



**Auditor of State
Betty Montgomery**

**City of Eastlake
Lake County, Ohio**

Report on Accounting Methods

Local Government Services Section

**City of Eastlake, Lake County
Report on Accounting Methods**

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CERTIFICATION

In compliance with the requirements set forth in Section 118.10(A) of the Ohio Revised Code, an assessment of the methods, accuracy, and legality of the accounts, records, files, and reports of the City of Eastlake was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The deficiencies and non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to Section 118.10 of the Ohio Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Paul Marshall, Chairman of the Financial Planning and Supervision Commission of the City of Eastlake; Ted Andrzejewski, Mayor of the City of Eastlake and Chuck Hillier, President of Council.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 13, 2005

City of Eastlake - Lake County

Report on Accounting Methods

Purpose

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

Accordingly, this report centers upon the following: (1) whether the current accounting system fulfills the needs of the City, and (2) whether the current accounting system is in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State.

This report presents in narrative form the major transaction cycles of the City and certain other key activities that affect the accounting and reporting functions. Each section of the report identifies the key elements necessary for an effective system, the related statutory requirements from the Ohio Revised Code, Ohio Administrative Code, and the City Charter, the City's process, and the Auditor of State's comments for correction or improvement. Information for this report was obtained by interviewing City personnel, observing operations, and reviewing pertinent accounting, financial and budgetary records during the period of July through November 2004.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the City of Eastlake. We were not engaged to, nor did we perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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Governance Overview

The City of Eastlake (the “City”) is located in northeast Ohio in Lake County. The City is a home rule municipal corporation established under the laws of the State of Ohio, which operates under its own Charter. The current Charter, which provides for a mayor- council form of government, was adopted November 3, 1953, and has subsequently been amended. Legislative authority is vested in a seven-member Council. Council members are elected to a four-year term. The Mayor is the chief executive and administrative officer who is also elected to a four-year term.

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

The Mayor is the chief executive officer of the City and serves a four-year term. The Mayor supervises the administration of the City and has the right to make recommendations to Council, to introduce resolutions and ordinances, and has the power to appoint various City officials. If the office of the Mayor becomes vacant, the President of Council shall fill the vacancy, until a successor is elected. The Mayor has the power to veto ordinances or resolutions within ten days after it is presented to him.

The Director of Finance serves as the chief fiscal officer of the City and is appointed by the Mayor and subject to confirmation by a two-thirds vote of the majority of Council. The Director of Finance is required to keep the financial records of the City. He shall keep the Mayor and Council fully advised as to the financial condition and needs of the City, and shall perform all other duties required by the City Charter, the Mayor, or by ordinance of Council, consistent with his office.

The following departments are also established by the City Charter:

1. Department of Law
2. Department of Public Safety
3. Department of Public Service
4. Parks, Recreation, and Public Lands

On May 18, 2004, the City was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Section 118.05 of the Ohio Revised Code. The Commission membership is as follows:

1. The director of budget and management or a designee;
2. The Mayor of the City or a designee;
3. The President of City Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals appointed by the Governor who are residents of the City who possess knowledge and experience in financial matters.

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Governance Overview

(Continued)

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

1. Review all tax budgets, tax levy ordinances and bond and note resolutions or ordinances, appropriation measures, and certificates of estimated resources, to ensure they are consistent with the financial recovery plan;
2. Inspect and secure copies of pertinent documents of the City;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the City;
4. Approve the City's financial recovery plan;
5. Oversee the financial operations of the City to insure compliance with the financial recovery plan;
6. Review, revise, and approve determinations and certifications affecting the City made by the County Budget Commission or the County Auditor;
7. Bring civil actions to enforce fiscal emergency provisions;
8. Approve the amount and purpose of any debt obligations;
9. Implement steps necessary to bring accounting records, accounting systems and financial procedures and reports into compliance with the Auditor of State's rules;
10. Make and enter into all contracts necessary or incidental to the performance of its duties;
11. Make recommendations for cost reductions or revenue increases to achieve a balanced budget; and
12. Annually, before April 1, make a report and recommendations to the Speaker of the House of Representatives and President of the Senate on the progress of the City.

This Commission was required to adopt a financial recovery plan for the City by October 4, 2004. By State statute, the City must operate within the provisions of the recovery plan.

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

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

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of Budget and Management, and the County Budget Commission, the Commission will be terminated.

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Budgetary System

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining how much and the type of financial resources that shall be raised, and how those financial resources shall be spent. An annually appropriated budget should be adopted, by ordinance, for all funds other than agency funds and the amounts appropriated for each fund should not exceed the estimated resources available for the year. The budget should present sufficient information to identify the major sources of revenues and the programs, activities and major objects of expenditures. The process should encompass current operations and maintenance for the various city departments, programs offered to its residents, capital acquisition and replacement, and debt retirement. The adopted budget should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized revenues and balances available for obligation.

Statutory Requirements

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

The Tax Budget: The County Budget Commission requires a tax budget containing levy information for all funds that receive property tax revenue to be submitted to the County Auditor as Secretary of the County Budget Commission, by July 20 of each year, for the succeeding year. The Budget Commission examines the budget to ascertain that all tax levies of the City are properly authorized. The Budget Commission also revises and adjusts the estimated receipts for property taxes and local government fund allocations. On or about October 1, Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

Certificate of Estimated Resources: The County budget commission issues an official certificate of estimated resources on or about September 1, based on information provided by the City in the tax budget and other information available to the budget commission. On or about January 1, the Finance Director certifies the actual year-end balances for all City funds to the budget commission. Upon receipt of the information, the budget commission issues an amended official certificate of estimated resources that includes the unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that the revenue to be collected by the city will be greater than or less than the amount included in the official certificate.

Appropriations Ordinance: On or about January 1, the annual appropriation ordinance must be enacted by city council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the city until April 1. The appropriation ordinance, by fund must be within the estimated resources as certified by the county budget commission. Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and within each, the amount appropriated for personal services. Any revisions that alter the appropriations at the levels adopted by Council must be approved by council. The city may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

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Budgetary System

(Continued)

No appropriation measure shall become effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the County Auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure.

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

Administrative Code Requirements

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means maintaining an accounting system that provides ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

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

Charter Requirements

Article IV, Section 6 of the City Charter requires the Mayor and Director of Finance to furnish Council with an annual estimate of revenues and expenditures for the succeeding year. The Director of Finance and the Mayor shall also provide to Council, not later than the second regular meeting of the month of January of each calendar year, an ordinance making appropriation for the expenditures of the City during the year. The ordinance is to be adopted by Council in its original form or with such revisions as it may find proper.

The appropriation ordinance shall be in such form and detail as may be required by the general laws of the State of Ohio, and may be amended or supplemented by Council by its passage, but appropriations shall not be made in excess of the estimated revenues of the City. The Council may make preliminary appropriations for current expenses sufficient in amount to meet the current needs until the annual appropriation ordinance has been enacted and is in effect.

City's Budgetary Process

The tax budget is prepared by the Finance Director and is based on prior year actual receipts and expenditures, current year actual and estimated receipts and expenditures, and estimates for the next year based on information available at the time of preparation. The tax budget is reviewed and adopted by the City Council prior to submitting it to the county budget commission. The tax budget for the next year is

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Budgetary System

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generally adopted by City Council on or around July 20. The Finance Director obtained an extension until August 3, 2004 for the completion of the tax budget for 2005. The 2005 tax budget was completed and approved by Council and filed with the county budget commission by the extension date. No public hearing was held for the 2005 tax budget. Council adopted a resolution to authorize the collection of tax levies in 2005 on September 28, 2004 and certified them to the county auditor on September 29, 2004.

After the close of the year, the Finance Director certifies the year-end fund balances to the county budget commission and requests an amended certificate of estimated resources that includes the unencumbered fund balances from the preceding year. The first amended certificate of estimated resources for 2004 was approved by the county on January 30, 2004.

The finance department maintains an Excel spreadsheet by fund and account for all estimated receipts as support for the certificate of estimated resources. New or revised estimates are posted to the accounting system by the Accounting Clerk.

Prior to the adoption of appropriations for the next year, all department heads are required to complete a departmental budget worksheet (system-generated) and a document explaining each line-item with significant increases to or decreases from the prior year. This information is returned to the Finance Department in October. The Finance Director and Human Resources Director complete the salaries and benefits portions of the departmental budget worksheet, based on current staffing levels. The Finance Department enters each department's budget request in the computer system, and generates a Budget Report. In December, the Mayor, Finance Director, and Council conduct budget hearings with each department head to discuss the "budget requested" column on the Budget Report. The Finance Director revises the Budget Report during the budget hearings. Once all budgets have all been agreed upon by the Mayor, Finance Director, Council, and the respective department heads, a revised Budget Report is submitted to Council for review. Council member's review the Budget Report, mark on it any changes or corrections, and return the Budget report to the Finance Director. The changes or corrections are posted and a final Budget Report is then printed and submitted to Council. By motion, Council gives their final approval and this serves as the basis for the permanent appropriations.

A temporary appropriation ordinance for 2005 was adopted by Council on December 28, 2004. The permanent appropriation ordinance was adopted by Council on March 22, 2005. Council establishes the legal level of control at fund and department and within each department the amount for personal services and other expenditures. The finance director further allocates these amounts to the various accounts within the personal services and other expenditure categories for each department. Appropriation changes within the Council appropriated amounts do not require Council approval. Any appropriation amendments to increase or decrease appropriations at the level adopted by Council must have Council approval.

All appropriation changes are entered into the City's accounting system by an Accounting Clerk within a week of approval of Council. For changes to the appropriations that do not require Council approval, informal notes are given to the Accounting Clerk by the Finance Director for posting. A printout is generated of all appropriation changes and given to the Finance Director for review.

The Finance Director prepares and monitors a monthly financial report that compares expenditures and encumbrances with the appropriations. This report is presented to the Mayor, Council and the department heads. When negative variances are identified, the Finance Director will discuss the variance with the respective department head. The Finance Director also reviews monthly revenue reports to determine if receipts are being received when he anticipates, and at the expected amounts.

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Budgetary System

(Continued)

Auditor of State Comments

- The allocation of Council approved appropriations are at the discretion of the Finance Director. The initial allocation is based on the departmental budget work sheets. Subsequent re-allocations are by informal notes to an accounting clerk from the Finance Director. The Finance Director should adopt procedures that require department heads to request in writing the desired appropriation changes. The Finance Director should review and, if it is appropriate and reasonable, may approve the request. Approval from the Mayor or other appropriate official should be obtained for amounts in excess of an amount defined in the policy. The request for change in allocation of appropriations should identify the line-items that are to be increased and those to be decreased and an explanation for the change.
- The City Charter requires the mayor and finance director to furnish council with an annual estimate of revenues and expenditures for the succeeding year by December 15 and shall advise the Council as to the financial condition and needs of the City including necessary appropriation measures. The mayor and finance director do not comply with the Charter requirement, rather the mayor, finance director, and council conduct budget hearings with the department heads in December 2003 to determine the department's appropriations for 2004. No estimated revenues were included in these hearings.
- The amount appropriated by fund is limited to the estimated resources as presented in the current amended certificate of estimated resources. The finance director should compare the proposed appropriations to the current amended certificate of estimated resources before an appropriation or supplemental appropriation ordinance is presented to council. This comparison should be documented and presented to council as part of the request for passage of the ordinance.
- The estimated receipts and appropriations entered into the accounting system should be reconciled to the current amended certificate of estimated resources and the aggregate of the annual and supplemental appropriation ordinances. The reconciliation should be performed each time amendments to these documents are approved and entered into the accounting system and the reconciliation should be documented.
- The finance director is responsible for estimating receipts and amending the certificate of estimated resources. The certificate of estimated resources may be amended as new resources are identified or actual receipts have or may exceed prior estimates and council desires to appropriate the additional resources, or when actual receipts will be less than prior estimates. Amendments to the certificate of estimated resources should not be driven by a need to increase appropriations unless supported by additional identifiable anticipated resources.
- The City should annually approve a five year forecast for its major operating funds and a ten year capital improvement plan (see page 47 for more information).

