dollars. Because the water and sewer infrastructure is at risk for failure and could compromise drinking water safety, the City needs to make these repairs a priority.**

The City of Wellston's Engineer is responsible for researching grant opportunities for the City. Over the last few years, the City has acquired several grants to assist with replacing water lines. The City Engineer stated that due to matching financial support requirements, the City is not able to apply for grant funding at this time. However, as has been noted in **R5.2**, the City has funds remaining in its Capital Projects funds which could be used for matching dollars. In addition, the condition of its system, as outlined in the Ohio EPA 2008 report, underscores the need to maximize funding to address system deficiencies.

According to RCAP, there are several grant opportunities for public water and wastewater projects in Ohio. The funding opportunities include reimbursement for the cost to add fluoridation to water systems, infrastructure programs, and water and waste disposal programs. These grants are offered through various sources and require different levels of matching funds.

By not actively researching grants, the City could miss opportunities for funding. In contrast, by leveraging grants to obtain outside sources of funding, the City could address its deficiencies and ensure the safety of its drinking water more quickly and at less direct cost to the City.

**R5.6 As part of a staffing plan (see human resources), the City should develop and track various performance measures to evaluate the efficiency and effectiveness of its employees. Use of formal work orders and routine inspections of field work would help ensure that departments are maintaining appropriate staffing levels and providing quality services and that supervisors are providing appropriate guidance and oversight of employees and decisions are being made based on objective information.**

Wellston employees in several departments,<sup>6</sup> including Water and Sewer Distribution, conduct their day-to-day duties largely without managerial oversight. Although there are designated supervisors within the departments, these employees are members of the

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<sup>6</sup> This was also a problem in the former Cemetery Department. The Recreation Director also works without documentation.

collective bargaining unit, which weakens their supervisory authority, and routinely work in the field on projects. Due to recent staffing reductions, two supervisors in the Water Distribution Department now share oversight of a single “non-supervising” employee.

Management and discipline of personnel was commonly referred to by staff as a source of problems in the City. Concerns were raised by City employees about the performance of certain departments; however, because of the lack of departmental documentation on daily activities, the ability to review productivity was not feasible. Similarly, regular inspections of in-process and completed work are not conducted, so City management has no basis for reviewing performance and determining whether the service level or work product is sufficient or can be improved. Employee oversight is very limited throughout the organization, though some managers conduct closer supervision than others.

The City uses work orders in the Utilities Office to direct Meter Readers, and the Streets Supervisor maintains several written records of daily work logs. In contrast, the Water Treatment and Sewer departments have few documents tracking activities. Emergencies are called in and other requests are directed through the Safety and Service Director with no paperwork produced to document the timing, response, or completion of the task.

In the “Water and Sewer Services” section of *Municipal Benchmarks* (Ammons, 2001), several types of performance measures specific to water distribution, plant management, meters, and sewer operations are described. These range from departmental productivity goals and measurements such as technical issues of water quality and operations, to more individualized benchmarks for service and emergency response time. Although work orders can assist in measuring, managing work orders for field staff can sometimes be problematic since staff prefers to be mobile.

Work order systems can range from manual, paper-based tracking tools, to more complex computer maintenance management systems. Work orders help register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. At a minimum, work order systems should account for the following:

- The date the request was received;
- The date the request was approved;
- A job tracking number;
- Job status (received, assigned, ongoing, or completed);
- Job priority (emergency, routine, or preventive);
- Job location (where, specifically, the work is to be performed);
- The person requesting the work;
- Supervisor and staff assigned to the job;

- Supply and labor costs for the job; and
- Job completion date/time.

Establishing a system for tracking repairs and evaluating how efficiently and effectively functions are operating will provide the City with performance measures and ensure the City is providing quality services. Performance measures also provide information on ways to improve programs, and should be integral in making resource-allocation decisions. Finally, work orders can be aggregated and examined to identify problem areas and guide capital projects over the long term.

## B. Utility Billing/Meter Reading

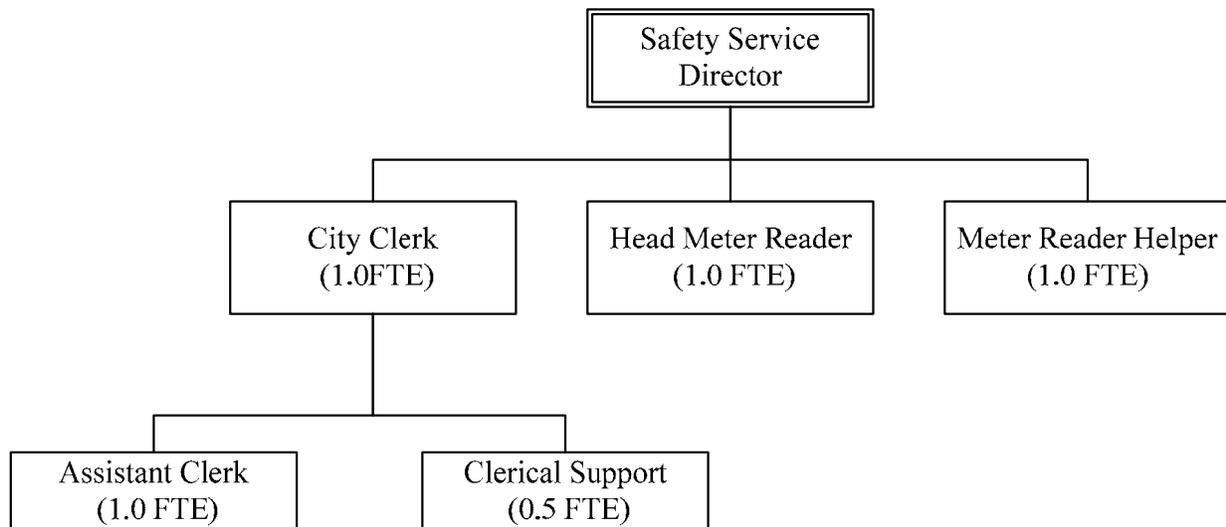
### Background

This section of the report focuses on the City of Wellston’s (the City) meter reading and utility billing operations, including the function of the Clerk’s Office (the Clerk). Auditors evaluated the City’s processes and compared them with leading practices, industry benchmarks, operational standards,<sup>7</sup> and the Ohio Revised Code (ORC). Likewise, peer cities Hillsboro, Logan, and Wapakoneta were used for comparison purposes.

### Organization

**Chart 5-2** illustrates the organization and reporting structure of the Meter Reading and Clerk Divisions as of December 2009. In January 2010, staffing reductions resulted in the elimination of the part-time clerical support position.

**Chart 5-2: City of Wellston Organization**



Source: City of Wellston

<sup>7</sup> Leading practices and industry standards were drawn from several sources including the U.S. Department of Labor, the Government Finance Officers Association (GFOA), and the Ohio Environmental Protection Agency (EPA).

As shown in **Chart 5-2**, the Clerk and meter readers report directly to the Safety Service Director. Because of staffing reductions initiated in January 2010, both meter reader employees were replaced by more senior union staff because of “bumping rights.” In addition, the Clerk accepted a voluntary layoff and the Assistant Clerk was promoted to Clerk. (A former meter reader was moved to the Assistant Clerk position.) When compared with the peer cities, Wellston’s staffing levels are in line for utility billing and meter reading staff.

Primary duties of each division and position include the following:

- The Clerk’s Office is responsible for invoicing water usage, processing utility payments, receiving customer calls, and relaying work orders. In addition, the Clerk’s Office maintains plot records for the Ridgewood Cemetery and accepts payments for plot sales.
  - The City Clerk receives and processes mail payments, computes fees, prepares monthly utility bills, receives inbound calls and provides general information to the public, completes billing adjustments due to incorrect readings or erroneously applied late fees, and serves on the Utility Review Board (**R4.4**). In addition to working closely with the meter readers, the Clerk works with the Wastewater Distribution Division to relay customer water line issues and with the City Treasurer, who is responsible for depositing receipts collected in the Clerk’s Office.
  - The Assistant Clerk serves as the Clerk in her absence, receives and processes payments, processes work orders, uploads utility accounts into meter reading devices, downloads information from meter reading devices to the computer, and completes preparation of daily receipts for deposit.
- The Meter Readers are responsible for obtaining and recording the water consumption for both residential and commercial customers.
  - The Head Meter Reader reports directly to the Safety Service Director and performs readings of water meters and records water consumption. He also is responsible for the installation and repair of water meters.
  - The Meter Reader Helper also reports directly to the Safety Service Director and assists the Head Meter Reader with obtaining and recording water consumption readings. This position also assists the Streets Department with repairs and handles work orders.

The City provided job descriptions for the Clerk, Assistant Clerk, and Meter Readers. While the job descriptions provided an outline of the general duties, they are outdated and do not accurately

reflect current duties performed (see **human resources**). The above descriptions were developed using the City's job descriptions as well as auditor observation and interviews.

### *Summary of Operations*

The City of Wellston serves approximately 2,400 utility customers through its water treatment and distribution functions. In 2002, the City purchased 2,500 new water meters, consisting of both radio and manual read meters, for approximately \$271,000. The City then contracted with another company to install the meters. The contractor installed 1,180 meters at a cost of approximately \$164,000. The remaining meter inventory is stored in the Police Department. The Clerk maintains a log of meters installed. Auditors noted that several of the installed meters appeared damaged due to tampering or other obstructions (see **R5.7**).

Of the City's 2,400 utility customers, about 1,800 have meters requiring manual meter reading and the remaining 600 have functioning radio transmitters for remote reading of water consumption.<sup>8</sup> For those meters requiring manual reading, a handheld device is uploaded with customers' information, including customer name, address, account number, and prior month's reading. The meter reader inputs the new meter reading and synchronizes the updated information with the billing software at the completion of each day. The radio-transmitted readings are collected using a laptop computer. A radio-transmitted meter that fails to produce a reading via the laptop will show up on the handheld device. City meter readers are expected to read every meter, thereby ensuring that properties listed as vacant do not have measurable water consumption. Auditors observed that, in several cases, the required actual readings did not occur (see **R5.9**).

The meter readers drive a small utility vehicle to each area of the City to complete meter readings. Based on auditor observation, one meter reader remains in the utility vehicle while the other obtains the reading, returns to the vehicle, and gives the reading to the driver, who enters the information into the device. The Head Meter Reader then takes the utility vehicle home at the end of each day (see **R5.15 in streets**).

Once the meter readers have recorded water usage for all accounts, the information is downloaded into the computer using E-Gov software through a terminal located in the Clerk's Office. The clerks process the information and mail a combined monthly water, sewer, and sanitation bill. No additional communication to local residents is included in the billing (see **safety services**). Approximately 80 customers are billed for sewer services only, since their water service is obtained from the Jackson County Water Company (see **R5.11**).

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<sup>8</sup> Radio transmitters allow the meter reader to collect readings from a vehicle travelling down a residential or commercial street. The reader does not have to exit the vehicle and, therefore, the collection of meter readings is greatly accelerated. In addition, the radio-transmitted reading reduces the likelihood of human error in reading the meter or inputting data. Though the City of Wellston purchased meters with radio transmitters, several have been disabled since their installation (see **R5.7**).

### Financial and Statistical Data

Water is charged per 1,000 gallons used (see **Table 5-9**). Sewer service is computed based on the amount of water used, at a rate of \$11.51 per 1,000 gallons. Refuse collection fees are fixed at \$14.33 per month. The City charges a minimum of \$9.46 per month for water consumption. The 80 customers billed for sewer services only are charged \$12.66 per 1,000 gallons of water used.

**Table 5-9: 2009 Water Rates**

# of Gallons	Rate per 1,000 Gallons
1,000 – 3,000	\$9.46
4,000 – 8,000	\$8.67
9,000 – 14,000	\$7.92
15,000 - 100,000	\$7.18
100,000 – 7,500,000	\$4.75
Over 7,500,000	\$2.14

Source: City of Wellston Ordinance 4042

The City uses a formula<sup>9</sup> to determine the water rates in **Table 5-9**, although substantial water loss and problems with billing has required the City to increase water rates (see **Table 5-10**). While the formula used to determine water rates meets industry standards, the number of meter readings that were estimated or read at “zero” significantly impacts the City’s Water Fund revenue (**R5.4**). Although the City has taken steps to increase its collection of revenue to cover expenses associated with the water system, it has not enforced existing ordinances by disconnecting services due to nonpayment (**R5.8**).

