



Dave Yost • Auditor of State

**Village of Mount Sterling
Madison County, Ohio**

Report on Accounting Methods

Local Government Services

Village of Mount Sterling, Madison 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 Village of Mount Sterling was conducted. This report on accounting methods states whether there are adequate controls in place to assure confidence in the records. The control deficiencies and instances of non-compliance with State statutes and the Ohio Administrative Code are identified throughout this report. Therefore, pursuant to section 118.10 of the Revised Code, a "Report on Accounting Methods" is hereby submitted and certified to Melissa Snider, Chairman of the Financial Planning and Supervision Commission of the Village of Mount Sterling, William Martin, Mayor of the Village of Mount Sterling, and Rebecca Burns, President Pro-Tempore of Village Council.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 20, 2018

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Village of Mount Sterling - Madison County

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Purpose

As required by section 118.10(A) of the 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 and the requirements of the office of the Auditor of State have been complied with..."

Accordingly, this report centers upon the following: (1) whether the current accounting system fulfills the needs of the Village, 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. Information for this report was obtained by interviewing Village personnel and reviewing pertinent accounting, financial, and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the Village of Mount Sterling. 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.

Village of Mount Sterling - Madison County

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Governance Overview

The Village of Mount Sterling (the Village) is located in central Ohio in Madison County. The Village is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Operating as a statutory village, Mount Sterling must comply with all State laws regulating village government. The decision making process is directed by an elected Village Council and Mayor.

The Village Council is the legislative authority of the Village and consists of six members who are elected at large and serve terms of four years. The Village Council elects a President Pro-Tempore to preside over Village Council meetings in the Mayor's absence. The Village Council has the authority to prescribe, by ordinance, the manner in which any power of the Village shall be exercised.

The Mayor is the chief executive officer of the Village and serves a term of four years. The Mayor supervises the administration of the Village and is the President of Village Council. The Mayor makes recommendations to Village Council and has voting rights only in the case of a tie.

The Village Administrator is appointed by the Mayor and Council and supervises the operations of the Department of Public Services of the Village. The Village has not appointed a Village Administrator and currently has the Mayor and Fiscal Officer serve this position.

Because the Village has chosen to exercise section 733.262 of the Revised Code, the Mayor, with Village Council approval, appoints a Fiscal Officer who also serves as Clerk for the Village Council. The Clerk attends all Village Council meetings and keeps a record of all proceedings, rules, bylaws, and legislation. In addition, the Fiscal Officer keeps accurate statements of all monies received and expended by the Village, keeps records of all property owned by the Village, and of all taxes and assessments. The Fiscal Officer performs the accounting procedures for the Village necessary to comply with the administrative rules adopted by the Auditor of State.

Village Council contracts with an attorney to handle any legal matters for the Village. The Village Solicitor is the chief legal advisor of the Village.

Services provided by the Village include street maintenance and repair, maintenance of state highways within the Village, street lighting, park operations, and water and sewer operations.

On June 22, 2017, the Village was declared to be 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 Revised Code. The Commission membership is as follows:

1. The Director of the Office of Budget and Management or a designee;
2. The Mayor of the Village;
3. The President Pro Tempore of Village Council or a designee;
4. The Treasurer of State or a designee; and
5. Three individuals with knowledge and experience in financial matters who are residents of the Village, or principal place of professional or business activity is in the Village.
 - a. One individual appointed by the Governor;
 - b. One individual appointed by the Mayor and approved by Village Council; and
 - c. One individual appointed by the County Auditor.

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

1. Review all tax budgets, tax levy ordinances, 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 Village;
3. Inspect and secure copies of pertinent documents of the County or State agencies relating to the Village;
4. Review, revise, and approve determinations and certifications affecting the Village made by the County Budget Commission or the County Auditor;
5. Bring civil actions to enforce fiscal emergency provisions;
6. Approve the amount and purpose of any debt obligations;
7. Implement steps necessary to bring accounting records, accounting systems, and financial procedures and reports into compliance with rules established by the Auditor of State;
8. Make and enter into all contracts necessary or incidental to the performance of its duties;
9. Make recommendations for cost reductions or revenue increases to achieve a balanced budget; and,
10. Annually, before April 1, make a report and recommendations to the Speaker of the House of Representatives and the President of the Senate on the progress of the Village.

The Commission is required to adopt a financial recovery plan for the Village within one hundred twenty days of its first meeting. The Commission adopted a financial recovery plan on February 22, 2018. By statute, the Village must operate within the provisions of the recovery plan.