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Chart of Fund and Account Codes

Description of Effective Chart of Fund and Account Codes

Common terminology and classification should be used throughout the budgeting, accounting, and financial reporting activities. The consistent use of fund account codes is necessary to classify and summarize receipt and disbursement transactions. Fund codes should allow for the classification and identification of fund types and individual funds. Receipt and expenditure codes should allow the transactions to be summarized by major revenue sources or expenditure programs. Major object codes for expenditures should be used consistently throughout the various program and activity codes.

Statutory Requirements

The creation of funds is authorized by Section 5705.09, Revised Code. Section 5705.13, Revised Code, allows for the creation of funds for accumulated sick and vacation leave payoffs, the acquisition or construction of capital assets, and for the creation of a reserve for budget stabilization. Additional funds may be established under Section 5705.12, Revised Code, with the written approval of the Auditor of State.

Charter Requirements

Article X, Section 2 of the City Charter proves in part that the City may establish a fund known as the Improvement Fund. The monies for this fund may be advanced or expended from time to time by action of Council for public improvements not otherwise provided for.

Methods Used by the City

The City, by ordinance, establishes funds as required by the Ohio Revised Code. In 2003, the City established the Capital/Stadium Improvement (416) and the Stadium/Vine Project (421) funds in the last supplemental appropriations ordinance. An Accounting Clerk assigns each fund a number that reflects its fund type classification. These include: 100-General; 200s-Special Revenue; 300s – Debt Service; 400s – Capital Projects; 500s – Enterprise; 600s – Trust; 700s – Agency. Account codes are assigned by management based on a chart of accounts. The City has no written guidelines for assigning account codes for revenues and expenditures. The Finance Director and the Accounting Clerk in charge of computer operations are permitted to assign fund numbers and account codes.

Auditor of State Comments

- The City has established funds by including them in an appropriation ordinance. This practice does not document the intended purpose of the fund. Funds should be created by resolution and in accordance with Sections 5705.09, 5705.12 and 5705.13, Revised Code. The resolution should identify the purpose of the fund, the sources of revenue, and any restrictions placed upon the expenditures.
- The City does not have a document that describes its chart of accounts. The City should development a document that explains the account code structure and the meaning of the various dimensions used in the account codes.
- The finance director should approve all fund and account codes before they are added to the system.

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Accounting Ledgers

Description of Effective Accounting Ledgers

The accounting ledgers of the City should allow for ongoing and timely information on estimated and actual revenues, disbursements and encumbrances, comparison of expenditures to the appropriation authority, available cash balances for each fund, and the available treasury balance. The information captured for each transaction should allow the transaction to be trailed throughout the ledgers and back to the document that originated the transaction.

Administrative Code Requirements

Section 117-2-02(A) of the Ohio Administrative Code requires that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Ohio Administrative Code Section 117-2-03.

Section 117-2-02(C)(1) of the Ohio Administrative Code states that all local public offices should integrate their budgetary accounts into their financial accounting system at the legal level of control or lower. The accounting system should provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Section 117-2-02(D) of the Ohio Administrative Code states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides and should consider the degree of automation and other factors. Such records should include the following:

Cash Journal - The cash journal is the book of original entry for recording all cash receipts and disbursements processed in the Finance Director's office. The cash journal presents receipts deposited to and warrants drawn against the City treasury and the fund to which the receipts and warrants were recorded. Entries to the cash journal are posted sequentially by date from source documents such as pay-in orders and warrants. The related pay-in order or warrant number, account codes, and date are also recorded for each transaction. At the end of each month, month-to-date totals and year-to-date totals are recorded.

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

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

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Report on Accounting Methods

Accounting Ledgers (Continued)

Methods Used by the City

The City uses a fund accounting package (CMI) to maintain its accounting records. The software integrates estimated receipts and appropriations by fund and account. The Software program allows for the accumulation and aggregation of budget and actual information. Detailed receipt, expenditure, and encumbrance information is accumulated by fund, revenue source, and expenditure program, department, and object code. The software provides month and year-to-date information and detailed or summary information for receipts and expenditures. CMI also provides software for income tax operation, bank and treasury functions, and capital assets management.

The Finance Department prepares daily, monthly, and annual backup tapes of the CMI system, and stores them in a fireproof safe and at the Great Lakes Storage Facility.

The City Income Tax Department also prepares daily backup tapes, using mini-cartridges, and stores them in a fireproof safe. The Police and Fire Departments prepare daily tape backups that are stored in their respective records areas. Various other personnel in City Hall departments store Excel and Word programs on floppy disks.

The City has a verbal agreement with the cities of Willowick and Willoughby for disaster recovery. Both of these cities utilize CMI software; however, their versions are the newer versions of the software.

Auditor of State Comments

- The City does not have written month or year-end closing procedures. These procedures should be documented and maintained in the Finance Department.
- The City has a verbal agreement with the cities of Willowick and Willoughby for disaster recovery. There is no guarantee that their systems, which are considerably more updated, will be able to work with the City of Eastlake's data. The agreement should be in writing and the City should update its computer software to ensure it is compatible with the cities of Willowick and Willoughby.
- The City should consolidate and update their computer backup procedures and test them to ensure they work and that the backups are viable.

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Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent identification and recording of each receipt. Receipts should be promptly recorded, safeguarded, and deposited. The receipt or pay-in-order form should be a consecutively pre-numbered multi-part form. The receipt should bear the name of the entity and reflect the date received, the payer, amount, the purpose, or nature of the receipt, account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payer. All receipts or pay-in-orders should be recorded in the cash journal and receipt ledger in a timely manner. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, deposit of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38, Revised Code, provides that a person who is a public official, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited. If the public office of which the person is a public official is governed by a legislative authority, only the legislative authority may adopt such a policy.

Charter Requirements

Article X, Section 4 requires that all funds received on behalf of the City by any officer, employee or agent thereof, shall be promptly paid over to the Director of Finance, and promptly placed in the depository bank.

City Method for Recording Receipts

Finance Department

The Finance Department issues receipt books to all departments to use as documentation for receipts. The receipts are two-part forms and pre-numbered. The range of numbers, purpose, and date issued to department, and date returned from department is kept track of in a log maintained by the Receivables Account Clerk. Receipts are given to all customers.

All departments, except income tax, remit their daily receipts to the Finance Department using a department deposit sheet. The department deposit sheet identifies the revenues sources and corresponding account numbers and lists all receipts in numeric order. The Finance Department issues pre-numbered, two part pay-in-orders to all departments for their daily receipts. The current pay-in-order book used by the Receivables Account Clerk is stored in her desk during working hours and locked in the safe at night. Blank pay-in-order books are kept in the filing cabinet.

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Report on Accounting Methods

Revenue Activity (Continued)

The Finance Department also receives receipts through the mail, by wire transfer and from individuals. The mail is sorted by the Finance Department secretary daily and sent to the appropriate department. The Income Tax Department receives their own mail. The Secretary opens the mail, date stamps it, and places all checks and remittances and wire transfer notices in a folder marked "revenue" at the Receivables Account Clerk's desk. The Receivables Account Clerk prepares a pay-in-order for each receipt and attaches the original pay-in-order to the supporting documentation. The original pay-in-order and supporting documentation are filed by revenue source in the Finance Department. The duplicate copy of the pay-in-order is left in the pay-in-order book. A deposit slip is prepared for each receipt or a batch of receipts and the checks and deposit slips are placed in a cash box next to the Receivables Account Clerk's desk awaiting the end of day deposit.

Payments from individuals include building permits and fees and garbage, water, and sewer bills. Any available Finance Department employee will attend to the individual making a payment to the Finance Department. The Finance Department employee receives a remittance form and payment and prepares a receipt. The type of payment determines which of three receipt books is used. The individual is given the original receipt and the duplicate is left in the receipt book. The Finance Department also enters the receipts for building permits and fees and garbage, water, and sewer bills into a cash register which does not provide printable receipts and places the payment in the cash drawer.

The receipt book for building permits and fees is in a drawer next to the cash register. Receipts for building permits and fees are the only receipt prepared in triplicate. The individual presents the building permit prepared by the building department which shows permit cost, and receives a portion of the permit back with the original receipt. A portion of the two-part permit is retained with a copy of the receipt by the finance department. The third copy of the receipt is left in the receipt book. The portion of the building permit retained and a copy of the receipt are placed in a drawer next to the cash register. The payment is entered into the cash register and the money is placed in the cash drawer.

The Finance Department issues a receipt for the payment of garbage bills from the receipt book designated for garbage bills. The remittance form and payment are kept at the Receivable Accounts Clerk's desk during the day. The payment is entered into the cash register and the money is placed in the cash drawer. The City is in the process of implementing a billing system for the garbage bills.

The City receives on behalf of Lake County, payment from the City's residents for water and sewer services. Lake County bills city residents for water and sewer services. Water service is provided by Lake County and the City provides sewer services. All billing information is maintained by Lake County. A receipt is prepared for each customer using the receipt book designated for water and sewer bills. The remittance form and payment are kept at the Receivable Account Clerk's desk.

At the end of the day, the Receivables Account Clerk totals the remittance information for building permits and fees, garbage bills and water and sewer bills. A register report is generated that shows a total for each revenue source. The payments in the register are counted and totaled. The register report totals by revenue source are compared to the totals for the remittance information forms and the total checks and currency from the cash register drawer. A separate pay-in-order and a deposit slip is prepared by the Receivable Account Clerk for building permits and fees, garbage bills and Lake County water and sewer bills. The remittance information for building permits and fees is stapled to the original copy of the pay-in-order and filed by revenue type in the Finance Department. The remittance information for garbage, water and sewer bills is filed with the original copy of the pay-in-order and filed by revenue type in the

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Report on Accounting Methods

Revenue Activity (Continued)

Finance Department where it awaits further processing. The garbage bills will be used to update customer accounts and the water and sewer bills will be sent to Lake County. The duplicate copy of the pay-in-order remains in the pay-in-order book. The deposit slip from the bank is stapled to the back of the duplicate copy of the pay-in-order by Receivables Account Clerk.

The Receivables Account Clerk receives the daily collection from various City departments. Each department delivers the collections and a department deposit sheet. The department representative waits while the Receivables Account Clerk re-computes the total receipts and verifies that receipts are listed in numerical order. The Receivables Account Clerk writes the account codes and totals on a pay-in-order from the department deposit sheet, attaches the original copy of the pay-in-order to the department deposit sheet and returns it to the department representative. The Finance Department does not retain a copy of the department deposit sheet as support for the receipts for that department. A deposit slip is prepared and the money and deposit slip are placed in a cash box next to the Receivables Account Clerk's desk until the end of day deposit. Most departments bring receipts to the Finance Department daily between 3:30 and 4:30 in the afternoon. The Police and Fire department and Clerk of Council only deposit money when they have a substantial amount of receipts.

The duplicate pay-in-orders are used to enter the account code information and revenue amount into the City's accounting software in batches by Finance Department personnel when convenient. The batch number is written on the duplicate pay-in-order.

The Assistant Finance Director takes the deposits to the bank, in a cloth money bag, and waits for the deposit to be counted. The deposit slip receipt from the bank is stapled to the back of the appropriate pay-in-order by the Receivables Account Clerk

Every Thursday, the Finance Department Secretary calculates from the pay-in-order and billing stubs the water and sewer collections from Thursday of the prior week through Wednesday of the current week. A weekly Water and Sewer Collections report is prepared, which shows the total collections for the period and year and the number of water payments for the period and year. A handwritten voucher and check are prepared for the total of the water and sewer collections. The water and sewer bill stubs and the check are remitted to the Lake County Utilities Department. Lake County remits monthly to the City the amount of gross sewer receipts received by Lake County. Annually, the City receives five cents for each water payment it collected for Lake County. The check is compared to the number of payments on the final Water and Sewer Collections report times the appropriate fee.