**Table 5-10: Water Rates per 1,000 Gallons Used**

Number of Gallons Used	Price per 1,000 Gallons 2007	Price per 1,000 Gallons 2008	Percent Change from 2007 to 2008	Price per 1,000 Gallons 2009	Percent Change from 2008 to 2009
1,000	\$8.70	\$8.89	2.2%	\$9.46	6.4%
2,000 - 3,000	\$6.20	\$6.39	3.1%	\$9.46	48.0%
4,000 - 8,000	\$5.69	\$5.86	3.0%	\$8.67	48.0%
9,000 - 14,000	\$5.19	\$5.35	3.1%	\$7.92	48.0%
15,000 - 20,000	\$4.71	\$4.85	3.0%	\$7.18	48.0%

Source: City of Wellston Clerk’s Office

<sup>9</sup> The sum of (annual water department expenses + loan payments associated with the water system and treatment plants + deficit reduction + capital replacement and reserve fund) divided by the number of billed thousands of gallons (see **R5.7**).

As illustrated in **Table 5-10**, the City increased rates the last three years. While raising rates is one method used to recover costs for services rendered, Wellston has experienced higher than normal water loss (above 45 percent in some years), as well as extensive water theft issues. In addition, limited effort in timely revenue collection was identified as a key contributing factor to the City's overall shortfall of revenue (**R5.8**).

## Recommendations

**R5.7** The City of Wellston should implement a replacement schedule for water meters as part of a Citywide comprehensive capital improvement plan (CIP). Because meters provide the basis for recouping the costs of water purification and distribution, this should be a priority of the Water Distribution Department. The first step in this process is to require the meter readers to inspect all meters as part of the monthly meter reading cycle to determine maintenance needs and replacement priorities. The most critical repair and replacement projects should be prioritized and incorporated into the Water Distribution Department's workload. As manual-read meters are repaired or replaced, this will speed the meter reading process and provide the meter readers with the latitude to conduct meter inspections and assist in replacement projects.

The costs associated with an accelerated replacement schedule should be incorporated into the annual budget for the Water Capital Fund. Since this function is supported by an enterprise fund, any steps to improve revenue collection and reduce costs should be made a priority of the City. Enacting a plan for meter replacement will lead to enhanced efficiency and improved management by eliminating issues associated with the random installation of various types of meters across the City.

In 2002, the City undertook a program to upgrade, standardize, and modernize its water meters. Of the 2,500 meters purchased by the City, only 1,180 were ultimately installed and, as of the time of reporting, only about 600 had functional radio transmitters.

According to *Determining the Economical Optimum Life of Residential Water Meters* (Water and Wastes Digest, 2010), the effectiveness and lifespan of the water meter is impacted by the composition of the water. However, in tests of meters at 15, 20, 25 and 30 years, it was determined that a fall-off in accuracy after 15 years makes meter replacement more economically desirable. Cities are encouraged to identify the point at which their meters begin to lose accuracy, and to design replacement plans around the age parameters. In Wellston's case, since it has the replacement meters on hand, it should begin with its oldest meters first but conduct a full replacement for the residences that have not yet been upgraded. Methods to plan for and perform capital improvement projects are discussed in *Multi-Year Capital Planning* (GFOA, 2006) in **R5.4**.

Wellston should incorporate annual meter inspections and a planned replacement cycle into its capital plan. Because of the effects of long-term neglect and inattention to replacement and capital needs, prioritization of the many projects in its water purification and distribution functions will be difficult. However, without pursuing the replacement of

meters and other capital projects, Wellston will be at risk of under-billing residents for services used.<sup>10</sup>

A multi-year, comprehensive CIP would help City officials identify and prioritize future needs. In addition, a formal plan would help the City improve efficiency in its meter reading operation and more accurately project future operating and maintenance costs.

**R5.8 The City should enforce Ordinances 2824 and 3142 and disconnect service to water customers and/or place liens on property for sewer customers whose outstanding balances have not been paid within the stipulated time periods.**

As of November 2009, the City had recorded outstanding balances for its water/sewer customers, not including the November billing, that totaled \$125,309; sewer-only customers made up approximately \$33,800 of the total. The outstanding balances provided to auditors were based on what the City had actually billed. However, through an internal investigation, the City identified at least 70 customers who had tampered with water meters, resulting in no monthly billings for water, sewer, or refuse collection for an undetermined period of time.<sup>11</sup> According to a City representative, those customers' water meters were subsequently removed, and prior to water services being reconnected, each individual was required to pay a balance based on a conservative usage estimate of 1,000 gallons per month, in addition to sewer and refuse collection fees, for a 12-month period, plus a \$100 reconnection fee. (Due to tampering and misreading meters, actual usage for these customers was unknown, therefore, a methodology for calculating an estimated outstanding balance was required.) Collecting the reconnection fee has generated about \$7,000, based on the 70 customers whose meters were disconnected.

ORC § 729.49 states that sewer charges shall be paid to the municipal corporation for the use of the services. Charges not paid shall constitute a lien upon the property serviced. The City's Ordinance 2824 states that all delinquent water and sewer customers shall be disconnected without further notice if the account remains outstanding 30 days after the date of notice. Water service shall not be provided until the amount due, plus any delinquency and reconnection charges have been paid in full. Ordinance 3142 permits the City to place a lien on the property for which sewer services have been provided and the account is delinquent.

Although the City has ordinances that allow it to disconnect services and place liens on delinquent sewer accounts, it has not exercised this authority to enforce payment of utility bills. This has allowed customers to go months, or even years, without paying for

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<sup>10</sup> Unbilled or under billed water use contributes to the City's 45 percent recorded water loss, though the percentage of loss generated by faulty meters is unknown.

<sup>11</sup> If a residence generated no monthly water use reading, then a water bill was not generated. As the refuse fee is included in the monthly water bill, this was also not collected.

services.<sup>12</sup> By enforcing the ordinances, the City would either receive payment for services in a timely manner from those customers using City water, or the City's water production would be reduced to reflect those customers whose services have been disconnected.

*Financial Implication:* If the 70 customers who have paid reconnection charges used only 1,000 gallons of water monthly, the City could expect to receive approximately \$18,000 annually for water and sewer charges in future years. If they use an amount equal to that typically consumed by a family of four (about 9,000 gallons each month), the City could expect to receive about \$146,000 in annual water and sewer revenue. In addition, the refuse collection fee would generate an additional \$14.33 per month or about \$1,000 in additional funds for the refuse collection operations each month.

**R5.9 The City of Wellston should ensure that clerks and meter readers receive training on the equipment and software needed to complete their job functions. Training would help ensure that City employees accurately read water meters, appropriately use equipment and software (to enable multiple reading downloads), which would enhance reporting capabilities. Finally, meter readers should do actual meter readings rather than estimating water usage (see discussion of water loss under water and wastewater).**

The City uses various models of Badger Meter, Inc. water meters to measure water consumption and Sensus equipment to record the amount of water used. The various models of water meters display from seven to ten digits with six live number wheels. The meter readers are required to know how to read each model accurately as a component of their job functions. The meter readers stated they had not received formal training through the equipment manufacturer on how to properly use the meter reading equipment.

There has been significant turnover among personnel responsible for meter reading. In addition, the City has not updated its qualifications for the positions or used its Civil Service Commission (see **human resources**) to select the most qualified candidates for the job. As the meter readers appear to work without supervision or monitoring by supervisors, employee performance has not been evaluated to ensure the job is being completed properly, nor have employees been offered training when being appointed to their positions. Turnover and the lack of experience, training, and supervision has resulted in inaccurate water consumption readings.

Through City records, auditors identified 13 customers whose water usage was recorded as zero each month for the period of January through October 2009. These customers received minimum billing for water and sewer and were not charged for refuse collection

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<sup>12</sup> This unbilled water is a component of the City's 45 percent water loss. The amount of loss generated by water theft is unknown.

(see **streets**). Assuming these customers consumed only 4,500 gallons each month (about the amount for a family of two), the City could have collected an additional \$11,250, of which \$1,860 would have been allocated to refuse collection. A City representative who was tasked with investigating water theft verified that these customers' meters were not functioning during recent inspections and revealed that the water usage of several City employees had not been properly recorded (**R5.8**).

Auditors accompanied the meter readers to complete a series of readings and observed the process used by the meter readers to obtain the readings. Through observation and consultation with the manufacturer, it was found that meter readers did not appear to know how the various measurement device models are to be read. Auditors observed the meter reader recording water usage rates that were inaccurately read, based on the type of meter being used.

A review of water usage history reports for the period January through October 2009 illustrates the magnitude of the problem with inaccurate readings. For example, out of a total of 88 customers on West Broadway, approximately 15 percent had not received accurate readings for the ten-month period:

- Ten received estimated readings for all ten months;
- Two received actual readings that were reported at zero for all ten months, and
- One customer performed his or her own readings, which were not verified by the City.<sup>13</sup>

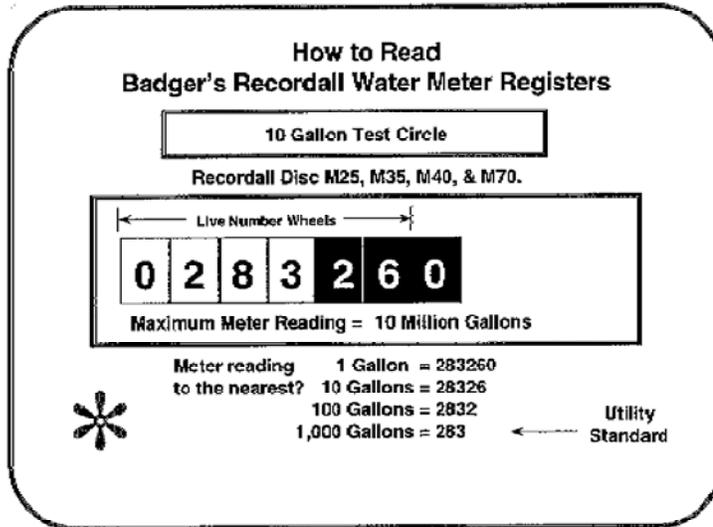
The Clerk's Office uses E-Gov software to manage the City's utility billing and process bills for monthly water and sewer charges. Monthly reports are printed as part of the month-end process. The Clerk has not received training on E-Gov software and is unable to use the features in the system. She stated that when Council requests reports, she manually goes through each hard copy month-end report to obtain the information needed. Auditors, through discussion with the software representative, identified reporting capabilities that would automatically generate most of the reports used or needed by the City. Furthermore, the Clerk does not know how to use the software to permit more than one handheld device to be recorded in the system, thereby preventing both meter readers from simultaneously collecting readings.

According to Badger Meter, Inc., in order to measure for 1,000 gallons used, each model of its meter must be read differently. **Illustration 5-1** and **Illustration 5-2** are examples of how to read the Badger water meters with multiple digits.

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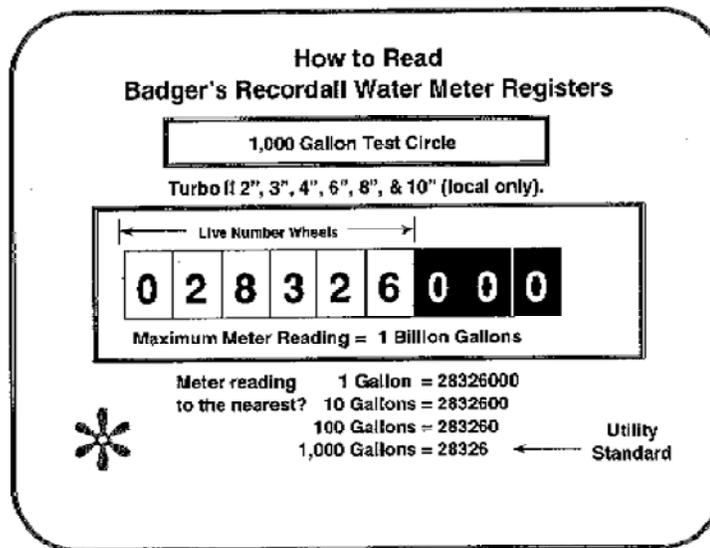
<sup>13</sup> Inaccurate and estimated billing contributes to the City's recorded water loss.