Section 118.27 of the Revised Code provides that the Commission will continue in existence until such time as a determination is made by the Auditor of State, or the Commission itself, one of the following:

1. The Village as dissolved under Sections 118.31, 703.20 or 703.201 of the Revised Code, or
2. Have done all of the following:
 - a. An effective financial accounting and reporting system is in the process of being implemented and is expected to be completed within two years;
 - b. All of the fiscal emergency conditions have been corrected or eliminated and no new emergency conditions have occurred;
 - c. The objectives of the financial recovery plan are being met; and
 - d. The Village Council has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "non-adverse."

Section 118.31 of the Revised Code provides the procedures for legal action to dissolve a municipal corporation. If a petition is approved by the financial planning and supervision commission, if any, attorney general shall file a legal action in the court of common pleas on behalf of the State to dissolve a municipal corporation if the municipal corporation has less than five thousand residents as of the most recent federal census, the municipal corporation has been under fiscal emergency for at least four consecutive years, and the implementation of the financial plan cannot be reasonable expected to correct and eliminate all fiscal emergency conditions within five years. If the court of common pleas finds that all of these conditions apply, a receiver is appointed by the court to work with the officers of the municipal corporation to wind up the affairs of and dissolve the municipal corporation.

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of the Office 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 the amount and type of financial resources that will be raised and how those financial resources will be spent. Annually, a budget consisting of estimated receipts and disbursements for each fund for the next year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of receipts and the programs, activities and major objects of disbursements. The budget should encompass current operations and maintenance, capital acquisition and replacement and debt retirement. The budget, once approved by the legislative authority, should be the basis for the appropriation measure. The appropriation measure should identify, by fund, departments/activity, and object, the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized receipts and balances available for disbursement.

Statutory Requirements

The budgetary process for the Village is prescribed in Chapter 5705 of the 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 Mayor should prepare an annual tax budget of the estimated receipts and disbursements for all funds of the Village for the period of January 1 to December 31 of the following year. The budget must be filed in the Fiscal Officer's office for public inspection ten days prior to adoption by the Village Council. At least one public hearing must be held for discussion of the budget, of which public notice shall be given by at least one publication not less than ten days prior to the date of hearing in the official publication of the Village, or in a newspaper having general circulation in the Village. Village Council is required to adopt the budget by July 15 and the budget must be submitted to the County Budget Commission by July 20 of each year.

The County Budget Commission examines the budget to ascertain that all tax levies of the Village are properly authorized. The Budget Commission also revises and adjusts the estimated receipts for property taxes and local government fund allocations. The Budget Commission then prepares and submits to the Village the Resolution Accepting Rates for Village Council's consideration. Village Council must accept or reject the rates outlined in the Resolution and file the Resolution with the Budget Commission. On or about October 1, Village Council must authorize, by resolution, the necessary tax levies and certify them to the County Auditor.

The County Budget Commission may, by an affirmative vote of a majority of the Budget Commission, waive the requirement that Village Council adopt a tax budget as provided under section 5705.28 of the Revised Code, but shall require the Village Council to provide such information to the Budget Commission as may be required by the Budget Commission to perform its duties under Chapter 5705 of the Revised Code, including allocating inside millage to each subdivision or taxing unit.

Certificate of Estimated Resources: The Budget Commission issues an official certificate of estimated resources on or about September 1, based on information provided in the tax budget and other information available to the Budget Commission.

Section 5705.36 of the Revised Code requires that on or about January 1, the Fiscal Officer certifies the actual year end balances for all funds to the Budget Commission. Upon receipt of the information, the

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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 Fiscal Officer determines that the revenue to be collected by the Village will be greater than or less than the amount included in the amended official certificate of estimated resources.

Appropriations Ordinance: Section 5705.38 of the Revised Code requires that on or about January 1, the annual appropriation ordinance must be enacted by Village Council. Prior to the passage of the annual appropriation measure, a temporary appropriation measure may be passed to meet the ordinary expenses of the Village until April 1. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission. Appropriation measures must 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 total of any fund appropriations or alter the levels adopted by Village Council must be approved by Village Council. The Village may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources.

Section 5705.39 of the Revised Code requires total appropriations from each fund shall not exceed the total of the estimated revenues available for expenditure from each fund, as certified by the County Budget Commission, or in case of appeal, by the board of tax appeal. The Clerk of Village Council is required to certify a copy of each appropriation ordinance to the County Budget Commission. No appropriations are effective until the County Auditor provides a certificate indicating the appropriations by fund, are within the estimated resources.