At monthly staff meetings, each department head is provided with a report showing their revenues for the month. The department heads then compare this report to the department prepared accounts receivable reports to see if all revenues are included. Most of the differences are a result of the date of revenue entry into the City's accounting software and the date the revenues are actually received by the various departments.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity (Continued)

Recreation Department

The Recreation Department receives payments for recreation programs, building rentals and auxiliary police (security). The recreation department also receives the receipts from the Senior Center and Municipal Pools. The Recreation Department has a receipt book for each type of receipt. The Recreation Department Secretary receives all payments and prepares all receipts. The original receipt is given to the payer, the duplicate receipt is retained in the receipt book, and the payment amount is recorded on the department deposit sheet.

The senior center secretary or the director delivers the daily receipts for the Senior Center in the afternoon. The recreation department secretary receives the payments, a daily summary sheet for ceramic supplies with the original receipts stapled to the back, and a department deposit sheet for ceramic and art lessons. The recreation department secretary verifies the receipts to the daily summary sheet and those receipts for ceramic and art lessons are listed in numeric order on the daily summary sheet. The recreation department secretary issues a receipt for the total received from the senior center and the amount is recorded on the Recreation Department's deposit sheet.

The Municipal Pool managers deliver the daily receipts for swimming lessons, rentals, pool passes, and daily admissions to the Recreation Department. The recreation department secretary receives a packet that includes the payments, a daily summary sheet, and one part of the daily admission tickets. The collections are verified to the daily summary report. The amount on the Pool's daily summary sheet is entered on the Recreation Department's deposit sheet by revenue type.

At the end of each day, the secretary totals the department deposit sheet and delivers the collections and department deposit sheet to the Finance Department. When the Finance Department returns the verified department deposit sheet and original pay-in-order, the recreation department secretary writes the pay-in-order number on the corresponding department deposit sheet and the daily summary sheets for the Municipal Pools and senior center and staples the pay-in-order to the department deposit sheet. The Recreation Department's deposit sheet is used to produce a list of receipts for the month that is provided to the Department Director and kept on file in the Department.

Senior Center: The Senior Center receives payments for ceramic and art classes and ceramic supplies and has a receipt book for classes and one for ceramic supplies. The Senior Center secretary prepares a receipt for all payments from the appropriate receipt book. For ceramic supplies, the duplicate receipt is given to the payer and the original is stapled to a daily summary sheet. For lessons, the original receipt is given to the payer, the duplicate receipt is retained in the receipt book, and the amount is recorded on a department deposit sheet by receipt number. At the end of the day, the senior center secretary or director takes all payments to the Recreation Department along with the daily summary sheet for ceramic supplies with the original receipts stapled to the back and the department deposit sheet for ceramic and art lessons.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity (Continued)

Municipal Pools: The Municipal Pools receive payments for annual passes, rentals, swimming lessons, and daily passes. The pools have a receipt book for annual passes and rentals and another for swimming lessons. A two-part ticket is used as proof of payment for daily admissions. The original receipt or one part of the ticket is given to the payer. For annual passes, one pass is completed and given to the individual and a second is completed and placed in a file box. The pool cashier receives all payments and prepares all receipts for all transactions except daily admissions where the second half of the ticket serves as the City receipt. At the end of the day, the pool manager totals the collections and compares it to the receipts issued for the day and the value of the daily passes sold and completes a daily summary report. The daily summary report includes the range of receipt numbers, range of ticket numbers, quantity sold, and a total by revenue type. All revenues are taken to the Recreation Department along with the daily summary report and a part of the daily admission tickets. Payments received over the weekend are kept in the police department in a locked file cabinet and brought to the Recreation Department on Monday by the Police Department Secretary.

Police Station

The Police Station receives payments for parking tickets, witness fees, and copies of accident reports and photographs. They do not receive any receipts for bail bonds, because all court activity is done through the City of Willoughby. The Police Station has a receipt book for parking tickets and a receipt book for other various receipts. Receipts are written from the appropriate receipt book by the Police Station Secretary or by the dispatchers after normal business hours. The original receipt is given to the payer; the duplicate receipt is retained in the receipt book.

When a substantial amount of receipts exists, the police department secretary prepares a department deposit sheet. The department deposit sheet lists the payment amount and receipt number and summarizes the receipts by type. The police department secretary delivers the payments and department deposit sheet to the Finance Department. When the Finance Department returns the verified department deposit sheet and the original pay-in-order, the police department secretary writes the pay-in-order number on the department deposit sheet. The department deposit sheet is used to produce a list of receipts for the month that is provided to the Department Director and kept on file in the Department.

The parking ticket is not kept by the City. The receipt book for parking tickets is used to update the police software that tracks the tickets for payment by a Records Clerk. The duplicate receipt contains the parking ticket number. The software is used to send letters to offenders whose tickets are past due.

Police Substation

The Police Substation receives payments for parking tickets, various permits, and false alarm charges. The Police Substation has a receipt book for parking tickets, another for alarm permits and false alarm charges and a third for all other permits. Receipts are written from the appropriate receipt book by the police substation secretary. The original receipt is given to the payer, the duplicate receipt is retained in the receipt book, and the amount is recorded on the department deposit sheet. Receipts are prepared for payments received by mail for false alarm charges and alarm permits from the appropriate receipt book by the police substation secretary. The original receipt is placed in the permit holders permit file, the duplicate receipt is retained in the receipt book, and the revenue amount is recorded on the department deposit sheet.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity (Continued)

Every month the police substation secretary is provided with a list of false alarm calls. The list is used to send a bill to any offender who has exceeded the number of allowable false alarm calls by looking at the permit holder's folder. If the offender does not have a permit folder a letter is sent notifying the offender of City policy requiring an alarm permit.

When a substantial amount of receipts exists, a department deposit sheet is prepared listing the receipts in numerical order. The receipts are also summarized by type. The police substation secretary delivers the payments and department deposit sheet to the finance department. When the Finance Department returns the department deposit sheet and original pay-in-order, the police substation secretary writes the pay-in-order number on the department deposit sheet. The department deposit sheet is used to produce a list of receipts for the month that is provided to the Department Director and kept on file in the Department.

The parking ticket is not kept by the City. The substation make a copy of the receipt book for parking tickets and sends it to the police station. This information is used to update the police software that tracks the tickets for payment by a Records Clerk.

Service Department

The Service Department receives payments for permits, yard waste bag sales and other miscellaneous revenues. The Service Department has a receipt book for permits, another for yard bag sales and a third for all other revenues. Receipts are prepared for permits from Service Department prepared documentation, yard bag sales and other miscellaneous receipts from the appropriate receipt book by the service department secretary. The original receipt is given to the payer, the duplicate receipt is retained in the receipt book, and the receipt number and amount are recorded on the departmental deposits sheet. The amounts recorded are summarized by receipt type at the end of the day and taken to the Finance Department by the service department secretary at the end of each day. When the Finance Department returns the department deposits sheet and original pay-in-order, the service department secretary writes the pay-in-order number on the Department Deposit sheet. The department deposit sheet is used to produce a list of receipts for the month that is provided to the Department Director and kept on file in the Department.

Income Tax Department

The City levies a tax of two percent on all salaries, wages, commissions and other compensation, and on net profits earned within the City as well as on the incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed by the City. Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City. It is mandatory that all City residents and corporations file tax returns.

The annual income tax forms are mailed to city residents and businesses in the last week of December each year. The annual tax return is due by April 30. A declaration of estimated taxes for the new year is included as part of the annual return. Estimated tax payments are due quarterly and statements are sent out April 1, June 1, September 1, and December 1.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity (Continued)

Employers are required to remit employee withholdings quarterly. The quarterly statements are mailed to employers during the last week of December, March, June, and September and are due on the 20th of the succeeding month.

The Income Tax Department receives payments in various ways. Payments are sent by mail, paid in person, or dropped in the locked drop off box in front of City Hall. The Income Tax Administrator empties the drop off box daily and gives the sealed envelopes to the Income Tax Assistant. The income tax assistant also receives the department's mail from the finance department and handles the tax payments that are brought in person to the Income Tax Department. A receipt is prepared from the Income Tax Department receipt book for in person payments. The original is given to the taxpayer, the duplicate remains in the receipt book and the remittance form is placed on the Income Tax Assistant's desk with the payment. The Income Tax Assistant opens the envelopes, stamps the remittance form with the date received, and places the payment on top of the remittance form.

The Income Tax Administrator prepares a daily excel spreadsheet showing the amount received, check number, amount paid, account number and type of payment (withholdings, estimated payments, etc.) from the daily receipts. A deposit slip is prepared by the Income Tax Administrator and the total collection is taken to the bank where it is deposited into the Tax Department Account. The daily excel spreadsheet and appropriate documentation are given to the Income Tax Assistant, who enters the income tax information into the income tax software to update accounts. A Deposit Journal Report reflecting the receipts posted for the day is printed at the end of the day by the Income Tax Assistant and verified to the daily excel spreadsheet.

The Income Tax Administrator produces a computer generated monthly report. The report lists by day the total receipts by type (withholding, business, individuals, etc.). This report is used by the Income Tax Administrator to reconcile the bank statement.

The first time a check is returned "NSF" to the City a twenty-five dollar charge is assessed to the taxpayer and a new payment is requested. If the taxpayer has a second check returned "NSF", a fifty dollar charge is assessed, and the taxpayer account is marked unpaid.

Refunds are paid based on processed income tax returns. When refunds are to be paid a report is generated that identifies all pending refunds. The Income Tax Assistant then notifies the Finance Department that the checks are ready to be printed. The refund checks are signed by the Income Tax Administrator. At year end, a federal form 1099 is prepared for each taxpayer who received a refund. A federal 1096 "Annual Summary and Transmittal of US Information Returns" is prepared and forwarded by the Income Tax Assistant to the Internal Revenue Service.

Every month, the deposit slips, monthly bank statement, monthly reconciliation, refunds, and monthly Daily Receipts Total report are given to the Finance Department. A pay-in-order is prepared by the Finance Director for the entire month's revenues. The original pay-in-order is kept with all other supporting documentation in the Finance Department.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity (Continued)

A list of delinquent taxpayers and filers is printed when all April income tax returns have been entered into the system. The computer system automatically assesses the applicable interest and penalties to the respective taxpayers' accounts. Every month a Balance Due Detail report is printed, which identifies taxpayers whose accounts are past due after April 30. When an account is past due or the taxpayer does not file, the taxpayer is sent a letter. After three letters, a notice to appear before the Income Tax Administrator is sent. If the taxpayer does not appear, the account is sent to a collection agent if under \$1,000. If the delinquent account is over \$1,000, the City Prosecutor is sent the account.

The income tax software keeps track of all taxpayers in the City. Throughout the year, the income taxpayer list is compared to the annual list of State income tax filers in the zip code of 44095. Any individuals who filed with the State and not the City are contacted by letter if their address is in the City of Eastlake. The City will only issue permits to contractors if their income tax records are up to date and they are current on their payments.

Taxpayers are not removed from the City tax rolls without submitting proof to the Income Tax Department they no longer live in the City. Once proof is submitted, the taxpayer is marked "inactive" in the City Income Tax System. The account will not be included on the list of income tax filers for the next year's income tax return mailing.

Fire Department

The Fire Department receives payments for copies and has a receipt book for copies. The Fire Department Secretary receives the payments and prepares the receipts. The original receipt is given to the payer, the duplicate receipt is retained in the receipt book, and the payment is recorded on a department deposit sheet. The department deposit sheet and payments are taken to the Finance Department by the Fire Department Secretary when a substantial amount of receipts has accumulated. When the Finance Department returns the department deposit sheet and original pay-in-order, the Fire Department Secretary writes the pay-in-order number on the department deposit sheet. The Fire Department Deposit sheet is stapled to the original pay-in-order and filed by the Fire Department Secretary in the Fire Department.

Clerk of Council

The Clerk of Council receives payments for copies and has a receipt book for copies. Receipts are prepared by the Clerk of Council Secretary. The original receipt is given to the payer and the duplicate receipt is retained in the receipt book. The payments and receipt numbers are recorded on the department deposit sheet on the day payments are taken to the Finance Department. This occurs when a substantial amount of receipts has accumulated. When the Finance Department returns the department deposit sheet and original pay-in-order, Clerk of Council Secretary writes the pay-in-order number on the department deposit sheet, staples the original pay-in-order to the department deposit sheet, and files in the Council office.