**Illustration 5-1: Seven-Digit Water Meter**



Source: Badger Meter, Inc.

**Illustration 5-2: Nine-Digit Water Meter**



Source: Badger Meter, Inc.

As shown in **Illustration 5-1** and **Illustration 5-2**, 1,000 gallon consumption is measured in a slightly different manner depending on the various models of water meters. The number of digits that must be recorded for an accurate reading is slightly different

depending on the model of water meter used. Although electronic readings compensate for the meter model, manual readings require the meter readers to have knowledge of the various models in use and the appropriate methods to read those meters.

The City of Wellston's meter readers record digits the same way for all models, resulting in inaccurate recording of water usage and consistent under-billing. This under-billing results in diminished or lost revenue for services rendered and contributes to the recorded water loss as consumed water goes unbilled (see *water and wastewater operations*). If the meter readers receive appropriate training, the City will be able to ensure that when manual readings are needed, its meter readers have the appropriate knowledge to obtain accurate readings. In addition, if the clerks received training on how to download from multiple sources, the meter readers could use both handheld devices to obtain readings, thus reducing the number of hours it takes to complete monthly readings. Training of the meter readers and clerks is essential to effective and efficient completion of utility billing and meter reading functions.

**R5.10 The Clerk's Office should record and post payments as they are received. The Clerk should prepare the deposit at the close of each business day and the Treasurer should pick up and deposit the receipts at the end of each day. When it is necessary to retain cash receipts overnight, the Clerk should ensure all monies are properly secured.**

City water customers can submit payments to the Clerk's Office by mail, by placing them in a drop box at the City building or by hand-delivering them to the Clerk's Office at City Hall. Items placed in the drop box are picked up every business day by the Clerk or Assistant Clerk. Throughout the day, the Clerk and her assistant collect payments, which are held in the Clerk's Office until the next business day when the Clerk completes a deposit and the deposit is picked up by the Treasurer.

The Clerk's Office processes payments the next business day, except that at month-end, payments are held until the month-end processes are completed. In some instances, these payments are held for a period of several days. In the event that payments that are held incur late fees, the Clerk's Office removes the late fees from the customer's account.

By not recording payments on a timely basis, customers may be charged late fees that require adjustments to be completed by the Clerk or Assistant Clerk. This results in a heightened potential for error or fraud. Also, monies that are left in the Clerk's Office overnight heighten the risk of theft. By completing a daily deposit and ensuring the Treasurer makes the deposit each night, the Clerk can ensure that payments are posted in a timely manner and City funds are properly safeguarded.

**R5.11 The City should contract with a collection agency for the purpose of collecting its unpaid bills. To improve the collection of its sewer charges, Wellston should contract with Jackson County Water Company (JCWC) to bill its mutual customers for sewer services rendered by the City of Wellston and place liens on the property of customers who have unpaid sewer accounts with significant delinquencies (see R5.8).**

The City of Wellston has sewer-only customers whose water is provided through the JCWC. The JCWC notifies the City of the amount of water used by each customer. The City then calculates the sewer invoices based on the City's current sewer rates. The City has not actively pursued collection for services to these customers. This has allowed customers to go months or even years without paying for services. As of November 2009, there were 20 sewer customers with outstanding balances that totaled approximately \$33,800. One sewer customer had an outstanding balance of approximately \$19,000. The City has not pursued collection of these amounts or placed liens on the properties with outstanding balances (see **R5.8**). ORC § 729.49 and City of Wellston Ordinance 3142 permits the City to place a lien on a property for which services have been provided and the account is delinquent.

Also, the City calculated that it has outstanding delinquent water accounts in excess of \$480,000. The Safety and Service Director noted that a portion of the accounts may not be collectible; however, the City has not initiated collection efforts and, in some cases, those customers with delinquent accounts continue to receive water service. According to BusinessKnowledgeSource.com, most collection agencies can recover about 75 percent of debts less than 3 months old, but as the length of time increases, the amount recovered decreases. At six months the average collection rate drops to about 50 percent, and after a year only about 30 percent of the debt is likely to be recovered. The collection agency retains a percentage of what it collects, and this rate varies depending on vendor (often between 25 and 50 percent).

By contracting for collection of unpaid revenue and by enforcing existing ordinances, the City will be able to recoup at least a partial payment for services from those customers whose balances are more than 30 days past due.

**Financial Implication:** Assuming that the City can collect half of the sewer charges owed through liens, it could receive an estimated \$17,000 in one-time revenue. In addition, if Wellston was able to collect 30 percent of its outstanding delinquent water accounts (less the average cost for collection services) it could generate one-time revenue of \$110,000.

**R5.12 Because the task of reading meters requires entry onto private property and interaction with Wellston residents, the City should require employees performing such tasks to wear City-issued attire or articles of clothing that clearly identify them as City workers. The City should provide florescent all-weather vests with the name of the City department for use by meter readers while conducting readings. The vests should remain the property of the City and be kept in the Utility Office, so that any employee helping to obtain readings will be able to access a uniform vest which distinguishes him or her as a City employee. The City should also examine other functions of its employees to determine if such clothing (identifying the employee as a City representative) would be appropriate in other departments.**

Meter readers are at times required to enter properties or grounds of local residents to obtain water consumption data. The meter readers do not wear uniforms, and therefore cannot be easily identified as City workers. While conducting field observations, auditors noted residents questioning the meter readers about why they were on their property.

Under the City's collective bargaining agreement, the meter readers receive annual clothing allowances of \$300. However, the negotiated agreement does not stipulate a dress code or uniform attire required for meter readers who have regular contact with local residents. Because meter readers are not clearly identified as City employees, residents may be reluctant to allow them onto their property to obtain readings.

Establishing a policy requiring meter readers (or any employee whose day-to-day job requires contact with the public on private or public grounds) will readily distinguish workers as City employees conducting City business. Implementation of this recommendation will help ensure the safety of City employees and residents. This can be accomplished at no cost to the City by directing its employees to use a portion of the uniform allowance for such purposes.

## C. Streets and Vehicle Maintenance

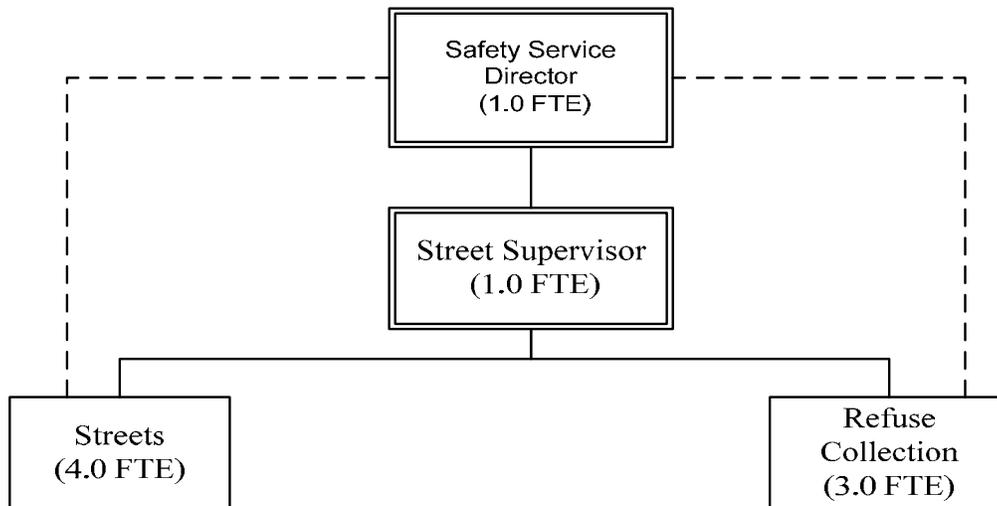
### Background

This section of the report focuses on the City of Wellston’s (the City) Streets Department operations, specifically street maintenance such as filling potholes and paving, sweeping, leaf collection, snow and ice control and the City’s vehicle maintenance activities. Auditors evaluated the City’s processes and compared them with leading practices, industry benchmarks, operational standards,<sup>14</sup> and the Ohio Revised Code (ORC). Likewise, peer cities Delphos, Hillsboro, and Logan were used for comparison purposes.

#### Structure and Staffing

The Streets Department staff includes one full-time working supervisor, four street laborers, and three refuse collection laborers. All employees, including the Supervisor, are members of the City’s OCSEA collective bargaining unit. **Chart 5-3** presents the reporting structure of the Streets Department.

**Chart 5-3: Streets Department Organization Structure (2010)**



Source: City of Wellston

<sup>14</sup> Leading practices and industry standards were drawn from several sources including the U.S. Department of Labor, the Government Finance Officers Association (GFOA), and the Ohio Environmental Protection Agency (EPA).

**Table 5-11** compares staffing in the Streets Department with peer cities.

**Table 5-11: Streets Department Staffing Comparison**

	Wellston (2009)	Wellston (2010)	Delphos	Hillsboro	Logan	Peer Average
Population	6,078	6,078	6,944	6,368	6,704	6,672
Square Miles	7.1	7.1	2.9	5.2	3.1	3.7
Streets FTEs	6	5	5	4	7	5.3
FTEs per Square Mile	0.8	0.7	1.7	0.8	2.3	1.6
FTEs per 1,000 Residents	1.0	0.8	0.7	0.6	1.0	0.8

**Source:** Wellston and peer cities' Streets departments

**Note:** Table does not include refuse collection employees (see *refuse collection*)

According to the comparison in **Table 5-11**, the City's number of workers assigned to streets functions is consistent with peer cities on a per 1,000 residents basis but fewer than the peer cities in FTEs per square mile. During the course of this audit, the City passed Ordinance 4058 to consolidate the Cemetery Department functions under the Streets Department, adding the three former cemetery workers to the Streets Department (see *cemetery*). The City then issued layoff notices effective January 2010, resulting in the reduction of 3.0 Streets Department laborers, returning the Department to a staffing level of 5.0 FTEs.

### *Summary of Operations*

Street repair activities in the City are constrained by limited resources. Street repairs primarily consist of cold patching, since this material is less expensive than hot patch materials. According to the Streets Department Supervisor, street maintenance focuses on necessary repairs. There is no preventative maintenance schedule, and basic maintenance, such as maintaining painted street lines, has not been performed.

Work order documentation is very basic and is maintained by the Streets Supervisor. Further, the Streets Supervisor also maintains a daily log of employee activities and leave usage for time-keeping and attendance purposes.

### *Financial Data and Statistical Data*

**Table 5-12** presents the receipts and expenditures associated with the Street Operating Fund.

**Table 5-12: Wellston Street Operating Fund**

	2007	2008	Percent Change	2009	Percent Change
Receipts	\$287,613	\$299,256	4.0%	\$276,272	(7.7%)
Expenditures	\$324,833	\$349,624	7.6%	\$351,779	0.6%
<b>Receipts Over (Under) Expenditures</b>	<b>(\$37,220)</b>	<b>(\$50,369)</b>	<b>(35.3%)</b>	<b>(\$75,508)</b>	<b>(49.9%)</b>
<b>Ending Fund Balance</b>	<b>(\$48,807)</b>	<b>(\$99,176)</b>	<b>(103.2%)</b>	<b>(\$174,683)</b>	<b>(76.1%)</b>

Source: Wellston financial reports

As **Table 5-12** indicates, the City continues to spend in excess of its receipts in the Street Operating Fund. The City receives the majority of receipts in this fund from the local share of the gasoline tax, permissive tax,<sup>15</sup> and motor vehicle registration fees. Unlike many other funds, the downturn in the national economy did not impact receipts until 2009, when it contributed to a 7.7 percent decrease. This decline caused the fund deficit to increase to its highest level of \$75,500 and caused the cumulative deficit to reach \$174,700.