Stadium and Stadium Parking

The City has leased its stadium to the Lake County Captains, a division A minor league baseball team for the Cleveland Indians. The agreement gives the Lake County Captains use of the stadium and the City twenty-five cents for every sold ticket, up to \$75,000 each year and all parking revenues.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity (Continued)

Parking passes may be purchased in advance or on the day of the event. The City uses a volunteer group, the Recreational Youth Board of Eastlake, to sell parking passes for the City. Prior to the event, the volunteers pick up a bag containing a change fund of \$300 and the two-part parking tickets from the police department. Event goers give the volunteer a pre-purchased parking pass or four dollars. The money or parking pass is placed in a pocket of the volunteer's apron. If the volunteer is given four dollars, one part of the two-part pre-numbered ticket is given to the event goer and the other part of the two-part ticket is placed in the volunteer's apron.

At the end of the night all the tickets are counted and the total is compared to the amount of revenues collected. A parking lot reconciliation sheet is filled out listing beginning and ending parking pass numbers, number of parking passes sold and the amount of money collected. The Parking Lot Reconciliation sheet, used and unused parking passes, pre-purchased parking passes, receipts, and the change fund are placed in a bag which is given to the Police Station for safe keeping. The bag is given to the Finance Department the next day. The Receivables Account Clerk verifies the contents of the bag to the parking lot reconciliation sheet and records the amounts on a receipt from the parking ticket receipt book. The receipt information is then used to create a pay-in-order. A deposit slip is filled out and placed with the receipts in the cash box next to the Receivables Account Clerk's desk. The Receivables Account Clerk then fills out a sheet that tracks the difference in parking passes sold and cash collected, which is sent to the Recreational Youth Board of Eastlake for their use. The Parking Lot Reconciliation sheet and original receipt is attached to the white copy of the pay-in-order and kept in a file in the Finance Department marked with its revenue type. The used tickets and parking passes are filed in the Finance Department.

Auditor of State Comments

- The Finance Department issues hand written receipts to the individuals for building permit and fees and garbage, water, and sewer utility payments. An account clerk will also enter/ring up the payment in a cash register. Both the hand written receipts and a report from the cash register are used to total the receipts for the day. The finance director should look into a more sophisticated cash register that at least can produce a receipt and possibly aid in posting the receipts.
- The Finance Department issues receipt books to various departments to be used as documentation for receipts. The finance department allows each department to have several receipt books at one time, each used for a specific type of receipt. This practice should be terminated. Receipts should be issued from one book at a time and summarized by date and type of receipt on the department deposit sheet.

The Finance Director should inquire of the software vendor about using the computer system/accounting software to process and generate receipts in all departments. The computer system/accounting software would allow receipts to be entered once at the point it is received and provide the ability to print receipts. These changes would eliminate the need for multiple receipt books in each department and reduce the time and effort needed to post receipts.

City of Eastlake - Lake County

Report on Accounting Methods

Revenue Activity

(Continued)

- In reviewing the receipt process throughout the City, any review, approval or verification by management was absent from the process. The finance director should review and determine the extent of management's review, approval, or verification that should exist at each collection point, implement control procedures to be followed by management, and periodically test the procedures to determine if there is compliance with the control procedures.
- The income tax administrator generates and signs the income tax refund checks. The income tax administrator also processes income tax receipts and deposits the money. Besides these functions being incompatible, the finance director should be the only official authorized to sign City checks, including income tax refund checks.
- The finance department has an account clerk that tracks and reports to the Recreational Youth Board the overages and shortages in the parking ticket collections from the events at the stadium. There appears to be no oversight by City officials and/or the Recreational Youth Board. A general policy is needed for overages and shortages in cash collections and procedures should be established for management to follow when overages and shortages occur.
- The Finance Director should have the procedures used in the recording of receipts throughout the City documented and maintained in the finance department. The procedures should be tested frequently to ensure that procedures are followed, that there is adequate segregation of duties, and that inefficiencies are corrected.
- Several City departments do not provide adequate security over the receipts during the day. Receipt should be kept in a secured place until deposited with the finance department.
- The City does not post receipts to the system on a daily basis. Receipt should be posted daily.
- The City does not have the software set up for the billing and collection of garbage fees.
- In all departments, the same person should not be counting cash, completing daily cash reports and taking the deposit to the Finance Department. In the Income Tax Department, the income tax administrator counts the cash, completes the daily income tax reports, takes the deposit to the bank, signs refund checks, and reconciles the bank account. The finance director needs to remove from the income tax administrator those functions that are not compatible such as the bank account reconciliation and signing of the refund checks and establish compensating controls over the depositing and recording of receipts.

City of Eastlake - Lake County

Report on Accounting Methods

Purchasing Process

Description of an Effective Method for Purchasing

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and the purchasing should be integrated with the budget. The process should include selection of the vendor with the best price as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds stating that the amount has been appropriated and is encumbered. All purchase orders should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements

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

Certification of the Fiscal Officer - Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing year, the amount required to meet the obligation in the year in which the contract is made, has been lawfully appropriated for such purposes and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrance. This certificate need be signed only by the subdivision's fiscal officer.

Blanket Certification of the Availability of Funds - The subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that does not extend beyond year end in an amount established by resolution of City Council. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine recurring type items or for unanticipated emergencies. An itemized statement of obligations incurred and expenditures made under such certificate shall be rendered to the auditor or other chief fiscal officer before another such certificate may be issued, and not more than one such certificate per appropriations line item shall be outstanding at a time.

"Super" Blanket Certification of the Availability of Funds - The super blanket certification permits the fiscal officer to certify any amount from a specific line item appropriation. The certification is authorized to be outstanding for any period up to the end of the fiscal year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained and provided by the fiscal officer.

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor or appraiser by or on behalf of the subdivision or contracting authority; fuel oil, gasoline, food items, roadway materials and utilities; any purchase exempt from competitive bidding under Ohio Revised Code Section 125.04 and any other specific expenditure that is a recurring and reasonably predictable operating expense.

City of Eastlake - Lake County

Report on Accounting Methods

Purchasing Process

(Continued)

Then and Now Certification - It is intended that the fiscal officer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate both at the time the order was placed (then) and at the current time (now) a sufficient sum was appropriated for the purpose of such contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. If the amount exceeds \$3,000, the City Council has thirty days from receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the City.

Authority to Contract - Contracts are made by the City Council and executed in the name of the City by the Mayor and the Director of Finance, except as otherwise specified by statute.

Bidding - All contracts calling for expenditures in excess of \$15,000 (City charter limitation is \$7,500) shall be in writing and made to the lowest and best bidder. Council must authorize and direct all such expenditures. Exceptions to the bidding requirements include contracts for:

1. Personal services of a specialized nature;
2. Goods and services when only one source is available;
3. Work to be done or for the purchase of supplies and materials in any department of the City if real and present emergency exists;
4. The purchase of used equipment and supplies at a public auction or at a sale where bids are required by all parties wishing to purchase;
5. Purchases from other political subdivisions and agencies; and
6. Goods purchased under the State Cooperative Purchasing Program.

Findings for Recovery Database - Effective January 1, 2004, Ohio law (ORC section 9.24) prohibits any state agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.

The Auditor of State has established a database pursuant to Section 9.24, Revised Code, in order to list all persons who have unresolved findings for recovery, dating back to January 1, 2001. To comply with Section 9.24, Revised Code, the Auditor of State's office recommends that before entering into a public contract as described above, a state agency or political subdivision verify that the person does not appear in this database.

Delinquent Personal Property Taxes - Section 5719.042, Revised Code, provides that after the award by a taxing district of any contract let by competitive bid and prior to the time the contract is entered into, the person making a bid shall submit to the district's fiscal officer a statement affirmed under oath that the person with whom the contract is to be made was not charged at the time the bid was submitted with any delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the county treasurer within thirty days of the date it is submitted

City of Eastlake - Lake County

Report on Accounting Methods

Administrative Code Requirements

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

Charter Requirements

Article X, Sections 5 provides that contracts will not be made for a period extending beyond a single fiscal year. Section 6 provides that no expenditure, other than the compensation of City employees, shall be made in excess of 50 percent of the State competitive bidding requirements, except pursuant to a contract made with the person, firm or corporation whom Council determines to be the lowest and best responsible bidder, after public advertising and receipt of bids in the manner provided by the laws of the State of Ohio. Article IV, Section 6 requires that the Mayor and the Director of Finance execute on behalf of the City, all contracts, conveyances, evidences of indebtedness, and other instruments to which the City is a party and shall at the first regular meeting in January report to Council concerning the affairs of the City.

Methods Used by the City

The City’s purchasing procedures require that a purchase requisition be prepared for all purchases and be approved by an appropriate official or department head. The purchase price is determined by contacting the vendor, choosing the best quote or bid, or using past purchase records.

A vendor list is maintained by the Finance Department. New vendors are added to the list as needed by the Finance Department. The new vendor is contacted for billing information when the purchase price is obtained. The vendor information is then written on the requisition form and entered into the City’s accounting software by the Accounting Clerk when the purchase order is entered. The Finance Department provides new vendors with the City’s tax exempt number, billing address and contract information. The vendor is required to provide remittance information and a completed IRS Form W-9. The Finance Department updates the vendor file with the new information.

Any purchase over \$500, unless routine requires three quotes. Services or any purchases over \$7,500, unless statutorily exempt, are bid. A requisition form (single copy) is filled out by the originating department personnel with the date, vendor name and address, description of the items and quantities, unit price, extended amounts, total, department requesting purchase and account numbers. The requisition form is signed by the originating department director and if applicable, the best quote is attached.

The completed requisition is hand delivered to the Finance Department. Anyone available in the Finance Department verifies that funds are available in the applicable account code and a “check mark” is placed next to the account number. If insufficient appropriations are available, the department head is contacted. If the department head needs the purchase to be made, appropriation changes are discussed and approved at the next staff meeting or the Finance Director permits a negative appropriation to exist. If appropriations are available, the next available purchase order number from the purchase order log maintained in a three-ring binder is written on the requisition. The Finance Director initials all requisition forms, which have been verified by the Finance Department staff, to indicate the purchase order can be entered into the system.

City of Eastlake - Lake County

Report on Accounting Methods

Purchasing Process

(Continued)

The requisition form is sent back to the originating department where the department secretary enters the information into the purchase order program in the City's accounting software. The information is usually entered the day the requisition form is approved by the Finance Department. The Service Department sometimes does not enter the requisition until an invoice is received by the Finance Department. After the information from the requisition has been entered, purchase orders are printed by the Finance Department at the request of each department. Departments usually request purchase orders to be printed when all the purchase orders have been entered for the day or earlier, if the purchase order is needed immediately. In the purchase order log binder, kept by the Finance Department, the purchase order number and description of the item to be purchased is highlighted in yellow to indicate that the purchase order has been printed.

The three-part, pre-numbered purchase order is picked up by the originating department and is signed by the department head after verifying all information from the requisition form has been entered correctly on the purchase order. The signed purchase order and the requisition form are then brought back to the Finance Department where the Finance Director verifies that the information on the purchase order matches that on the requisition form. Once verified, the Finance Director signs the purchase order, and it is distributed as follows:

1. White - Original is given to the originating department who calls or faxes it to the vendor.
2. Yellow - The requisition form is attached and it is filed alphabetically in the Finance Department by vendor and later matched to the invoice for payment.
3. Pink - Used to place a "red check mark" next to the purchase order number in the purchase order log book to indicate the purchase order is complete and then is filed in the Finance Department numerically as support for the purchase order log binder.

A then/now certification is issued for all purchases made without a purchase order. A blanket purchase order is used for utility bills or routine purchases of supplies and chemicals. Blanket purchase orders are effective for a period of one year and blanket purchase orders for supplies and chemicals are effective for a period of one month. A list of blanket or super blanket purchase orders is kept in log books by the Accounts Payable Accounting Clerk.