**Table 5-13** presents expenditures in the Street Operating Fund by object code.

**Table 5-13 Wellston Street Operating Fund Expenditures**

	2007	2008	Percent Change	2009	Percent Change
Salaries	\$126,700	\$136,621	7.8%	\$154,906	13.4%
Benefits	\$92,449	\$100,787	9.0%	\$124,785	23.8%
Purchased Services	\$926	\$991	7.1%	\$1,282	29.4%
Supplies & Materials	\$79,016	\$78,652	(0.5%)	\$45,896	(41.6%)
Capital Outlay	\$18,879	\$18,879	0.0%	\$20,767	10.0%
Other	\$6,863	\$13,694	99.5%	\$4,143	(69.7%)
<b>Total</b>	<b>\$324,833</b>	<b>\$349,624</b>	<b>7.6%</b>	<b>\$351,779</b>	<b>0.6%</b>

Source: Wellston financial reports

As illustrated in **Table 5-13**, the largest categories of expenditures in the Street Operating Fund are salaries and benefits representing 79.5 percent of overall costs. In 2009, supplies and materials were reduced by \$33,000 by limiting the purchase of supplies, fuel costs, and repairs. These reductions offset higher expenditures in salaries caused by an additional employee being transferred from another department, as well as higher health insurance and workers' compensation costs. Total expenditures in 2009 only increased by 0.6 percent; however, the 2009 decrease in receipts exacerbated the existing deficit.

<sup>15</sup> The permissive tax is enacted at the local level but collected by the State along with the 5.5 percent State sales tax. The local share is returned to the counties for distribution to local governments.

### Capital Funds

In addition to the Street Operating Fund, the City also has a local Street Levy Fund and a State Highway Improvement Fund (see **financial management** for discussion of capital and operating funds). The Street Levy was last renewed in 2005 and is designated for the purpose of general construction, reconstruction, resurfacing, and repair of streets, roads, and bridges. **Table 5-14** presents the receipts and expenditures associated with the Street Levy Fund.

**Table 5-14: Wellston Street Levy Fund**

	2007	2008	Percent Change	2009	Percent Change
Receipts	\$162,647	\$111,308	(31.6%)	\$141,309	27.0%
Expenditures	\$4,186	\$110,800	2546.7%	\$36,285	(67.3%)
<b>Receipts Over (Under) Expenditures</b>	<b>\$158,460</b>	<b>\$508</b>	<b>(99.7%)</b>	<b>\$105,024</b>	<b>20,566.7%</b>
<b>Ending Fund Balance</b>	<b>\$319,325</b>	<b>\$319,833</b>	<b>0.2%</b>	<b>\$424,857</b>	<b>32.8%</b>

Source: Wellston financial reports

**Table 5-14** shows that receipts dipped slightly in 2008 but increased again in 2009. In contrast, City spending increased in 2008, likely due to work associated with a major water line replacement project. While City streets appear to be in need of extensive repair, funds available from the Street Levy, which are restricted to capital projects, were largely unspent in 2007 or 2009. In 2009, a replacement to the five-year Street Levy was rejected by voters. The current levy expires in 2010.

The City has another fund designated for the maintenance of State Highways 327 and 32 which run through Wellston. The State requires the City to place a small portion of the local share of the gasoline tax and motor vehicle registration fees into this fund. Despite receipt of approximately \$19,000 per year, the City has not used funds from this account for maintenance activities on the State roads within its corporation limits.

### Vehicle Maintenance

The City owns and maintains the following vehicles related to Streets Department activities:

- 2 refuse collection vehicles;
- 4 dump trucks; and
- 6 City pickup trucks.

A 2008 vehicle inventory indicated that the City had 16 vehicles that were past their estimated useful lives. While police cruisers tended to be later model vehicles, several street vehicles were 20 years old. The average age of all non-fire services vehicles was 10.7 years. Many of these vehicles are being maintained well beyond their useful lives because of the limited financial

resources for replacement and the lack of formal replacement plans. Wellston purchased a used dump truck and a used garbage truck in the past five years. However, its Streets Department vehicles are sometimes unreliable because of breakdowns.

The older vehicles are operated in an emergency maintenance situation in which repairs are performed based on breakdowns or minimal requirements. The City uses a local garage for services and does not bundle or bid out these services (see **financial management**). Maintenance is invoiced for each department and, although handwritten, the records include parts, labor, and other fees separately itemized. A review of 2009 invoices is presented in **Table 5-15**.

**Table 5-15: 2009 Vehicle Maintenance Costs**

Department	Parts	Labor	Refinish	Service Call	Total	% of Total
General	\$457	\$235	\$0	\$175	\$836	2.0%
Street	\$2,466	\$7,288	\$0	\$626	\$10,454	25.2%
Refuse	\$10,296	\$7,643	\$50	\$200	\$18,210	43.8%
Water	\$794	\$1,512	\$0	\$385	\$2,690	6.5%
Sewer	\$2,202	\$5,602	\$0	\$545	\$8,641	20.8%
Cemetery	\$150	\$265	\$0	\$140	\$555	1.3%
Police	\$0	\$0	\$0	\$166	\$166	0.4%
<b>Service Total</b>	<b>\$16,365</b>	<b>\$22,544</b>	<b>\$50</b>	<b>\$2,237</b>	<b>\$41,552</b>	<b>100.0%</b>
<b>% of Total</b>	<b>39.4%</b>	<b>54.3%</b>	<b>0.1%</b>	<b>5.4%</b>	<b>100.0%</b>	<b>n/a</b>

Source: Wellston City Auditor's Office (Invoices for January-November 2009)

**Table 5-15** indicates that the City's significant vehicle maintenance cost is distributed across departments with the Refuse Collection operation and the Streets Department representing the two largest components, followed by the Sewer Department. These costs represent about 90 percent of the total for vehicle maintenance. Despite the high costs associated with the vehicle maintenance process, the total cost was estimated to be less than the cost to maintain a City garage for Wellston. However, the City has not aggregated its vehicle maintenance costs nor issued a request for proposals to see if it can achieve cost savings for this service. It also has not investigated options to share this service with other governments in Jackson County or neighboring counties.

## Recommendations

**R5.13 The City should monitor Streets Department expenditures during the year and ensure that costs do not exceed receipts in the Street Operating Fund. The City Auditor should provide the Streets Supervisor with monthly budget-to-actual expenditure reports so that the Department can conduct ongoing monitoring.**

As noted in the 2008 Financial Audit, in order for the General Fund to cover all negative cash balances at December 31 for other funds, an interfund balance transfer<sup>16</sup> of \$905,000 was required. Of this, the Street Operating Fund accounted for \$90,728. In 2009, the Street Operating Fund also had a deficit, creating an accumulated fund deficit of approximately \$174,700 that will again create need of an interfund balance transfer from the General Fund. Due to the financial situation in the City, all cost overruns must be monitored and reduced wherever possible to prevent an ending deficit.

As discussed in **financial management**, the City did not follow its 2009 budget. The Streets Superintendent was not provided an initial budget and received no financial statements through the year to help him monitor the budget. Finally, staffing transfers initiated by the City administration contributed significantly to the deficit as the initial Streets Department budget had not been developed to accommodate the personnel costs associated with these transfers.

Under ORC § 5705.10, money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. By allowing this to occur, the City is in noncompliance with the ORC. Monitoring each fund is the only way the City can ensure it has sufficient funds to cover daily operations and improve its financial stability.

**R5.14 Wellston should develop a formal preventive maintenance plan for City vehicles. Although vehicles are serviced, the older inventory requires a more aggressive routine of planned maintenance to reduce disruptions caused by equipment breakdowns. All preventive maintenance and repair activities should be prioritized and scheduled for maximum efficiency.**

The City does not practice preventive vehicle maintenance. According to the *Public Works Management Practices Manual* (American Public Works Association, 2001),

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<sup>16</sup> An interfund balance transfer is a term used in financial auditing to account for deficits in Special Revenue and Enterprise Funds that must be supported from the General Fund. Because the Wellston General Fund did not have enough cash to cover all negative cash balances in other funds, an advance was made (technically) to the General Fund from the Permanent Investment Capital Projects Fund.

effective equipment management requires that repairs be made before equipment fails. This involves a preventive maintenance (PM) approach to provide for systematic, periodic servicing of equipment to facilitate operations with a minimum of downtime. Well-planned preventive maintenance programs, which follow the manufacturer's recommendation and schedules, will result in a dependable fleet and extended equipment life with lower operations, maintenance, and repair costs. Planning and scheduling PM activities requires providing the right maintenance at the right time at the lowest overall cost. Commitments for planned work should carry a high priority so that disruption of work by breakdown is avoided. The lack of a preventive maintenance plan may increase the likelihood that frequent expensive and disruptive emergency repairs will occur.

Implementing a preventive maintenance schedule would enable the City to extend the life of vehicles and enable better planning for maintenance and repair. It would also provide more accurate and timely information for decision-making pertaining to fleet maintenance and replacement, which could assist Wellston until it can afford to replace City vehicles.

**R5.15 The City should develop and enforce a vehicle use policy that restricts use of City vehicles to the sole purpose of conducting City business. As a general rule, City employees should not be permitted to take City vehicles home following the work day. In cases where this is necessary for the conduct of official City business, the City should ensure that it accurately reports any additional fringe benefit income to the Internal Revenue Service in accordance with federal income tax reporting laws.**

Wellston has six City trucks and a small tractor vehicle for meter reading. At least four employees are permitted to drive vehicles home nightly. The City provides little oversight over the use of these vehicles. The City permits these employees to use City credit cards at local gas stations (see **R2.8**) and it has few internal controls preventing unauthorized use of the vehicles for non-City business. At least one employee mentioned concern about the public's perception of this use of City resources.

Permitting employees to use City trucks has been taken lightly by the City and has been justified as a prevention of potential vandalism, yet no vandalism has been documented. Due to the size of the City and the lax monitoring of vehicle use, this practice could be perceived as a perk for City employees.

Prior financial audits have routinely identified that the City needs a policy to guide the use of government-owned vehicles and equipment as well as credit cards by authorized users. The use of these items should be specified in a policy established by the government's legislative body. Policies should identify authorized users, guidelines for allowable use, specific unallowable uses, and the monitoring of use by appropriate levels of management (see also **financial management**).

According to the *Guide to Administering and Complying with Vehicle Management Policies* (Massachusetts Office of the Inspector General, 2004), use of municipal vehicles has come under greater scrutiny due to the economy. Adequate policies governing the use of vehicles and fleet administration is the first step in preventing the misuse of municipal vehicles and helps to ensure that public funds are being spent wisely. The following misuses of municipal vehicles may occur:

- Use of vehicle for other than official business;
- Use of vehicle without a valid driver's license;
- Lack of proper vehicle identification and documentation;
- Misrepresentation of vehicle use on official documents;
- Unauthorized overnight travel;
- Unauthorized out-of-state travel;
- Failure to maintain vehicles in accordance with municipal policies and procedures;
- Failure to obey state and local traffic and parking regulations; and
- Failure to pay state and federal taxes on fringe benefit income.

Further, regular commuting home-to-work mileage must be accurately reported to the Internal Revenue Service (IRS) as fringe benefit income. Employees who have used an employer-provided vehicle to commute a minimum of fifteen one-way trips, either as a driver or a passenger, at any time during the calendar year may be subject to fringe benefit income. Based on the City of Wellston's practice of permitting employees to take home vehicles at the conclusion of the workday, its employees are likely receiving unreported fringe benefit income.

The City should restrict the use of City vehicles to official City business. With the availability of fuel cards and the continued lack of documentation, the risk for unauthorized vehicle use is high. Developing and implementing policies defining appropriate use will reduce the risk of misuse of City resources and improve oversight. Establishing a control such as a simple clipboard in the vehicle to record daily use would enable the City to better monitor the use of City vehicles.

**R5.16 Wellston should establish an up-to-date inventory of City vehicles and develop a formal replacement plan to ensure that it is properly planning for the eventual purchases of new City vehicles, including trucks, dump trucks, street sweepers, backhoes, and if applicable, refuse collection trucks. The plan should include the age, mileage, and condition of currently-owned vehicles and criteria to assist the City in determining the costs and benefits of maintaining versus replacing each vehicle. This should part of a larger capital investment plan created for the City (see financial systems).**

The average age of City vehicles is over 10 years. The Streets Department Supervisor indicated that the City repairs and paints vehicles as a means of extending the life of vehicles, but that safety issues exist.

According to the International City/County Management Association (ICMA, 2003), a formal vehicle replacement plan should stipulate those criteria to be considered when making a replacement decision (e.g., minimum age and mileage requirements). In addition, American Public Works Association (APWA, 2001) recommends that equipment be replaced at the most economical point in its life cycle, referring to the length of time over which average total unit cost is lowest. In addition to age and mileage requirements, economical replacement plans also consider total maintenance/repair and fuel costs.

Because of the financial situation, it is imperative that the City extend the useful life of vehicles and equipment for as long as it is able to safely operate vehicles in its existing fleet. Developing a plan for maintenance and eventual replacement will enable the City to anticipate and budget for these future costs.

**R5.17 The City should use positive cash balances in the Street Levy Fund and the State Highway Improvement Fund to fund capital projects for road and highway repair in Wellston. Based on the City's road conditions, street maintenance should be among the priorities in its capital plan. Using funds from the Street Levy and State Highway Improvement Fund will permit Wellston to carry out needed road repairs without hindering the recovery of the General Fund.**

Consistent with the ORC, the City allocates a portion of revenue from the permissive tax, excise tax, and motor vehicle registration tax to the Street Levy Fund to invest in local street maintenance and repairs. It also allocates a portion of revenue from property taxes to the State Highway Improvement Fund to invest in State Routes 327 and 32. In 2009, the City spent \$36,300 from the Street Levy Fund and less than \$400 from the Highway Fund. None of these were capital outlay expenditures. At the end of 2009, both funds had significant ending balances. The Highway Fund had \$101,400 and the Street Levy Fund had \$424,900. Despite this available funding, the City charged \$20,800 in capital outlay expenditures to the Street Operating Fund in 2009, a fund that ended the year \$174,700 in deficit.

ORC § 5735.27 directs a municipal corporation to set aside a portion of taxes to be used for improvements for highways. In addition, ORC 5705.10(C) directs that a city must use special levy revenue for the purpose for which the levy was made. Because Wellston has significant capital needs, including road repair, using special revenue funds designated for those purposes would help the City maintain its infrastructure during this fiscal crisis. Wellston had a higher-than-average percentage of its roads classified in poor condition,

which would indicate a need to prioritize street repair. If the City were to allocate a portion of street and highway repair to the respective capital improvement accounts, Wellston could also proportionally reduce the deficit in the Street Operating Fund, and thereby the portion of the General Fund that must annually subsidize it. The City should include in these expenditures items used for repair and improvement that would fall into the *supplies and materials* category.

*Financial Implication:* Based on projected revenue, the City could annually allocate \$45,800 from the Street Levy and \$34,500 from the State Highway Improvement Fund to offset expenditures related to capital improvement activities on local roads and State routes.

**R5.18 In order to address ongoing Street Operating Fund deficits, the City should eliminate 1.0 FTE in the Streets Department, in addition to the reductions already made. Though this would bring staffing to levels below the peers, it would provide needed financial relief for the General Fund and Street Operating Fund. Once finances stabilize, the City should base its Streets Department staffing on appropriate workload indicators.**

With the reductions implemented by the City in 2010, Streets Department staffing is in line with the peers on a raw FTE basis. However, compared on a workload basis, Wellston's Streets Department operates with substantially fewer FTEs than the peers. This is primarily because Wellston has a larger geographic area in its boundaries than the peers. Therefore, the larger incorporated area requires a proportionally greater time investment for maintenance and repair.

Based on the City's present financial condition, it cannot sustain the current staffing levels in its Streets Department using the Streets Operating Fund (see **Table 5-12**), nor does it have sufficient General Fund revenues to support the Streets Department. If the City reduces 1.0 FTE, Wellston could reduce the annual deficit in the Street Operating Fund, and relieve the General Fund of its annual subsidies.

*Financial Implication:* The reduction of 1.0 FTE Streets Department employee will result in savings of \$57,100 from the Street Operating Fund.

## D. Refuse Collection

### Background

This section of the report focuses on the City of Wellston's (the City) refuse collection operation. Processes were reviewed, evaluated and compared with industry benchmarks, operational standards, peer cities, and the Ohio Revised Code (ORC).

Under the direction of the Safety and Service Director, refuse collection is overseen by the Streets Department Supervisor (the Supervisor). Refuse collection is performed by three City employees—one driver and two laborers—who report directly to the Supervisor. The three sanitation workers, as well as the working Supervisor, are members of the local Ohio Civil Service Employees Association (OCSEA) collective bargaining unit.

The City collects refuse on pre-established routes each weekday morning with routes finishing by approximately noon. Refuse collection workers are compensated for a 40-hour work week (see **R3.5**).

The City of Wellston began a recycling program in 1992 and continued to operate the program until 2009. Although financial concerns were cited as the reason for cutting the program, an analysis was not conducted to determine actual operating costs or anticipated savings (see **R5.20**).

**Table 5-16** presents the receipts and expenditures in the Refuse Collection Fund.

**Table 5-16: Wellston Refuse Collection Fund**

	2007	2008	Percent Change	2009	Percent Change
Receipts	\$312,178	\$311,047	(0.4%)	\$356,866	14.7%
Expenditures	\$352,853	\$376,319	6.7%	\$393,011	4.4%
<b>Balance</b>	<b>(\$40,675)</b>	<b>(\$65,272)</b>	<b>(60.5%)</b>	<b>(\$36,145)</b>	<b>44.6%</b>
<b>Ending Fund Balance</b>	<b>(\$65,150)</b>	<b>(\$130,422)</b>	<b>(100.2%)</b>	<b>(\$166,567)</b>	<b>(27.7%)</b>

Source: Wellston financial reports

As **Table 5-16** illustrates, the City's expenditures continuously exceeded receipts in the Refuse Collection Fund from 2007 through 2009. The City receives nearly all revenue in this fund from fees charged for refuse collection services (see also *utility billing* for a discussion on refuse fee collection). Payment of fees dipped slightly in 2008 but increased significantly in 2009. This was due, in part, to implementation of a Council-approved annual rate increase of 3 percent each

year. The deficit of \$36,145 in 2009 was lower than the previous two years, but contributed to a cumulative fund deficit of \$166,600 at the end of 2009.

**Table 5-17** presents expenditures in the Refuse Collection Fund by object code.

**Table 5-17: Wellston Refuse Collection Fund Expenditures**

	2007	2008	Percent Change	2009	Percent Change
Salaries	\$140,951	\$175,256	24.3%	\$162,974	(7.0%)
Benefits	\$79,022	\$86,681	9.7%	\$98,051	13.1%
Purchased Services	\$77,068	\$65,527	(15.0%)	\$75,147	14.7%
Supplies & Materials	\$33,604	\$28,007	(16.7%)	\$36,837	31.5%
Other	\$22,208	\$20,848	(6.1%)	\$20,002	(4.1%)
<b>Total</b>	<b>\$352,853</b>	<b>\$376,319</b>	<b>6.7%</b>	<b>\$393,011</b>	<b>4.4%</b>

**Source:** Wellston Receipts and Expenditures

**Note:** The Refuse Collection Fund had no capital outlay expenditures during this period.

As illustrated in **Table 5-17**, the largest category of expenditures in the Refuse Collection Fund is salaries at 41.5 percent of total costs. In 2009, although salaries and fuel costs decreased, the City experienced a significant increase in benefits, purchased services, and supplies and materials. Most of these increases were in worker compensation costs, refuse collection truck repairs, and additional landfill charges, presumably because of larger loads after the recycling program ended.

## Recommendations

**R5.19 The City of Wellston should evaluate its Refuse Collection Services operation to assess whether it can continue to perform services in-house or should consider outsourcing the service to a third-party vendor. This determination should be based on the City's ability to fund the operation with the resources collected from fees. In making this determination, Wellston should also consider EPA-recommended alternative fee structures.**

Based on 2009 data, the City spent approximately \$393,000, or \$150 per household providing refuse collection service while only generating \$356,900, or \$137 per household, in fees. In 2009, the City increased monthly fees for refuse collection from \$11.33 to \$14.33; however, at 2009 staffing and expenditure levels, Wellston still cannot sustain the Refuse Collection Fund. To continue operations, the City borrowed from other funds in violation of ORC § 5705.10.

According to a member of Council, the City is exploring the option of contracting with a local vendor to provide sanitation services within the City. An estimate received by the City offered service at a monthly rate between \$12 to \$15 per resident, a range consistent with the City's current rate. In the event the City elected to outsource refuse collection services to a third party, the City's General Fund would no longer risk subsidizing future deficits in the Refuse Collection Fund. *The Privatization of Local Government Services: A Growing Trend* (The South Carolina Policy Forum Magazine, 1997) states that local governments should conduct thorough cost/benefit analyses of the services being considered for privatization. The City of Barberton (Summit County), for example, contracts for weekly refuse collection services and paid \$127 per household in 2008.

Wellston should also study the cost-effectiveness of alternative fee structures for refuse collection similar to those implemented in other small communities. One option is to charge a fee per bag collected. The EPA offers a free tool online<sup>17</sup> for determining whether a local government could benefit from such an alternative structure.

In the immediate term, and in order to prevent further losses, the City should reduce staffing levels in the refuse collection function to a level more comparable to its peers (see **R5.21**). Privatization should be considered within the context of the City's anticipated expenditures for providing in-house services, and it will need to take into consideration the staffing reductions, rate increases, and eventual replacement needs for its refuse collection vehicles, when making this determination. Conducting a thorough review of departmental expenditures and comparing the proposals of local contractors will enable City officials to make an informed decision regarding the cost-effectiveness

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<sup>17</sup> <http://www.epa.gov/epawaste/conservation/tools/payt/tools/smart-bet/index.htm>

of continuing the operation or outsourcing this service. Ultimately, if the City opts to contract out this service, it should ensure the contract is monitored and that it receives the full benefit of the agreement.

**R5.20 The City should consider restoring its recycling program. A cost/benefit analysis of the program should be conducted and should take into consideration the revenues from fees, landfill cost savings, labor, and vehicle maintenance costs associated with the program. If the City outsources refuse collection, it should consider including a recycling program in contract bids.**

Wellston terminated its recycling program in 2009 after seventeen years of operation. A review of expenditures in 2009 indicates that landfill charges increased by 16.2 percent from the previous year while labor costs decreased by 7.0 percent. This shift in costs can be partially attributed to the cessation of the recycling program.

Recycling programs offer cities not just environmental benefits, but also cost savings. The City of Bedford (Cuyahoga County) promotes recycling and reports saving \$38 in solid waste disposal costs for every ton recycled. Recycling may increase the amount of waste diverted from landfills and may even generate money through the sale of recyclable materials. Though recycling programs are not usually profitable on their own, the combination of sale of recyclables and the reduction in landfill charges provides a potential to reduce refuse collection program costs in total.

The EPA reports that communities can see decreases in overall solid waste production and may have opportunities to generate revenue with related recycling and composting programs. Successful recycling programs are often linked to changes in refuse collection bag or can limits, as well as fee structure changes as mentioned above.

Whether Wellston continues to provide in-house refuse collection service or contracts with a third-party vendor, a recycling program could potentially reduce costs. Conducting a periodic review of its current service programs and exploring alternatives would provide valuable information to assist the City in determining the potential for future cost savings.

**R5.21 The City should eliminate 1.0 FTE from its Refuse Collection staff to bring Wellston closer to the recommended workload based on national municipal benchmarks.**

**Table 5-18** compares staffing in Wellston's Refuse Collection operation with national benchmarks.

**Table 5-18: Refuse Collection Staffing Comparison**

<b>Performance Measures</b>	
Population	6,078
Households	2,651
Square Miles	7.1
Refuse Collection FTEs	3
FTEs per Square Mile	0.4
FTEs per 1,000 Residents	0.5
Households per FTE (weekly)	883.7
Solid Waste Collection Benchmark – Households per FTE	1,541.3

**Source:** Wellston Refuse Collection and Ammons Municipal Benchmarks

According to the comparison in **Table 5-18**, the City has a weekly productivity rate that is just above half of the national municipal benchmark. Based on a weekly refuse collection schedule, the City could effectively be providing services with a staffing level of 2.0 FTE. This would bring the households served per FTE to 1,325.5 and reduce costs to the Refuse Collection Fund by about \$55,000 for salary and benefits.

Aligning staffing with industry performance benchmarks is an efficient and cost-effective method for assigning staff and monitoring workload levels. With the reduction in FTEs to a level more comparable to those used in other municipal solid waste collection functions, Wellston can reduce the overall cost of operations and make its Refuse Collection services more competitive with private vendors.