Services or any purchases over \$7,500, unless statutorily exempt, are required to be by bid by the City Charter. The Finance Director, City Engineer (if needed), Department Head, Mayor and Service Department Secretary (if needed) attend the bid openings, review the bids and prepare a recommendation for City Council. Bid Minutes are taken. All bids are sent to the Finance Department Secretary who places the bids, checks, and bid bonds in the Finance Department safe. The winning bid is decided upon by Council and awarded.

The Finance Department Secretary sends the company awarded the bid a notification and a contract is drawn up. The bid bonds of the unsuccessful bidders are returned along with a letter notifying them of the successful bidder. The Finance Department Secretary sends the contract to the Law Director for review and then the company is sent five copies of the contract and City income tax forms to be completed and returned to the Income Tax Department. The successful bidder returns five signed copies which are signed by the Finance Director and Mayor. The five executed copies are distributed to the company that was awarded the contract, department being serviced, Council, Payables Account Clerk and Finance Director. The Finance Department Secretary creates the purchase order from the Finance Director's copy and files it.

City of Eastlake - Lake County

Report on Accounting Methods

Purchasing Process

(Continued)

Auditor of State Comments

- Some departments do not enter into the City's accounting system the purchase order information upon approval of the purchased requisitions. This prevents an accurate determination by the Finance Department of sufficient appropriations on future purchase requisitions. The Finance Department should enter the purchase order information from the approved purchase requisitions into the accounting system and generate the purchase orders on the same day that the requisitions are approved.
- Purchase order dates are not the dates the purchase order is printed and signed. Employees should not back date the purchase orders in the City's accounting system.
- Purchase orders, as required by Section 117-2-02(C) of the Ohio Administrative Code, should be generated and approved before goods or services are ordered.
- The City does not utilize the Auditor of State Findings for Recovery Database when entering into contracts. Section 9.24, Revised Code, prohibits any state agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.
- The City should not issue purchase orders to a vendor until all appropriate information about the vendor is received including an IRS Form W-9 and the finance director has approved the use of the new vendor. Vendor approval should be based on a City policy.
- The City uses a three part purchase order form. The original copy is sent to the originating department rather than the vendor and there is no copy to use as a receiving copy/report. The City should use a four or five part purchase order form. The original copy should be mailed to the vendor and the remaining copies used as follows:
 - a copy attached to the requisition and filed in the finance department;
 - a copy to be used as a receiving copy that is attached to the packing slip and returned to the finance department; and,
 - a copy held in the finance department and matched with the receiving copy and invoice and included in the voucher for payment; and,
 - a copy that may be retained by the requesting department (optional).
- Purchases should be authorized only if sufficient appropriations are available. State law prohibits expenditures in excess of amounts appropriated. The system feature that prevents the issuance of purchase orders/encumbrances from exceeding appropriations should not be over-ridden by staff or management.

City of Eastlake - Lake County

Report on Accounting Methods

Purchasing Process

(Continued)

- The process to obtain an approved purchase order requires the exchange of a purchase requisition several times between a department and the finance office. This process is time consuming, inefficient, and results in requisitions not processed timely and inappropriate dates entered into the accounting system. The City should obtain from its software vendor the ability for departments to complete and approve purchase requisitions on-line and the finance office to generate purchase orders from the same information. The implementation of this process would eliminate several of the issues above, reduce the flow of paper between the departments and the finance department, and decrease the amount of time needed to get a purchase order approved and issued

If the City implements an on-line requisition system, it should re-assess the requisition and purchase order process to ensure that appropriate management approvals exist and are documented, adequate documentation is generated and maintained (on paper and/or within the system), and that the process is documented and retained in the Finance Department.

City of Eastlake - Lake County

Report on Accounting Methods

Cash Disbursements

Description of an Effective Method for Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the City. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips or receiving copy of the purchase order, a comparison of the prices on the invoice to the purchase order, and verification of a the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount and account codes, and should include a copy of the purchase order, invoice and receiving report or a signed billing slip. A warrant should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data), a properly executed certification by the Finance Director, and confirmation that there is adequate cash in the fund to pay the obligation. All warrants should be signed by the Finance Director and recorded in the cash journal and appropriation ledger. Vouchers should be filed numerically or by vendor.

Statutory Requirements

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

Warrants - Expenditures may only be made by a proper warrant drawn against an appropriate fund. The warrant must show upon its face the appropriation from which the expenditure is made and the fund it is drawn upon.

Restrictions - Money is drawn from the City treasury only for appropriations enacted y the City Council. Appropriations from each fund may be used only for the purposes of such fund.

No Certification - If no certificate is furnished as required, upon receipt by the City of a certificate of the fiscal officer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the City may authorize the drawing of a warrant in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than three thousand dollars, the fiscal officer may authorize it to be paid without such affirmation of the taxing authority of the subdivision or taxing unit, if such expenditure is otherwise valid.

Administrative Code Requirement

Section 117-2-02(C) (3) of the Ohio Administrative Code states “vouchers may be used as a written order authorizing the drawing of a warrant in payment of a lawful obligation of the public office”. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information.”

Charter Requirements

Article X, Section 3 provides that no money shall be drawn from the Treasury nor shall any obligation for the expenditures of money be incurred, except pursuant to appropriations made by Council. The Director of Finance and/or the Mayor shall have the power to require evidence that the amount of each claim is justly due and is in conformity to law and related City legislation.

City of Eastlake - Lake County

Report on Accounting Methods

Cash Disbursements (Continued)

City's Method for Cash Disbursements

All invoices are either mailed to the receiving department or to the Finance Department. The City also accepts faxed invoices. All invoices received by the finance department are sent to the department that made the purchase. Here the items, quantities and vendor name and address on the invoice are compared to the packing list and the original copy of the purchase order, and the invoice amounts are recomputed. If there is a problem with a purchase (backorders, items that need to be returned, dissatisfaction with good or service), the Finance Department is notified to place a hold on the payment until the problem is corrected or the backorders are received. A correct invoice is stamped "received" to indicate that it has been reviewed. In addition, the invoices that have been approved for payment are marked "okay to pay" and the original purchase order, invoice, and packing slip are sent to the Finance Department for payment.

All approved invoices, packing slips, and original purchase orders are returned to the Finance Department for final processing. The yellow copy of the purchase order and requisition are matched to the documents from the department. The accounting clerks also compare the invoices to the purchase order items, quantities, vendor name, address, and amounts. If there are any discrepancies between the invoices and purchase order (shipping not included, bad estimating), the Finance Department will notify the department head to investigate. Once the discrepancy is resolved, the purchase order is released for payment and any needed corrections are entered in the City's accounting software.

Approved invoices are attached to a voucher, which include the white and yellow copy of the purchase order, packing slip, and invoice. Due to budget constraints, check runs are performed as cash is available. The Finance Director determines whether there are sufficient funds for the payment of bills. Vouchers are approved by the Finance Director and entered into the computer in batches of about 25 vouchers. An adding machine tape is run on the vouchers and the total is compared to the total on the computer edit report to ensure they match. The Payables Accounting Clerk then prints the checks and compares the checks to the vouchers to verify that the vendor name and address, purchase order number and amount are accurate. The checks are run through a check signing machine containing the Finance Director's signature. The key for the signature machine is stored in the office safe after business hours. During business hours, the key is placed in the locked cash register in the Finance Department. All unused checks are stored in a locked room which is only accessible to employees in the Finance Department. Vouchers are filed numerically in cardboard boxes in the Finance Department.

An outstanding purchase order report is generated monthly and the Receipts Accounting Clerk reviews it for any purchase orders over 90 days old. For those purchase orders over 90 days old, the department head is contacted to determine if the purchase order should be closed or remain open.

Manual checks are used for emergency purposes and for employee reimbursements for tools, uniforms, or boots.

Purchase orders are not generated for engineering services done by the City's engineering firm, CT Consultants, due to the number of invoices received on a monthly basis.

City of Eastlake - Lake County

Report on Accounting Methods

Cash Disbursements

(Continued)

Auditor of State Comments

- The Finance Department should document the procedures for cash disbursements including the staff positions and their functions. The document should also include procedures for invoices exceeding the purchase order/fiscal office certification of funds and the use of “Then and Now” certifications. The document should be kept on file in the Finance Director’s office.
- The Finance Department allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the Finance Director should request, by resolution, Council approval of an advance from the general fund. The resolution should state how and when the advance will be repaid.
- Invoices are received by the various departments and the finance department. All invoices should be mailed to the finance department and date stamped with the date received. Invoices for services should be sent to the appropriate department, matched with the copy of the purchase order, approved for payment by the department head, and returned to the finance department. Invoices for goods should match with the purchase order and packing slip by the finance department rather than the receiving department holding the packing slip and purchase order until an invoice is received.
- When goods ordered by a department are received, the person receiving the goods should verify the goods received to the packing slip and the receiving copy of the purchase order, sign off on the packing slip and purchase order as proof that the verification process was completed. The packing slip and receiving copy of the purchase order should be sent to the finance department.
- The finance department does not issue purchase orders for engineering services done by the City’s engineering firm, CT Consultants because of the number of invoices received on a monthly basis. The City should have a contract with CT Consultants and an itemized invoice defining the cost of services provided to the City. The City should be authorizing and encumbering an estimated cost for each project in which the firm has been authorized to perform work and the firm should submit itemized invoices.

City of Eastlake - Lake County

Report on Accounting Methods

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of the payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and Federal and State taxes should also be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain current pay schedules, information of the benefits that the employee has selected, withholding forms and any other information required by Federal and/or State laws. Safeguards should be in place to ensure that the same individual does not hire personnel, authorized pay rates, process payroll, generate and distribute pay checks, and reconcile the bank accounts.

Charter Requirements

Article V, Section 13 states that Council has the power to fix the salary of its own members and of each officer, employee and member of any department, board or commission of the City whether elected or appointed except as otherwise provided by the Charter. Any such person may be required, by Council, from time to time to furnish bond in such sum as the Council shall determine and with such surety as shall be approved by the Mayor; and the Council may provide that the premium for any such bond shall be paid the City. The compensation of the Mayor, each member of Council, and any other elected official shall be fixed at least 30 days before the time for the filing of the nominating petitions for the terms beginning on the next succeeding first day of January, and shall not be diminished or increased during such terms.

Article VII provides that the civil service of the City be divided into the unclassified and classified service as defined by the laws of the State of Ohio and appointments to and promotions in the civil service of the City shall be made only according to merit and fitness to be ascertained as far as practical by competitive examinations. No person shall be appointed, removed, transferred, laid off, suspended, reinstated, promoted, or reduced as an officer or employee in the civil service of the City except as provided by the general laws of the State of Ohio.

The Mayor shall appoint three people to constitute the Civil Service Commission (Commission) of the City, provided that members of the existing Civil Service Commission of the City shall continue in office for the terms for which they have been appointed and until their successors are appointed and qualified. The term of office of the members of the Commission shall not exceed six years and any vacancy occurring other than expiration of term shall be filled for the unexpired portion of the term only and in the manner designated above for the original appointments.

City of Eastlake - Lake County

Report on Accounting Methods

Payroll Processing (Continued)

Methods Used by the City

All full and part time employees are compensated biweekly except Council, the Law Department, Planning Commission Clerk, and auxiliary police who are paid monthly. 133 full time employees and 83 part time employees are paid bi-weekly over twenty-six pay periods. The pay period begins on Sunday and ends on Saturday two weeks later. Pay checks are distributed on the following Friday. The monthly employees pay period begins on the first of the month and ends on the last day of the month. Pay checks are distributed on the Friday following the last pay period in the month for bi-weekly paid employees. All employees are paid in accordance with the City's pay ordinance or bargaining contracts. Employees receive an earnings statement with each pay that indicates gross and net pay, withholdings (year-to-date and for the pay period) and leave usage during the pay period and leave balances as of the end of the pay period.

Personnel files are kept in the Human Resources Department and Finance Department. The Finance Department file contains forms for tax information, benefit information, direct deposit information, voluntary deductions, and wage information. The Human Resources Department files contains wage information, position information, hire date and any other information the City chooses to retain about the employee. The employee record in the City's accounting software also contains the information kept in the Finance Department. The employee record is only updated by the Payroll Officer when a Status/Payroll Change Report is completed and signed by the appropriate department head and Mayor.