*Financial Implication:* The City would save approximately \$55,000 annually based on eliminating 1.0 FTE in Refuse Collection.

## E. Cemetery Maintenance

### Background

This section of the report focuses on cemetery operations. Auditors evaluated the City's processes and compared them with leading practices, industry benchmarks, and the Ohio Revised Code (ORC). Likewise, peer cities Defiance, Hudson, Logan, Marietta, Port Clinton, Rittman and Stow were used for comparison purposes.

#### Staffing

The City owns and maintains the Ridgewood Cemetery, a large property near downtown Wellston consisting of 16 acres of gravesites and an additional 30 acres of woodlands. In 2007, an operating levy for cemetery maintenance was not renewed and a similar levy was defeated in 2009. Despite the failure of the levy, the City of Wellston employed one Sexton and two laborers for grave-digging, mowing, and other cemetery maintenance in 2009. In addition, a part-time clerical employee in the Utilities Office collected cemetery lot and burial fees and managed cemetery record-keeping. During the course of the audit, the Council approved action to combine the Cemetery Department with the Streets Department and the three Cemetery staff positions were eliminated.

In order to understand the typical structure of cemetery staffing and workloads, three similar sized cities were contacted about cemetery operations. **Table 5-19** presents a comparison of staffing at Wellston and other peer cities.

**Table 5-19: Wellston Cemetery Staffing Comparison**

	Wellston (2009)	Wellston (2010)	Port Clinton	Marietta	Logan	Peer Average
<b>Population</b>	6,078	6,078	6,391	14,515	6,704	9,203.3
<b>Cemetery Acres</b>	16.0	16.0	12.7	20.0	34.5	22.4
<b>Dedicated Cemetery FTEs</b>	3.0	0.2 <sup>1</sup>	2.5	3.0	3.0	2.0
<b>FTEs per 1,000 Citizens</b>	0.5	<0.1 <sup>2</sup>	0.4	0.2	0.4	0.3
<b>Acres per FTE</b>	5.3	80.0	5.1	6.7	11.5	7.8

**Source:** Wellston and peer cities' Cemetery departments

<sup>1</sup> Based on one former Sexton permanently assigned to the Streets Department at minimum use

<sup>2</sup> Due to the financial situation, the allocation of staff is 0.03 per 1,000 citizens.

**Table 5-19** indicates that the 2009 staffing level of 0.5 FTE per 1,000 citizens exceeded the average of the peer cities. Likewise, based on acreage of the cemetery, the 2009 staffing

productivity level of 5.3 acres per FTE was lower than the average of the peer cities. These workload comparisons do not include the use of volunteer laborers, which occurs frequently in the City of Wellston. Lower-than-average workloads contributed to the high cost of cemetery maintenance and, by extension, contributed to the decline in the financial condition of the Cemetery Fund. While the financial situation has caused the City to consolidate and reduce staff, the City should use these standards in future staffing and forecasting plans (**R5.22**).

### *Financial Data and Statistical Data*

The City allocates costs for staffing and purchases related to the operation and maintenance of the cemetery to the Cemetery Operating Fund (Code 203). **Table 5-20** shows the receipt and expenditures charged to the Cemetery Operating Fund over the past three years.

**Table 5-20: Wellston Cemetery Operating Fund**

	2007	2008	Percent Change	2009	Percent Change
Receipts	\$106,490	\$60,597	(43.1%)	\$24,077	(60.3%)
Expenditures	\$186,497	\$168,030	(9.9%)	\$179,292	6.7%
<b>Receipts Over (Under) Expenditures</b>	<b>(\$80,007)</b>	<b>(\$107,433)</b>	<b>(34.3%)</b>	<b>(\$155,214)</b>	<b>(44.5%)</b>
<b>Ending Fund Balance</b>	<b>(\$216,775)</b>	<b>(\$324,208)</b>	<b>(49.6%)</b>	<b>(\$479,422)</b>	<b>(47.9%)</b>

Source: Wellston financial records

As illustrated in **Table 5-20**, expenditures exceeded receipts from 2007 through 2009. Although the City considers the failure of a cemetery levy in 2007 as the reason for the significant deficit, a review of the past six years indicates that a deficit has occurred every year in this fund due to expenditures exceeding receipts. Without additional revenue from the levy, the Cemetery Operating Fund receives only limited revenue from the sales of new grave plots and from interest earned on its endowment fund.

**Table 5-21** presents a comparison of cemetery fees between Wellston and the peers.

**Table 5-21: Comparison of Cemetery Fees**

	Wellston	Rittman	Stow	Defiance	Hudson	Peer Average
Adult Resident Grave	\$550	\$350	\$425	\$275	\$600	\$412.5
Adult Resident Burial (Weekday)	\$600	\$400	\$425	\$250	\$775	\$462.5
Ashes	\$200	\$100	\$100	\$100	\$185	\$121.3

As noted in **Table 5-21**, cemetery fees for plots and burials are generally higher than those charged by peer cities.

In addition to the operating fund, the City also has an endowment fund (code 801) created under ORC § 759.12 and an improvement fund (code 402) established by City ordinance. However, neither fund may be used for general operations. Because the City has not adjusted expenditures to accommodate the loss of levy revenue for cemetery maintenance, the Cemetery Operating Fund has experienced consistent deficits. The decreasing revenue due to the defeat of the levy has accelerated the fund deficit, leading to a negative balance of nearly \$480,000 as of December 31, 2009.

**Table 5-22** shows the expenditures from the Cemetery Operating Fund grouped by object code.

**Table 5-22: Cemetery Expenditures**

	2007	2008	Percent Change	2009	Percent Change
Salaries	\$90,188	\$76,795	(14.9%)	\$86,309	12.4%
Benefits	\$70,626	\$66,746	(5.5%)	\$75,865	13.7%
Purchased Services	\$2,776	\$3,738	34.6%	\$2,369	(36.6%)
Supplies & Materials	\$18,740	\$17,705	(5.5%)	\$12,632	(28.7%)
Other	\$4,167	\$3,047	(26.9%)	\$2,117	(30.5%)
<b>Total</b>	<b>\$186,497</b>	<b>\$168,030</b>	<b>(9.9%)</b>	<b>\$179,292</b>	<b>6.7%</b>

**Note:** This fund had no capital outlay expenditures.

Based on **Table 5-22**, the most significant categories for expenditures are salaries and benefits, which combined represented 90.5 percent of total Cemetery Operating Fund spending in 2009. Although spending in these two categories decreased in 2008, it increased in 2009.

## Recommendations

**R5.22 Wellston should provide cemetery maintenance at minimum standards based on funding available through grave sales and endowment interest. Since these revenues fluctuate, the City should monitor expenditures in the Cemetery Operating Fund to ensure that the operating expenses are not exceeding revenue.**

As noted in **Table 5-20**, expenditures have consistently exceeded revenue in the Cemetery Operating Fund. The largest category of costs in the Fund is staffing at 90.5 percent of 2009 expenditures. When the cemetery levy initially failed, the City continued to maintain its high staff level. Although it recently consolidated operations of the Cemetery Department into the Streets Department, City administration indicated that it was committed to continuing to authorize the use of employees to maintain the cemetery. At the time of reporting, Wellston did not have a plan to conduct cost allocation to the Cemetery Operating Fund, monitor month-to-month expenditures, or determine the appropriate level of maintenance for the cemetery.

Although the Ohio Department of Commerce does not regulate city cemeteries, it has developed a set of minimum maintenance guidelines that could be used by the City. The Department recommends that a cemetery be mowed and extra flowers removed once a month, and underbrush removed annually. Based on the Department's guidelines, developing and posting funeral decoration rules will assist in the cleanup and the overall maintenance of the facility. In addition, the City could develop volunteer drives to create periodic cleanup days and requesting assistance in maintaining the cemetery. Similarly, when court community service workers are available, the City can maximize the use of these individuals to help in cleanup and maintenance, as it has done historically.

Without the ability to reference the budget and monitor expenditures, the City could compound its already substantial deficit in the Cemetery Operating Fund. By establishing minimum standards and using these as guidelines for cemetery maintenance, it will be able to better control its costs over this aspect of operations.

**R5.23 The City should establish and monitor performance measurements such as acreage maintained when staff are assigned to cemetery functions. These performance measures for grounds maintenance can be used as a baseline for ensuring staff are assigned appropriately and completing an acceptable level of work.**

The City has maintained a large staff dedicated to grave digging and maintenance due to the unique features of its historical cemetery. In addition, City administrators have, on multiple occasions, appeared to be unaware of the actual size of the property and the area maintained and have not exhibited an understanding of appropriate performance measures or productivity standards for cemetery maintenance. On several occasions, City

administrators indicated that the cemetery was a 97 acre property. After a review of the Jackson County Auditor's website and visual maps, the actual land area currently in use was determined to be approximately 16 acres.

While the Ridgewood Cemetery is located on a steeply rolling plat of land, which clearly takes more maintenance time than a typical flat cemetery, the City also has periodic help from the use of community service workers. The cemetery also has raised headstones, which require periodic grass trimming and, less frequently, headstone resetting (to keep the headstones perpendicular and reverse the effects of frost heave). Though the cemetery operations employed 3.0 FTEs until the latter months of 2009, the City did not monitor or measure the productivity of these workers. Auditors observed that the cemetery appeared to be poorly maintained despite the high staffing level and supplemented workforce.

The City of Warrensburg, Missouri represents a best practice in cemetery maintenance. One supervisor, two full-time staff, and four seasonal employees take care of annual maintenance on a 50 acre cemetery. This amounts to a workload of 8.3 acres per cemetery maintenance worker. With a similar targeted workload at Wellston, the City could maintain the cemetery with 2 FTEs.

By using staffing guidelines as measures of performance, the City can determine the appropriateness of its cemetery staffing levels and review the productivity levels of staff. This will help ensure that the cemetery is appropriately maintained and that Wellston does not allocate its scarce resources to underperforming functions.

**R5.24 Wellston should establish and enforce standards on gravestones and funerary adornments in its cemetery in order to reduce maintenance time and expenditures in the upkeep of the cemetery. These guidelines would also help residents in their selections of these items.**

The City has not developed or enforced standards for gravestones or the types of floral arrangements that are permitted to be placed on or around stones. Auditors noted that the variety of adornments was vast and, because of the placement of such items, clearly added to the upkeep and maintenance of the cemetery. Gravestones and other monuments have also been built on varying angles on the various slopes, contributing to the maintenance of the cemetery.

Woodside Cemetery in Middletown, Ohio has established a policy for the decoration of gravestones, citing the purpose of reducing maintenance time and ensuring the cleanliness of the grounds. The policy cites trimming and mowing as the most costly part of cemetery maintenance. The Ohio Department of Commerce recommends further that rules regarding flowers and decorations be posted at the cemetery.

By establishing and maintaining a policy on the selection of gravestones and the use of funerary adornments, the City can reduce the costs and time associated with cemetery grounds upkeep. Over the long-term, this will help the City better manage its cemetery maintenance operations and improve the productivity and performance of its cemetery groundskeeping staff.

**R5.25 The City of Wellston should consider reducing or temporarily ceasing the collection of cemetery perpetual care fees as part of its unexpendable endowment fund. Due to current interest rates, the City is drawing minimal revenue from the interest in this account. Adding principal to this account, while prudent for long-term operations, is not assisting the City in managing the operating expenses of the cemetery. Temporarily redirecting these funds to operations would help Wellston conduct minimal cemetery maintenance and begin to resolve its Cemetery Operating Fund deficit.**

Prior to 1977, the City charged annual fees for continued care of grave plots. In 1977, the City passed Ordinance 2243 to assess a one-time perpetual care fee charged at the time of purchase of a grave plot. This fee is deposited into a permanent endowment trust fund, also known as the Cemetery Perpetual Care Fund (Code 801). In accordance with ORC § 759.12, the City uses the interest from the fund for operating expenses but is prohibited from using the principal. The City allocates interest from the fund and deposits it as receipts in the Cemetery Operating Fund. By 2009, the endowment fund had grown to approximately \$240,000. At one time, this balance generated some interest used for operations but, in the current economic downturn, these revenues have diminished considerably.