Non-Bargaining Unit Employees - City Ordinance 2004-003 establishes the rates and ranges of pay for all positions, vacation and sick accrual, retirement contributions and benefit packages for all employees not covered under a union contract. The General Administration Ordinance, which set rates of pay, is reviewed and passed by Council in January each year.

The departments covered by the City Ordinance 2004-003 prepare a payroll summary sheet based on the Employee Time Sheets. All employees have a swipe card that is used to track employee arrival time and departure time at City Hall through card readers at entrances. A bi-weekly Employee Time Sheet report is printed every pay period for each employee by the Finance Department and sent to the appropriate department. Only employees who work in City Hall sign their Employee Time Sheet and verify that their hours are correct. The department director uses the Employee Time Sheets and the Request for Leave forms to fill in the Payroll summary sheet and sign it. The Employee Time Sheet shows the arrival time, departure time, and actual hours worked each day. If there is a difference between the expected hours worked and actual hours worked, the department director notes on the Employee Time Sheet the leave type and hours taken from the information on the Request for Leave forms. Then the Payroll summary sheet is filled in from the updated Employee Time Sheet. The department directors send the Payroll summary sheet, Employee Time Sheet and Request for Leave forms to the Finance Department.

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

City of Eastlake - Lake County

Report on Accounting Methods

Payroll Processing (Continued)

Service, Park, and Recreation - The non-administrative service, park and recreation employees' salaries and benefits are governed by a negotiated agreement between the City of Eastlake and Local 3058, and Ohio Council 8, American Federation of State, County and Municipal Employees, AFL-CIO. The contract covers the period of January 1, 2004 to December 31, 2004. The contract contains detailed information pertaining to compensation, fringe benefits, absences, and leave accruals. The non-administrative service, park, and recreation employees are eligible to earn overtime compensation.

Police Sergeants and Lieutenants - The police sergeants and lieutenant's salaries and benefits are governed by a negotiated agreement between the City of Eastlake and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of January 1, 2004 to December 31, 2004. The contract has detailed information pertaining to compensation, fringe benefits, absences, and leave accruals. Police Sergeants and Lieutenants are eligible to earn overtime compensation.

Police Patrolmen - The police patrolmen salaries and benefits are governed by a negotiated agreement between the City of Eastlake and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of January 1, 2004 to December 31, 2004. The contract has detailed information pertaining to compensation, fringe benefits, absences, and leave accruals. Police Patrolmen are eligible to earn overtime compensation.

Police Dispatchers - The police dispatchers' salaries and benefits are governed by a negotiated agreement between the City of Eastlake and the Fraternal Order of Police, Ohio Labor Council, Inc. The contract covers the period of January 1, 2004 to December 31, 2004. The contract has detailed information pertaining to compensation, fringe benefits, absences, and leave accruals. Police Dispatchers are eligible to earn overtime compensation.

Fire Fighters - The fire fighters salaries and benefits are governed by a negotiated agreement between the City of Eastlake and the International Association of Fire Fighters, Local 2860, AFL-CIO. The contract covers the period of January 1, 2004 to December 31, 2004. The contract has detailed information pertaining to compensation, fringe benefits, absences, and leave accruals.

The departments covered by the non-administrative service, park and recreation employees' union prepare a payroll summary sheet based on the Employee Time Sheets. All employees have a swipe card that is used to track employee arrival time and departure time at City Hall. A bi-weekly Employee Time Sheet is printed every pay period for each employee by the Finance Department and sent to the appropriate department. Employees do not sign their Employee Time Sheet to verify the hours are correct. The department director uses the Employee Time Sheets and the Request for Leave forms to fill in the Payroll summary sheet and sign it. The Employee Time Sheet shows the arrival time, departure time, and actual hours worked each day. If there is a difference between the expected and actual hours worked, the department director notes on the Employee Time Sheet the leave type and hours taken from the information on the Request for Leave forms. Then the Payroll summary sheet is filled in from the updated Employee Time Sheet. The department directors send the Payroll summary sheet, Employee Time Sheet and Request for Leave forms to the Finance Department.

City of Eastlake - Lake County

Report on Accounting Methods

Payroll Processing (Continued)

In the Police and Fire Departments, employees' hours worked are tracked by supervisors and shift heads on an Eastlake Police Department Payroll Summary Sheet or Eastlake Fire Department Payroll Summary Sheet. The department directors update the payroll summary sheet based on this information and on the Request for Leave forms. The department directors sign and send the Payroll Summary sheet and Request for Leave forms to the Finance Department. The employees do not sign the Eastlake Police Department Payroll Summary Sheet or Eastlake Fire Department Payroll Summary Sheet.

Elected Officials - City Ordinance 2004-003 establishes the rates and ranges of pay for the Council and Mayor. The Council members are paid \$583.33 per month. The President of Council is paid 683.33 a month. The Mayor's salary will be at least \$1 more than the highest paid Department Head. Council is paid monthly and the Mayor is paid biweekly.

Overtime and Compensatory Leave - Employees work overtime in all the departments at the discretion of the department head. The overtime rate paid is straight time for department heads and time and a half for all other employees. Compensatory time is earned in place of paid overtime as straight time for department heads and time and a half for all other employees. All City employees, except the Fire Department, agreed to forgo the choice of paid overtime in 2004. They still will earn compensatory time for overtime worked. To keep track of compensatory time earned for overtime work that is not paid, a Daily Time Record of Worked Performed for the City of Eastlake is filled out by the employee. The daily time record shows the day worked, the hours of overtime worked and the amount of compensatory time earned. If the Fire Department employees chose to be paid overtime, the department head sends a report to the Finance Department letting the payroll officer know what overtime is to be paid that pay period. Fire Department employees are encouraged to choose compensatory time over overtime pay. The overtime paid is accounted for in a separate line item in the department budget. The overtime budget is discussed at monthly departmental meetings, attended by the Finance Director, the Mayor and the respective department head, to try and keep overtime within budget.

Leave - Vacation, personal and sick leave is credited to each employee at the appropriate accrual rates indicated in the negotiated agreement or City Ordinance. All departments make use of the same Request for Leave form. This form is filled out before the employee takes any leave time, except sick leave for illness, and is approved by the department directors. Leave usage is posted in the payroll system by the Payroll Officer based on the submitted Request for Leave forms. The computer system automatically tracks all leave balances and prints them on the employee's pay stub. If the employee uses more leave time than the employee has available, the employee is not paid for the hours not worked.

Payroll Deductions - Payroll, tax, and retirement forms are distributed to each new employee to be completed and returned to the Finance Department. The Finance Department enters the employee's demographic and salary information into computer. The Finance Department creates the employee record and notifies the appropriate retirement system of each new hire that is required to become a member.

Payroll deductions for OPERS, Ohio Police and Fire Pension System and Medicare are processed through the payroll system. After the last pay period in each month, a report is run for OPERS and the Ohio Police and Fire Pension System to determine the employer's share for each retirement system. The OPERS report and payment are due the thirtieth of the following month and the Ohio Police and Fire Pension System report is due the thirtieth of the month following the last month of the quarter.

City of Eastlake - Lake County

Report on Accounting Methods

Payroll Processing **(Continued)**

Payroll Processing - Payroll summary sheets are due to the Payroll Officer by Monday of the week following the last day of the pay period. The Payroll summary sheet has a list of employee names and provides the following information for each employee by payroll account code: regular hour worked, overtime hours worked and vacation, sick, holiday and personal hours used. The Payroll Officer verifies the information on the Payroll sheet and enters the regular hours worked, leave taken, overtime hours worked (if paid) and compensatory hours earned (if overtime is not paid) from the Payroll summary sheets into the City's accounting software in batches by departments. When a batch is entered, a Detail Batch Report showing hours worked and hours taken off is printed and is compared to the Payroll summary sheets.

On the Thursday of the pay week, the blank payroll checks are removed from the safe in the Finance Department where the checks are stored, are printed and individually signed by the Finance Director. At the time the payroll checks are given to the Finance Director to sign, he is also given a payroll report showing the gross payroll for the pay period and all the payroll deductions by employee. The printed and signed checks are kept in individually labeled envelopes in the Finance Department awaiting the City employees, who pick up their pay checks on Friday from the Payroll Officer. Any checks not picked up on Friday are placed in the safe and mailed on Monday. The gross payroll total is transferred into the payroll checking account by the Finance Director after all payroll checks are signed. From the payroll checking account, electronic fund transfers are made for direct deposit, and for federal and state taxes, when due. Checks are printed for the remaining payroll deductions, such as OPERS, Ohio Police and Fire Pension, City taxes and child support garnishments and mailed to the appropriate vendors.

Retirement - When an employee wishes to retire, the City requires them to provide a resignation letter. The City receives various communications from the Ohio Public Employees Retirement System (OPERS) or Ohio Police and Fire Pension Fund (OP&F) verifying that they are retiring under OPERS or OP&F. OPERS or OP&F is sent notification of the employee's last working day and payroll information. After the employee's last payroll information is entered into the City's computer software, an Employee Record is printed. The Employee Record shows the outstanding leave balances for sick, holiday, and vacation. The leave balances along with employee name, retirement date, pay-rate, and longevity information are entered into the Final Pay Computation form. This form documents the severance amount owed to the retiring employee.

Auditor of State Comments

- The procedures used to process payroll should be documented and on file in the Finance Director's office. The procedures should specifically address the duties, processes, and segregation of duties involving the payroll process.
- The City should have written procedures on working and the payment of overtime. The procedures should also address the earning of compensatory time in lieu of the payment of overtime. The City should set a maximum amount of hours that may be accrual in a year and a maximum balance that may be carried by an employee for compensatory time.

City of Eastlake - Lake County

Report on Accounting Methods

Payroll Processing **(Continued)**

- The same employee who processes payroll should not have access to, or make changes to the employee master file. These duties should be separated. The human resource/personnel department should be responsible for the initial creation of an employee master file and entering the appropriate compensation based on a signed document from the appointing authority. Withholding amounts and rates and the related authorization form should be processed and retained by the finance department.
- Employees in all departments should sign their time sheets.

City of Eastlake - Lake County

Report on Accounting Methods

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before any debt is issued, a resolution authorizing the issuance of debt should be passed by Council. The statute authorizing the issuance should be identified in the resolution as well as the purpose of the debt, the principal amount, the maturity, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of the Council and the Finance Director. Debt proceeds should be receipted into a separate fund and used only for the purpose specified in the authorizing resolution. Money to be used for debt payment may be receipted in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. Specific statutes relating to cities are found in Chapter 7. The statutory requirements vary depending on the nature of the debt being issued.

Charter Requirements

Article X, Section 8 provides that the laws of Ohio relating generally to the debt of the City shall be applicable to this City.

City's Debt Administration Process

The City monitors debt payments by line item in the accounting records and by appropriating by line item for principal and interest payments.