The existence of a significant principal in the trust fund has created the impression that the City has a potential reserve of funds available for cemetery operating purposes. It has also contributed to the City having a large cash equity balance that has masked the deficit in the Cemetery Operating Fund. While the Ohio Department of Taxation provided an opinion letter authorizing the City to transfer an amount of \$78,000 in 2006 from the endowment fund to the operating fund, this was due to a one-time accounting error. The Ohio Department of Taxation confirmed that the establishment of these funds in a trust made the principal amount unavailable for operating expenses.

According to the Ohio Department of Commerce, a city is not required to establish a cemetery perpetual care fund. Though ORC § 759.12 describes the operation of a perpetual care fund for a municipality, it does not establish the rate of fees to be deposited in this account or apportion fees in a particular manner. This law requires that the city “shall declare the amount of money [it] will accept by agreement, gift, devise, bequest, or otherwise and hold as a permanent fund of the cemetery” and for any fees

accepted under the permanent fund, the city shall use “only the interest or income of the money.”

Under the current economic environment and in light of the City’s considerable financial difficulties, Council could temporarily redirect the fees collected for cemetery maintenance to its Cemetery Operating Fund. Perpetual care monies should be fully reinstated when interest rates recover and the endowment begins to generate interest payments. Based on historical collection rates, redirecting all perpetual care funds to the Cemetery Operating Fund on a temporary basis would add approximately \$1,800 annually to the Cemetery Operating Fund.

**R5.26 The City should develop an automated database of cemetery records to increase the efficiency and effectiveness of the documentation of cemetery sales and to reduce the risk of fraud and error. The City’s Utility Clerk should periodically compare the Cemetery receipt book with the deed book to ensure all Certificates of Ownership have been issued for lots paid in full or that ownership has been transferred.**

The Clerk’s Office maintains the plot map for Ridgewood Cemetery, accepts payment for plot sales, and is responsible for recording plot assignments. The process is done manually. At the end of the year, a list of all the burials is compiled. Although software is available for plotting maps and tracking sales, the City has been reluctant to implement it due to the size of the cemetery which dates from 1900. In the 2007 Financial Audit, errors were noted in the recording of cemetery plots. Testing of receipts for the cemetery indicated Certificates of Ownership were not issued for two lots, a practice potentially resulting in duplicate sales of the same lot. Although the City now issues deeds, it only reconciles files once a year, and only to determine if sales and death certificates match.

Automating cemetery records would improve the City’s recordkeeping and reduce the time associated with maintaining cemetery records. The cemetery records could be automated using low-cost alternatives such as office spreadsheets and database software. Two web sites, TechRepublic and WareSeeker offer access to free cemetery database programs. The City could also work with the local historical society or high school to request assistance in the transfer of past documents, creating a positive community enrichment project. Alternatively, community service workers with computer skills could be tasked with this project.

By developing more accessible cemetery records, the risk of error can be reduced and the efficiency of cemetery record-keeping, and therefore staff productivity, can be increased. Absent the automation of cemetery records, the City is at risk for making duplicate sales or not collecting the appropriate amount of revenues for plots.

**R5.27 The City should ensure that it is officially registered with the Division of Cemetery Registration at the Ohio Department of Commerce. This registration should be kept on file in the official City records.**

The Ohio Department of Commerce does not have a record of the City's Ridgewood Cemetery being registered in its database of cemetery operators. The City could not provide documentation to support that the cemetery had been registered. Since registration is a one-time process and the cemetery was first used around 1900, registration information and documentation may not have been created or may not have been retained.

The Ohio Department of Commerce confirmed that ORC § 4767.02 requires registration of a cemetery and applies to municipalities. Further, ORC § 4677.99 indicates that failure to register is a misdemeanor.

By ensuring that the cemetery is properly registered, the City will prevent the risk of penalties. This one-time process can be completed at no cost to the City.

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## F. Recreation

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### Background

This section of the report focuses on the City of Wellston's (the City) recreation operations, including the function of the Recreation Director, the City's sports programs, the rental facility, and the swimming pool. Auditors evaluated the City's processes and compared them with leading practices, industry benchmarks, and the Ohio Revised Code (ORC). Likewise, peer cities Hillsboro, Logan, Delphos, Crestline, and Uhrichsville were used for comparison purposes.

The City has a five-member Recreation Board (the Board) as described under Ohio Revised Code (ORC) § 755.14. Of the five members, three are appointed by the City and two by the Wellston City School District. The Board hires a Recreation Director (the Director), who is paid by the City and reports to the Recreation Board President about recreation activities and to the Safety and Service Director about pool operations. The Director's primary responsibility is to schedule facilities and arrange equipment for various community sports programs including baseball, basketball, and soccer. Prior to 2009, the City also employed a maintenance person to mow lawns and take care of the pool, but this position was eliminated and these functions were included in the Director's responsibilities. The Director receives a few benefits paid by the City including retirement, federal insurance contributions act (FICA) payments, and workers' compensation benefits, but does not receive health insurance benefits through the City.

### *Structure and Staffing*

The Recreation Director is responsible for arranging youth sports, for mowing local parks and recreational fields, for maintaining bike paths and the skate park, and for maintenance and management of the City pool. **Table 5-23** compares staffing in the Recreation Department with peer cities.

**Table 5-23 Recreation Department Staffing Levels and Ratios**

	Wellston	Hillsboro	Logan	Peer Average
<b>Population</b>	6,078	6,368	6,704	6,536
<b>Acreage</b>	31.1	27.8	46.0	36.9
<b>Maintenance FTEs <sup>1</sup></b>	0.5	6.0	5.0	5.5
<b>Recreation FTEs <sup>2</sup></b>	0.5	1.0	0.5	0.8
<b>Total FTEs</b>	1.0	7.0	5.5	6.3
<b>FTEs per 1,000 Citizens</b>	0.2	1.1	0.8	1.0
<b>Park Acres per Maintenance FTE</b>	62.2	4.6	9.2	6.9

Source: Wellston and peer Parks and Recreations Departments

<sup>1</sup>Includes staff allocated to mowing and maintenance of parks and recreational facilities.

<sup>2</sup>Does not include seasonal pool employees.

As shown in **Table 5-23**, Wellston's use of a single individual for managing sports and recreational programs is consistent with the peers. The City is able to use significantly less maintenance staffing to complete park maintenance work because it actively uses community service workers to assist with labor tasks such as weeding and other lawn maintenance.

In addition to the sports recreation programs, the City also has a swimming pool facility that is open in the summer months. During the course of the audit, the City decided to not open the pool in 2010. According to City administrators, this would likely be a permanent closure.

### *Financial Data and Statistical Data*

**Table 5-24** presents the receipts and expenditures associated with the recreation program.

**Table 5-24: Wellston Recreation Fund**

	2007	2008	Percent Change	2009	Percent Change
Receipts	\$41,511	\$38,840	(6.4%)	\$32,324	(16.8%)
Expenditures	\$39,931	\$37,241	(6.7%)	\$45,031	20.9%
<b>Receipts Over (Under) Expenditures</b>	<b>\$1,581</b>	<b>\$1,599</b>	<b>1.2%</b>	<b>(\$12,707)</b>	<b>(894.6%)</b>
<b>Ending Fund Balance</b>	<b>\$1,581</b>	<b>\$3,180</b>	<b>101.2%</b>	<b>(\$9,527)</b>	<b>(399.6%)</b>

Note: For purposes of comparison, adjusted to exclude approximate funding and spending related to Veterans Park Improvement Grant.

As **Table 5-24** illustrates, the Recreation Department generated revenue that was sufficient to cover expenditures in 2007 and 2008. This income included revenue from player fees, sponsorships, concessions, and United Way grant funding. **Table 5-24** also shows that expenditures exceeded revenues in 2009, creating a deficit of \$9,500 in the Recreation Fund. This is the result of both decreasing revenues and increasing expenditures. **Table 5-25** presents expenditures in the Recreation Fund by object code.

**Table 5-25 Wellston Recreation Expenditures**

	2007	2008	%	2009	%
Salaries	\$18,004	\$18,692	3.8%	\$21,244	13.6%
Benefits	\$4,266	\$4,099	(3.9%)	\$4,169	1.7%
Purchased Services	\$6,901	\$6,743	(2.3%)	\$6,091	(9.7%)
Supplies & Materials	\$9,157	\$6,222	(32.1%)	\$9,723	56.3%
Capital Outlay	\$0	\$0	n/a	\$2,721	n/a
Other	\$1,603	\$1,485	(7.4%)	\$1,082	(27.1%)
<b>Total</b>	<b>\$39,931</b>	<b>\$37,241</b>	<b>(6.7%)</b>	<b>\$45,030</b>	<b>20.9%</b>

Source: Wellston financial reports

As illustrated in **Table 5-25**, the largest category of expenditures in the Recreation Fund is salaries, comprising nearly half of overall costs. Increases of \$2,552 in salaries, \$3,501 in supplies and materials, and \$2,721 in capital outlay caused the majority of the 2009 deficit.

**Table 5-26** represents the revenues and expenditures associated with the Swimming Pool Fund.

**Table 5-26: Wellston Swimming Pool Fund**

	2007	2008	Percent Change	2009	Percent Change
Revenues	\$19,192	\$29,503	53.7%	\$12,500	(57.6%)
Expenditures	\$33,474	\$32,721	(2.2%)	\$28,794	(12.0%)
<b>Revenues Over (Under) Expenditures</b>	<b>(\$14,281)</b>	<b>(\$3,218)</b>	<b>77.5%</b>	<b>(\$16,294)</b>	<b>(406.4%)</b>
<b>Ending Balance</b>	<b>(\$14,281)</b>	<b>(\$17,499)</b>	<b>(22.5%)</b>	<b>(\$33,793)</b>	<b>(93.1%)</b>

Source: Wellston financial reports

As presented in **Table 5-26**, despite cost reductions each year, expenditures for the operation of the pool exceeded revenues in all three years examined. Revenue sharply declined in 2009, possibly due to the City increasing rates for seasonal passes from \$55 in 2008 to \$75 in 2009. Expenditures were reduced in all areas except supplies and materials and benefits. The City pays only limited retirement and workers' compensation benefits. Increases in supplies and materials expenditures in 2008 were due to rising costs of pool maintenance chemicals.

**Table 5-27** presents a comparison of swimming pool fees between Wellston and the peers.

**Table 5-27 Swimming Pool Fees Comparison**

	Wellston City Pool (2009)	Crestline City Pool	Uhrichsville Water Park	Delphos City Pool	Peer Average
Daily Admission	\$4	\$3	\$5	\$4	\$4
Season Pass	\$75	\$55	\$120	\$70	\$82
Breakeven Point <sup>1</sup> (Pass Cost/ Daily Cost)	18.8	18.3	24.0	17.5	20.4

**Source:** Wellston and peers Parks and Recreation Departments

**Note:** The City of Crestline pool is open June through August; others are May through September.

<sup>1</sup>The breakeven point is the number of visits after which the cost of daily fees exceeds the cost of the season pass.

As **Table 5-27** indicates, daily admission at Wellston is consistent with the peers. The seasonal pass is also consistent with the peer average, except for the City of Crestline, which is open for only three months. Since fees charged at the City pool are consistent with peer cities, Wellston appears to have maximized fees to generate needed revenue. A cost/benefit analysis of the pool fees and operating costs might help the City determine if resuming pool operations is feasible. If it decides to permanently terminate its City pool operations, it should adjust the Director's job duties and wages accordingly.

The City has a historic building, formerly a railroad depot, that may be rented by the public for events. The rental fees and an additional refundable deposit made in the event of damage are collected by the Mayor's Secretary at the time of scheduling. The deposit is typically returned after clean-up. Fees help offset the upkeep of the facility. **Table 5-28** shows the revenue and expenditures for the past three years in the Railroad Depot Fund.

**Table 5-28: Wellston Railroad Depot Fund**

	2007	2008	Percent Change	2009	Percent Change
Revenues	\$4,695	\$5,735	22.2%	\$3,960	(31.0%)
Expenditures	\$8,133	\$9,470	16.4%	\$6,991	(26.2%)
<b>Revenues Over (Under) Expenditures</b>	<b>(\$3,438)</b>	<b>(\$3,735)</b>	<b>(8.6%)</b>	<b>(\$3,031)</b>	<b>18.8%</b>
<b>Ending Balance</b>	<b>\$34</b>	<b>(\$3,701)</b>	<b>(11,026.0%)</b>	<b>(\$6,732)</b>	<b>(81.9%)</b>

**Source:** Wellston financial reports

As shown in **Table 5-28**, in each of the past three years, the costs associated with maintaining the railroad depot exceeded revenues. These expenditures were primarily for purchased services such as gas, electricity, and pest control. **Table 5-29** illustrates the fees for other peer facilities.

**Table 5-29: Rental Fee Comparison**

	<b>Wellston Railroad Depot</b>	<b>Piqua Dining Hall</b>	<b>Painesville Community Center</b>	<b>Columbus Shelter House</b>	<b>Peer Average</b>
<b>Rental Fees</b>	\$175	\$100	\$225	\$200	\$175

Source: Wellston and cities with similar enclosed facilities

**Table 5-29** shows that the City is charging a rate comparable to peer cities.<sup>18</sup> While fees for rental of the Railroad Depot are consistent with peer rentals, the Depot continues to operate at an annual deficit of \$3,000 to \$4,000. The City uses revenue from the General Fund to cover the difference.

<sup>18</sup> For comparing Wellston’s enclosed rental facility fees, peer cities did not offer similar facilities. This tier of fees was compared with and found to be consistent with those charged for the larger cities of Columbus, Piqua, and Painesville.

## **Recommendations**

**R5.28 The City should create and retain Recreation Fund records for revenues, expenditures, and meeting minutes in a manner consistent with ORC requirements. Documentation is a fundamental internal control necessary to ensure that funds are properly deposited and appropriately disbursed.**

The 2008 Financial Audit reported that the City was not in compliance for record-keeping in its Recreation Department. Specifically, it indicated that the Recreation Director did not retain supporting documentation for Recreation Department receipts, had not provided a roster and all player and sponsor applications for audit, and did not maintain a receipt book for sponsorship payments. The Recreation Board President indicated that sports applications and fees were collected by two local businesses and were typically picked up and turned directly into the City Treasurer. However, for at least one large sports tournament, the Recreation Director collected fees and then was given discretion to hire and pay officials and other charges before turning the remainder in to the City. The Recreation Department appears to be operating with few internal controls on the collection and disbursement of monies.

In addition, the 2008 Financial Audit indicated that minutes from the Recreation Department Board meetings were not available, an issue that was also cited in three prior audits. In a discussion with the Board President, the Board is scheduled for regular meetings but a quorum is not always present.

During the course of the audit, the Recreation Board met for a January meeting and provided minutes to the auditors. The minutes indicated the Board was requiring attendance and taking other steps to establish formal practices. City Council also passed Ordinance 4062 requiring the Wellston Recreation Board to prepare and maintain monthly records of all receipts, expenses, and minutes, and to provide the same to Council each month.

ORC § 149.351 establishes guidelines against the destruction or damage of records. All records regarding fees, expenditures, and meeting minutes are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise disposed of, in whole or in part, except as provided by law or under the rules adopted by the Records Commission.

By developing documentation of revenues and expenditures, the City can conduct periodic reviews of the Recreation Fund, ensure budgets are followed, identify opportunities for cost savings, and reduce the risk of fraud or abuse. This will bring the City into compliance with ORC § 149.351 and help it avoid future financial audit findings regarding this issue. Ensuring that meeting minutes are maintained will allow the

City to have a historical basis for Recreation Board decisions and improve accountability to taxpayers and recreation activity users.

**R5.29 If Wellston continues with plans to close the pool, the Recreation Director's salary should be adjusted to remove the portion for pool management.**

During the course of the audit, the City indicated that it will not open the pool in 2010. It was also reported that due to the age of the pool, it will likely be permanently closed because of the maintenance costs associated with reopening it after a period of dormancy. Although the recent employment contract with the Recreation Director includes \$6,000 for pool supervision, it is not clear whether the City plans to revise this contract.

As the City is considering terminating pool operations, it would be prudent to examine the duties and compensation of the Recreation Director accordingly. Wellston could use surrounding municipalities that do not operate pools as a basis for salary and job duty comparisons.

*Financial Implication:* Adjusting the Recreation Director's salary based on the closing of the pool will result in an annual cost savings of approximately, \$7,200 annually including benefits.

**R5.30 The City should monitor expenditures during the year and ensure that costs do not exceed revenue in the Recreation Fund and Swimming Pool Fund. By providing the Recreation Board and Director with monthly budget-to-actual expenditure reports, the City can help ensure that overspending is addressed and minimized.**

As noted in the 2008 Financial Audit, in order for the General Fund to cover all negative cash balances at December 31 for other funds, an interfund balance transfer<sup>19</sup> of \$905,000 was required. Of this, the Swimming Pool Fund accounted for \$22,000. In 2009, the Recreation Fund also had a deficit, creating a combined deficit of approximately \$43,000 that will again create need of an interfund transfer from the General Fund. Although revenues in the Recreation Fund were sufficient in the prior two years to cover expenditures, the Swimming Pool Fund consistently fails to raise sufficient revenue to cover its expenditures. Pool expenditures have decreased in each of the last two years, but receipts also sharply dropped in 2009. While the deficits in these Funds are not as significant as those in other City funds, each fund deficit represents an obligation that the City must pay through the General Fund. Due to the City's financial situation, all cost

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<sup>19</sup> An interfund balance transfer is a term used in financial auditing to account for deficits in Special Revenue and Enterprise Funds that must be supported from the General Fund. Because Wellston's General Fund did not have enough cash to cover all negative cash balances, an advance was technically made to the General Fund from the Permanent Investment Capital Projects Fund.

overruns must be monitored and reduced wherever possible to prevent compounding the deficit.

Under ORC § 5705.10, money paid into a fund must be used only for the purposes for which such fund has been established. Ongoing negative fund balances indicate that money from one fund will be required to cover the expenses of another fund. Although the General Fund may make transfers into special revenue and enterprise funds to alleviate fund deficits, the City does not have sufficient General Fund resources to continue this practice.

Monitoring each fund to ensure the City has sufficient revenues to cover operations will help Wellston improve its financial stability. Over the long term, reducing the fund deficits in its restricted-use funds will help improve the condition of the General Fund.

**R5.31 The City should formulate a business plan to promote the Railroad Depot to help it become a self-supporting entity. The business plan should include business and community feedback regarding the Depot, including changes needed to make the facility more attractive for residents and organizations, methods to advertise the Depot's availability and potential uses, and a timeline for the Depot to become financially self-sufficient. If the Depot fails to become self-sufficient, the City should take steps to sell or donate the facility.**

The City charges a fee for rental of the Railroad Depot. While a refundable deposit is collected at the time of the rental, the City has not consistently collected this deposit due to problems with the timeliness of refunds. The Depot's expenditures have exceeded its revenues in the past two years, with an average shortfall of \$3,400, and therefore the facility is supported by General Fund resources. Without implementing changes, Wellston's forecast projects continuing deficits. Other cities with similar facilities report that their facilities are not fully self-supporting either. However, some practices used by these cities could help Wellston reduce the amount of support needed for the Depot.

The City of Miamisburg (Montgomery County) uses its former public library, the Carnegie Center, as a meeting/activity facility available for rent by community groups. In order to publicize the Carnegie Center, Miamisburg produces pamphlets with directions, contact information, a description of the Center, rental rates, the process for making reservations and payments, and general rules and regulations.

According to the article *How to Write Your Business Plan* (Nonprofit World, 1999), the critical elements in a business plan include:

- A description of the organization or business;
- A description of the market;

- A marketing plan; and
- A financial plan.

A business plan would provide the City with direction on how to help the Depot become more self-sufficient. Without one, the Depot will continue to require annual support from the City's General Fund, probably in increasing amounts. If the City is able to better publicize the Center and/or upgrade the Center to make it more attractive to renters, it could potentially increase revenue and decrease the General Fund contribution to its operations. If the City is not able to offset expenses for the Depot within two years, it should consider selling or donating the facility so that it is not a drain on the City's General Fund. At a minimum, the City should establish a loss threshold that is tolerable over the long-term and balance its operations with available resources.

*Financial implication:* Based on the projected revenue from rental fees, compared with the estimated cost—including salaries/wages, benefits, supplies and materials, purchased services, and capital outlay—if the Depot cut its shortfall in half by 2011, the City would save \$2,000 from its General Fund in 2010. If it was self-supporting by 2011, the City would save \$16,200 over the forecast period.

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## City Response

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The letter that follows is the City of Wellston's official response to the performance audit. Throughout the audit process, staff met with City officials to ensure substantial agreement on the factual information presented in the report. When the City disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.

In its response, the City states that the positions of Mayor, Auditor, and Service Safety Director are part-time positions. Whether those positions are part time or full time would not affect the recommendations and conclusions of this report.



# City of Wellston

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April 20, 2010  
James B. Pyers  
Senior Audit Manager  
101 Central Plaza South  
700 Chase Tower  
Canton, Ohio 44702

Dear Mr. Pyers:

This document is the Governmental Official Response written to comply with the Performance Post Audit Section.

The Performance Audit is complex, complete and accurately describes the City of Wellston and its state of Fiscal Emergency. Although there is a significant amount of work to do we are encouraged by your projection for the City to emerge from fiscal emergency. There are recommendations that our administrative group has deemed workable while others may not fit into the philosophical plan for the longevity of the City. However, your report was basically on the mark. As an aside there were some personnel numbers that should be adjusted as time goes on; however these are not significant enough to detract from the overall picture.

The administration and council are well aware of the problems caused by the labor contracts and plan to address this dilemma during the next contract negotiations period. There have been several strategic employee reductions that will cause a significant reduction in costs. Other reductions and consolidations are being considered and will be implemented in a timely manner.

The City has begun to identify sources of water revenue losses. New meters are being installed; household use is being tracked to determine an estimated usage versus illegal manipulation. Employees who read meters have been trained on the meter reading equipment and the clerks have been trained on the software in that office. The number of water leaks occurring and being repaired continues to be a problem as well as delinquent collection on past due accounts. An outsourcing project, to repair major water leaks, is being tested at this writing because of the lack of qualified personnel. In addition the Law Director has initiated a process to collect all delinquent accounts due the City.

(740) 384-2428 Auditor	(740) 384-5388 Cemetery	(740) 384-2040 City Clerk	(740) 384-2128 Fire Department - Business	(740) 286-3735 Law Director	(740) 384-2720 Mayor	(740) 384-2171 Police Department	(740) 384-2725 Service Director
(740) 384-3051 Treasurer	(740) 384-5447 Waste Water Plant	(740) 384-6274 North Water Plant	(740) 384-6606 South Water Plant	(740) 384-0628 Auditor's Office Fax	(740) 286-2988 Law Director's Fax	(740) 384-3357 Mayor & Ser. Dir.'s Fax	(740) 384-4026 Police Department Fax

A plan has been completed for capital improvement at the north water plant. The plan is in the first phase of implementation and will continue with borrowed funds and perhaps a governmental grant for which an application has been processed. The City engineer is vigorously pursuing governmental grants to address this issue and other infrastructure deficiencies.

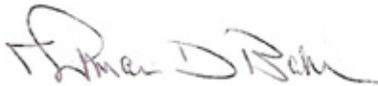
The City Auditors Office has implemented a purchase order tracking system, has developed a balanced budget, and provides supervisors with monthly financial reports per department which has eliminated discretionary spending. We also have begun to eliminate credit card use. City council and the administration are kept apprised of the financial condition of each department.

The Mayor has scheduled an administrative meeting each Monday to review current problems as well as planning for future requirements. Included on this team are the Mayor, Service Director, Law Director, Engineer, and the Auditor.

The local Financial Planning Commission members have been asked to review the Performance Auditors' recommendations and suggest a prioritized list to be addressed. This list shall be reviewed by the administrative team and Council.

Speaking for the citizens of Wellston, the Administrative Team wishes to express their appreciation for your comprehensive yet unbiased report that is projected to rid the City of the fiscal emergency stigma.

Respectfully Submitted,



Thomas D. Baker, Auditor

  
Edgar Hayburn, Mayor



**Auditor of State  
Mary Taylor, CPA**

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