The City's outstanding long-term obligations are as follows:

City of Eastlake - Lake County

Report on Accounting Methods

Debt Issue	Interest Rate	Principal Outstanding June 30, 2004	Pledged Revenues
General Obligation Bonds			
1993 City Hall Construction	2.25-5.60%	\$2,805,000	Property Taxes
1993 Sewer System Refunding	2.25-5.15%	1,320,000	Property Taxes
1993 Capital Improvements Refunding	2.25-4.80%	2,805,000	Property Taxes
2002 Capital Facilities	2.55-6.00%	8,180,000	Property Taxes
2002 Tax Exempt Capital Facilities	2.00-5.00%	4,380,000	Property Taxes
Total General Obligation Bonds		<u>19,490,000</u>	
Special Assessment Bonds			
1990 Breakwall Improvements		<u>5,000</u>	Special Assessments
OPWC Loans			
1995 Lakeshore Boulevard Sewer Improvement	0.00%	21,136	Special Assessments
1999 North Parkway Sewer Improvement	0.00%	37,500	Property Taxes
2000 East 337th St. Road Improvement	0.00%	72,520	Property Taxes
2001 Stevens Boulevard Sewer	0.00%	41,767	Property Taxes
2001 Parkland Drive Sewer	0.00%	21,172	Special Assessments
2003 East Overlook Storm and and Sanitary Sewer Improvement	0.00%	25,598	Special Assessments
2004 Roberts Road Improvement	0.00%	<u>150,000</u>	Special Assessments
Total OPWC Loans		<u>369,693</u>	
Bond Anticipation Notes			
Pedestrian Bridge	2.00%	250,000	Property Taxes
Recreation Land Acquisition	2.00%	670,000	Property Taxes
Municipal Stadium	2.00%	2,350,000	Property Taxes, Stadium Revenues
Real Estate Acquisition	2.00%	980,000	Property Taxes, Stadium Revenues
Municipal Stadium	3.75%	4,100,000	Property Taxes, Stadium Revenues
Municipal Stadium	2.25%	<u>5,215,000</u>	Property Taxes, Stadium Revenues
Total Bond Anticipation Notes		<u>13,565,000</u>	
Other			
Honeywell Loan	n/a	210,490	Property Taxes
Capital Leases	n/a	<u>51,927</u>	n/a
Total Other		<u>262,417</u>	
Total Debt		<u><u>\$33,692,110</u></u>	

The funds for payment of principal and interest of the general obligation bonds, special assessment bonds, notes, and Honeywell loan are accounted for and paid from the debt service fund. The OPWC loans are paid from the road improvements and sewer rehabilitation funds. The capital leases are paid from the general fund.

Auditor of State Comments

- The City does not have a process for monitoring debt payments that identifies each payee, description, fund and account number, periodic payment amounts and other information related to each issue.
- When the City issues notes, the Finance Director should notify the County Auditor that such notes have been sold and request an amended certificate of estimated resources. Receipts for the notes should be redirected to the debt service fund.

City of Eastlake - Lake County

Report on Accounting Methods

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

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

A physical inventory of materials and supplies should be performed annually to determine the value to be reported in the financial statements. The annual physical inventory should be adequately planned and supervised.

Administrative Code Requirements - Section 117-2-02(D)(4)(c) of the Ohio Administrative Code, requires that all local public offices should maintain fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.”

City’s Method of Accounting for Capital Assets

The City has written policies for capital assets. The policies established a capitalization threshold of \$500. When the City implemented GASB Statement No. 34 in 2003, they increased the threshold amount to \$2,500. Capital assets with a cost of \$2,500 or more are reported as capital outlay for budgetary reporting and entered into the capital assets inventory. The capital asset inventory is the basis for the amounts reported in the financial statements. Assets which do not meet the threshold amount are accounted for as expenditures. The classification of assets includes land, buildings, improvements other than buildings, machinery, vehicles and equipment, sewer lines, roads and bridges, and construction in progress. All assets are capitalized at cost or estimated historical cost. Maintenance costs are not capitalized. Improvements that will add additional life to the asset or increase the asset’s service capacity are capitalized.

The City uses a software program from CMI to account for its capital assets. Two of the accounting clerks are responsible for the management of the City’s capital assets. One accounting clerk is responsible for all additions and entering them into the computer system and the other accounting clerk is responsible comparing the list of additions to the source documents and generating the year-end reports for preparation of the external financial statements.

Additions

Capital asset additions are identified by the accounts payable accounting clerk. The accounting clerk copies the invoice and purchase order and attaches them to a capital asset addition form. Capital asset additions are entered in the system on a monthly basis. A copy of the invoice and the purchase order is attached to a capital asset input form by the Accounting Clerk for assets of larger amounts (over \$10,000). Purchase orders and invoices are not attached to the form for small asset acquisitions (under \$10,000).

City of Eastlake - Lake County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

The capital asset input form includes the acquisition date (date of the invoice), useful life, specific description, the appropriation code from which the asset was purchased, purchase order number, serial number, and tag number. The Accounting Clerk uses this form to enter the information into the capital asset system. The Accounting Clerk is responsible for assigning all assets a tag/asset number.

The Finance Department assigns a unique tag number or an asset number that will not change during the life that the asset is the inventory of the City. All capital assets are physically tagged with a numbered tag by the Accounting Clerk with the exception of land and land improvements, buildings and improvements, police guns and bullet-proof vests, and any other assets to which it is physically impossible to affix a tag. These assets have a system-generated asset number assigned and either marked or imprinted on the asset.

After an asset is disposed of that tag/asset number will not be reassigned to any other capital asset. A "D" is placed in the front of the tag/asset number in the computer system to inform the user that this number has already been used. The record for the asset is never deleted from the system.

Some of the departments outside of City hall have a set of capital asset tags to use during the year. These tags are assigned and given to them by the Accounting Clerk in the Finance Department. Those departments that are not assigned tags will inform the Accounting Clerk responsible for tagging assets that they have a new asset, and she will assign a tag number and send it to the department. The department will also update their year-end department inventory reports with the untagged assets by writing that the asset listed does not have an assigned tag/asset number.

At year end, the Accounting Clerk will obtain an Accounts Payable Account Distribution Report for the entire year to ensure that all assets with a 5000 series object code and a value of \$2,500 or more have been entered into the capital assets system as additions during the year.

Also at year end, each department is sent a Departmental Inventory Report from the Finance Department, with all of their assets listed, along with a letter requesting the department heads to review the report and report any changes. Changes could include an asset with no tag number, assets that were deleted or transferred during the year and assets that were acquired by other departments and not included on the report. Upon receiving the reviewed departmental reports, the Accounting Clerk reviews them for any changes indicated in the Capital Asset Inventory Report. Any changes are updated and entered into the computer system.

The Accounting Clerk who is responsible for reviewing the additions and capital asset inventory reports is also responsible for ensuring that depreciation has been calculated properly by the computer system for all capital assets. The Accounting Clerk uses a chart that has the suggested useful lives of capital assets listed. Depreciation is calculated on a straight-line basis, and begins at the time of purchase of the asset.

Donated Assets

When an asset is donated to the City, there is an entry in the minutes of the City. The Accounting Clerk researches the accounts payables system for a similar item recently purchased by the City, and uses that amount for the estimated fair value.

City of Eastlake - Lake County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

Deleted/Transferred/Traded/Stolen/Lost/Scrapped Assets

The City has a form that is to be filled out when there is a change in an existing capital asset (transferred, sold, traded, stolen, lost, and scrapped); however, it is not used. Instead, the department notifies someone in the Finance Department by stating the circumstance on their Departmental Inventory Reports that are given to them at year end. The Accounting Clerk in the Finance Department updates the computer system.

The Accounting Clerk that reviews the final capital assets information uploads the information from the computer system report into excel spreadsheets at year end for the consulting firm responsible for compiling the City's financial statements and for Council when requested. The excel worksheets are easier for laymen to read than the reports from the computer system.

Prior to 2003, the City did not account for infrastructure. With the implementation of GASB Statement No. 34 in 2003, the City's Infrastructure assets were completed by CT Consulting, an engineering firm, for 2003.

Consumable Inventory

The City does not have a written policies or procedures for consumable inventory. Around mid-October, the Finance Department sends a memo to all department heads, informing them to conduct their physical inventory for the year, and to have it completed by mid-December. The department heads are also given pre-numbered inventory sheets which must be signed by the department head when completed. If the department does not use all the sheets assigned, all the sheets are signed by the department head and left blank. All inventory amounts must be extended and totaled by page, and a tape with a total for the department is required.

When the inventory sheets are returned to the Finance Department, the Accounting Clerk looks for any blank pages for each department. When one is found, she writes "no entry" across the page. The Accounting Clerk then renumbers the pages by department, and creates a spreadsheet with the totals by department.

Auditor of State Comments

- The Finance Department should update their existing capital asset policies to include the new capitalization threshold amount and the procedures for acquisitions and disposals of assets. The policies and the procedures should be maintained in the Finance Department.
- The Finance Department should enforce the use of their form FA-1, Changes in Fixed Assets, to report disposals and transfers during the year. Department heads should be responsible for approving the completed form for each disposal/transfer prior to or when it occurs.
- The City should assign tags and asset numbers to assets at the time they are delivered to ensure that all assets acquired are accounted for. All asset tags should be kept in the Finance Department, and sent out to the respective departments. Asset numbers should be assigned by the Finance Department and sent to the respective departments along with a list of the descriptions of the assets and their purchase order numbers.

City of Eastlake - Lake County

Report on Accounting Methods

Capital Assets and Supplies Inventory

(Continued)

- The City maintains control and accountability over all capital assets with a cost of \$2,500 or more. These assets are reported in the City's year-end financial statements. However, the City does not account for or control those assets with a value of less than \$2,500. While these assets are not reported in the year-end financial statements, they represent a significant number of assets and cost that, if lost or stolen, there is no proof of their existence for insurance purposes. In addition, the existence and quantity of these assets is not controlled and a replacement program does not exist. The City needs to develop policies to account for assets with a value under \$2,500.
- The City should develop and implement written policies and procedures for consumable inventory.
- A physical inventory of consumable supplies should be taken as close to December 31 as possible. The finance director should implement procedures to monitor the delivery/receipt of new supplies and the consumption of supplies from the date of the physical inventory to year-end so that the value is appropriately adjusted and fairly presented in the financial statements. The date the inventory was taken should be displayed on the inventory sheets. All departments should submit their inventory sheets within a reasonable period after the completion of the physical inventory.

City of Eastlake - Lake County

Report on Accounting Methods

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by the City should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Reconciliations should be completed on a monthly basis. The books should be closed at the end of the last business day of the month and processing of transactions for the new month should commence the following business day. The reconciliations should be completed immediately upon receipt of the bank statement. Reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items such as unrecorded deposits and bank charges should be posted upon completion of the bank reconciliation.

Statutory Requirements

Interim cash should be invested according to Section 135.14 of the Ohio Revised Code. The deposits of public money should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes. Cash management and investment activities of a city are additionally governed by Sections 135.01 to 135.22 of the Ohio Revised Code.

Section 135.14(O)(1), Revised Code, states, "Except as otherwise provided in divisions (O)(2) and (3) of this section, no Finance Director or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the Finance or governing board. The policy shall require that all entities conducting investment business with the Finance Director or governing board shall sign the investment policy of that subdivision.

Section 135.14(O)(2), Revised Code, states, "if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Finance Director or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits pursuant to division (B)(3) of this section, no-loan money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section."

Section 135.14 (O)(3), Revised Code, states, "Divisions (O)(1) and (2) of this section do not apply to a Finance Director or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the Finance Director or governing board certifies, on a form prescribed by the Auditor of State, that the Finance Director or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code."

Section 135.22, Revised Code, requires the Finance Director to attend annual training programs of continuing education for Finance Directors provided by the Treasurer of State.

Section 9.38, Revised Code, requires that monies received by the City to be deposited on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the total amount of the monies received does not exceed \$1,000, the City shall deposit the monies on the next business day following the day of receipt, unless the City adopts a policy permitting a different time period, not to exceed three business days following the day of receipt, and the monies are safeguarded until they are deposited.

City of Eastlake - Lake County

Report on Accounting Methods

Cash Management and Investing
(Continued)

Charter Requirements

Article X, Section 4 requires that Council, by ordinance, shall provide for the custody of all funds of the City and for the deposit of funds as provided by the Uniform Depository Act of the State of Ohio. All funds received on behalf of the City by any officer, employee or agent shall be promptly paid over to the Director of Finance of the City, and by him promptly placed in the depository bank. Council, however, may authorize such sums as it deems proper to be kept in cash for the daily operations of any department or office.

Interim funds in the Treasury of the City depository may be invested from time to time in such manner as is now or hereafter may be authorized by the general laws of the State of Ohio for the investment of active, inactive, and/or interim funds of the City.

The City's Method of Cash Management and Investing

The City's treasury activities are the responsibility of the Finance Director. These activities include the acquisition and sale of investments and the transfer of cash assets among the various bank accounts. The City has several checking accounts and investments.

Bank Account

Huntington Accounts Payable	This account is used to pay obligations of the City.
Huntington Tax Department	This account is used for the deposit of income tax receipts from the lock box and refunds to residents.
Huntington Payroll	This account is used for the payment of payroll.
Huntington Money Market	This checking account holds monies confiscated from drug busts.
Bank One	This account holds monies received from the Federal government.
KeyBank	This account holds amusement tax monies received from the Lake County Captains minor league baseball team.
Breakwall Construction Manuscript Bonds	This account hold monies for the remaining principal due on a manuscript bond used to construct a breakwall along the lake line.
STAROhio	This is an investment pool operated by the Treasurer of State which allows governments within the State to pool their funds for investment purposes.

The Huntington accounts payable account serves as the primary bank account which receives all applicable wire transfers and deposits of the City. Transfers are made from this account to the payroll and other accounts. Checks are written against this account for the daily operations of the City.

City of Eastlake - Lake County

Report on Accounting Methods

Cash Management and Investing

(Continued)

The City receives all cancelled checks from Huntington on a monthly basis for the accounts payable and payroll accounts. In addition, they receive a CD monthly that has imaging of all cancelled checks from the accounts payable, payroll, and income tax accounts. The disks are kept in a locked plastic CD case on the Finance Director's desk. The Payables Accounting Clerk and Tax Assistant use the cancelled checks received from the bank to clear cancelled checks from the accounts payable, payroll, and Income Tax system. The Accounts Receivable Accounting Clerk prepares the monthly bank reconciliation for the accounts payable account, the Bank One account, the KeyBank account, and the Huntington money market account. The Computer Operation Accounting Clerk prepares the monthly bank reconciliation for the payroll account. The Tax Administrator prepares the monthly bank reconciliation for the tax department/lock box account. The Accounts Receivables Accounting Clerk then compares the sum of all reconciled bank accounts to the fund cash balances. When the reconciliations are completed, they are reviewed and signed off by the Finance Director. The reconciliations are filed in the Finance Director's office.

The Accounts Receivable Accounting Clerk reviews the account coding and verifies their receipt postings to the bank deposits as part of the monthly bank reconciliation process. Any discrepancies found during the review are noted on the bank statement and adjustments are made during the reconciliation process. Payroll transfers are done by the Finance Director and are verified to the transfers listed on the bank statement for accuracy. Interest is posted in the following month to the general fund, stadium R & I fund and Eastlake Economic Development fund.

Voided accounts payable and payroll checks have "void" written on them by the Accounting Clerk printing the check. The Accounts Receivable Accounting Clerk numerically files the voided checks in the Finance Director's office. Any accounts payable and payroll checks that have not yet been used are also filed in the Finance Director's office.

The investment policy addresses authorized investments and liquidity. The purpose of the investments is to maximize the returns on the City's excess cash balances as well as the safety of those monies and the desired liquidity of the investments. The Council has given the Finance Director authority to make investments of available monies from the funds of the City in securities authorized by State law. Investments must mature within two years.

The Council has authorized, by resolution, the existence of ten petty cash funds. These monies appear on the monthly bank reconciliations. The Finance Director has been identified as the custodian of the petty cash funds.

Auditor of State Comments

- The City should have a combined or consolidated bank reconciliation that lists each bank account balance, petty cash funds, the amount of deposits in transit, outstanding checks, bank service charges, any other adjustments, and the book balance.
- The City should review the need for all existing bank accounts and close those that are unnecessary such as the Breakwall Construction Manuscript Bonds.
- The custodians for the petty cash funds should be an individual in the department that is assigned the petty cash fund. Petty cash funds should not be used as change funds. Separate change funds should be established.

City of Eastlake - Lake County

Report on Accounting Methods

Financial Reporting

Description of Effective Method of Financial Reporting

The fiscal officer should periodically provide Council with the year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the City. In addition, information concerning the estimated and actual receipts, appropriation and disbursements plus encumbrances should be presented for Council's review. On an annual basis, the fiscal officer should prepare and publish within 150 days of the year end financial statements prepared in accordance with generally accepted accounting principals (GAAP).

Statutory Requirements: Section 117.38, Revised Code, requires an annual financial report be filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year for reports prepared in accordance with the general accepted accounting principles (GAAP). At the time the report is filed with the Auditor of State, the fiscal officer must publish in the newspaper notice of the completion of the report and the fact that the report is available at the office of the fiscal officer.

Administrative Code Requirements: Cities are required by Section 117-2-03(B), Administrative Code, to prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP).

Charter Requirements: Article X, Section 1 requires the Director of Finance and the Mayor to furnish a fiscal report of revenues, expenditures and appropriation balances to each member of Council, in writing, not later than the 15th day of December of each year. Article VI, Section 3 also requires the Director of Finance to keep the Mayor and Council fully advised as to the financial condition and needs of the City.

Methods Used by the City

The City prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The City filed a copy of its annual financial report to the Office of the Auditor of State for the year ended December 31, 2003 on July 30, 2004.

Monthly reports are generally printed within ten days of month-end upon completing the month-end closing procedures. Monthly financial reports are used by the Finance Director's office. The Finance Director provides the Mayor and City Council members with several reports at a Council meeting each month. The reports are as follows:

Cash Reconciliation: This report provides the reconciled bank account balances and investments that equal the City's cash fund balances.

Fund Report: This report provides the beginning cash balances, receipts, expenditures, ending cash balances, encumbrances, and unencumbered balance for each fund.

Income Tax Collections: This report provides month-to-date and year-to-date income tax collections for the current and prior year.

Departmental Report: This report provides budget and actual information at the fund and department level for all funds. Information included is the appropriations, month-to-date expenditures, year-to-date expenditures, unexpended appropriations, encumbrances, the available appropriation balance, and the unencumbered balance compared to the appropriations, expressed as a percent.

City of Eastlake - Lake County

Report on Accounting Methods

Financial Reporting **(Continued)**

Detailed Expenditure Report: This report provides budget and actual information at the fund, department, and object level for all funds. Information included is the appropriations, month-to-date expenditures, year-to-date expenditures, unexpended appropriations, encumbrances, the available appropriation balance, and the unencumbered balance compared to the appropriations, expressed as a percent.

Revenue Report: This provides information about all sources of revenue for all funds. Information included is the estimated receipts, month-to-date and year-to-date receipts, amount of uncollected estimated revenue and the percentage of uncollected estimated revenue.

Auditor of State Comments

- In accordance with Section 117.38, Revised Code, the City should file its financial statements prepared in accordance with the general accepted accounting principles (GAAP) with the Auditor of State within one hundred and fifty days after the close of the year.
- The City should publish in a local newspaper that the financial report is available for public inspection at the office of the fiscal officer. The public notice may read as follows:

The (name of the annual financial report) of the City of Eastlake for the year ended (date) has been completed and is available for public inspection in the office of the (name of fiscal office and address) between (office hours). A copy of the report can be provided upon request.

- The City does not produce a five-year operating plan or forecast for its major funds. A five-year operating plan should be completed each year for the major funds of the City and should be based on the conditions management expects to exist and the course of action it expects to take. The plan should include the revenues and expenditures of those funds that finance the major operations and/or services of the City and it should present among other things, the long-term effect of changes in service levels and operations.
- The City does not produce a long-term capital plan. A long-term capital plan should be completed/updated every year and the first five years should be included in the five-year operating plan of the City. The capital plan should cover a period of ten years, and include all water, sewer, storm drainage, street replacement or improvements and other projects as well as the method of financing the projects. The plan should also include scheduled replacement of equipment, vehicles, and other assets of the City.

City of Eastlake - Lake County

Report on Accounting Methods

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The City Councils' minutes must be "full and accurate", which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. An ordinance, resolution, or bylaw should be limited to one subject, which should be clearly expressed in its title. In the adoption or passage of an ordinance, resolution, or bylaw, the yeas and nays should be entered into the minutes and the ordinance, resolution or bylaw, should be signed by the presiding officer and the Clerk of Council. All Council minutes, ordinances, and resolutions should be maintained as a permanent record of the City.

Statutory Requirements

Section 121.22, Revised Code, requires the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section. Further, the Ohio Supreme Court has held that the minutes must be "full and accurate," which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached.

Sections 731.20 through 731.24, Ohio Revised Code, address the passage, style, number of subjects, authentication and recording, and publication requirements of Council's legislation. In general, no ordinance, resolution, or bylaw shall contain more than one subject, which shall be clearly expressed in its title. The copy of the proposed ordinance must be filed with the Council Clerk and kept open for public inspection for ten days. Each ordinance, resolution, or bylaw is required to be adopted or passed by separate vote of Council and the yeas and nays shall be entered in the minutes. Ordinances, resolutions, or bylaws shall be authenticated by the signature of the presiding officer and clerk. Ordinances and resolutions must be published in an English-speaking newspaper once a week for two consecutive weeks.

Sections 705.84, Revised Code, requires that the Board of Control have stated meetings at least twice a week; keep a record of its proceedings; take its votes by yeas and nays, which votes shall be entered on the record; and adopt any motion or order only by a majority of the vote of all members of the board.

Charter Requirements

Article V, Section 11 of the City Charter provides that Council shall keep a journal of its proceedings, which shall be a public record. All legislative action shall be by ordinance or resolution, except when otherwise required by the Constitution or the laws of the State of Ohio, but departmental procedure and administrative matters may be transacted by motion recorded on the Journal. On the passage of every ordinance or resolution, the vote shall be taken by yeas and nays which shall be entered on the Journal. No ordinance or resolution shall be passed without the concurrence of a majority of all the members elected to Council. Every ordinance and resolution shall be fully and distinctly read on three different days unless three-fourths of all the members of Council vote to suspend this rule, taken by yeas and nays and entered on the Journal. An ordinance after having been fully read on its first reading may be read by title only on the second and third readings thereof, unless otherwise requested by any member of Council. No ordinance or resolution shall contain more than one subject, and such subject shall be clearly expressed in its title. Council may provide for the revisions, rearrangement, and codification of the ordinances of the City or any portion thereof, at such time as Council may determine. All ordinances,

City of Eastlake - Lake County

Report on Accounting Methods

Recording Official Proceedings

(Continued)

resolution, statements, orders, proclamations, notices and reports, required by law, or by Charter, or by ordinances of Council to be published, may either be posted in five of the most public places in the City, as determined by Council for a period of not less than fifteen days, or be published in a newspaper of general circulation in the City, once a week for two consecutive weeks, as Council may determine. All ordinances or resolutions upon their final passage shall be recorded in a book kept for that purpose and shall be authenticated by the signature of the presiding officer and Clerk of Council, but failure to sign an ordinance or resolution for the purpose of authentication shall neither invalidate the ordinance or impair its effectiveness. All ordinances and resolutions of a general or permanent nature, or involving the expenditure of money in which no emergency is declared shall take effect 30 days after their passage by Council. Emergency ordinances shall take effect upon passage by Council, unless a later time is specified therein.

Article IV, Section 5 provides that all ordinances and resolutions of Council be signed by its presiding officer and attested by the Clerk of Council. They shall be presented to the Mayor, by the Clerk, within 48 hours after passage by Council. If the Mayor approves the ordinance or resolution, he shall sign it and return it to Council. If he does not approve an ordinance or resolution, he shall return it within ten days after it is presented to him, with a statement of his objections to Council, who shall enter his objection on its Journal. Council may then reconsider the vote on the passage of such legislation not later than at its next regular meeting. If, on reconsideration, it is approved by 2/3 of all members elected to Council, it shall become effective.

Methods Used by the City

The City holds their regular Council meetings on the second and fourth Tuesdays of each month. The minutes to Council meetings are kept by year in the Clerk of Council's office. The ordinances are signed by the President of Council, the Clerk of Council and the Mayor.

Auditor of State Comments

None.

City of Eastlake - Lake County

Report on Accounting Methods

Conclusion

The methods described and included in this report are based on our inquiries and discussions with City personnel and the related procedures documented from the City's Policy and Procedures manuals, resolutions, administrative rules, and the Ohio Revised Code. These methods in some cases vary from the actual methods used in performing the daily activities.

It is our opinion that the current methods of accounting and financial reporting of the City of Eastlake are not completely in compliance with Chapter 117 of the Ohio Revised Code and the requirements of the Auditor of State as disclosed throughout this report.



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CITY OF EASTLAKE

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 13, 2005**