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

Section 705.19 of the Revised Code provides that no money shall be drawn from the treasury of a municipal corporation, except in pursuance of appropriation made by the legislative authority, and whenever an appropriation is so made, the Fiscal Officer shall forthwith give notice to the Auditor and the Treasurer. Appropriations may be made in furtherance of improvements or other objects or work of the municipal corporation which will not be completed within the current year. At the end of each year, all unexpended balances of appropriations shall revert to the respective funds from which they were appropriated and shall then be subject to future appropriations.

Administrative Code Requirements

Section 117-2-02(C)(1) of the Ohio Administrative Code states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide 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 made by the legislative authority and must meet or exceed the level prescribed in Section 5705.38 of the Revised Code.

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Methods Used by the Village

The Madison County Budget Commission has waived the requirement for all subdivisions to file a tax budget. The Madison County Budget Commission can require subdivisions to submit any information it finds necessary to the Budget Commission to perform its duties under Chapter 5705 of the Revised Code; however, the Madison County Budget Commission only requires subdivisions to submit the prior year's financial statements by June 30, a copy of Council minutes evidencing that a public hearing was held for the purpose of soliciting public input on the Appropriation measure, and the Certificate of Beginning Balances and Estimated Resources for the upcoming year by December 31.

The Fiscal Officer prepares the permanent appropriations ordinance based on history, trends and other known factors for all funds. Once approved, the appropriation ordinance is submitted to the Budget Commission. The Village Council approved the 2018 permanent appropriations ordinance on December 13, 2017. Appropriations were established at the fund, department, and object level of disbursements. The appropriations were entered into the accounting system by the Fiscal Officer. The appropriation ordinance was submitted to the Budget Commission on February 8, 2018.

The Village submits a Certificate of the Total Amount From all Sources Available for Expenditure and Balances to the County Auditor after year-end closing. The Certificate identifies the actual year end fund balances for each fund of the Village. The County Auditor then returns to the Village an Amended Certificate of Estimated Resources. The Village submitted the 2017 year end balances to the County and received an Amended Certificate of Estimated Resources on February 5, 2018.

Village Council approves supplemental appropriations through an ordinance. The County Auditor does not require supplemental changes to appropriations. The Comparison of Budget and Appropriated report from the UAN system is not presented to Council and monitored by the Fiscal Officer to ensure appropriations do not exceed estimated resources.

In recent years, appropriations have been insufficient in certain funds, and expenditures have exceeded the approved appropriations in those funds. Common purchasing practices in the Village have caused issues with more being spent that is appropriated for a give account. Appropriations and fund balances were not monitored throughout the year, leading to overspending and deficit cash balances in several funds.

Auditor of State Comments

- Pursuant to Section 5705.10, Revised Code, money paid into any fund of the Village shall be used only for the purposes for which such fund is established. During 2017 the Village had deficit cash balances in the General Fund and the Moving Ohio Forward Fund. During 2018, the Village had deficit cash balances in the Street Construction Maintenance and Repair and State Highway Funds. The Village should not use money from one fund to pay the obligations of another fund.
- Section 5705.39 of the Revised Code requires that the total appropriations from each fund shall not exceed the total of the estimated resources and fund balance available for expenditure, as certified by the Budget Commission. The Street Construction and Maintenance and Repair, State Highway and Water Operating Funds were over appropriated for 2018.

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Chart of Fund and Account Codes

Description of an 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 and 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 the individual funds. Receipt and disbursement codes should allow the transactions to be summarized by major revenue source or disbursement program. Major object codes for disbursements should be used consistently throughout the various program/activity codes.

The Village should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established.

Statutory Requirements

The creation of funds is authorized by section 5705.09 of the Revised Code. Section 5705.13 of the Revised Code allows for the creation of a reserve balance for budget stabilization, for the payment of claims under a self-insurance program, and for the payment of claims under a retrospective workers' compensation plan. This section also allows for a special revenue fund to accumulate resources for the payment of sick and vacation leave. Additionally, it allows for creation of capital projects funds to accumulate resources for up to ten years for the acquisition, construction, or improvement of capital assets. Funds may also be established under section 5705.12 of the Revised Code with the written approval of the Auditor of State.

Methods Used by the Village

The Village is using the State software known as the Uniform Accounting Network (UAN). This system utilizes a numeric account coding system as outlined in the Village Officers' Handbook.

Auditor of State Comments

- None

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Accounting Journals and Ledgers

Description of Effective Accounting Journals and Ledgers

The accounting journals and ledgers of the Village 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

Ohio Administrative Code section 117-2-02(A) 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 requires that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized 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 Fiscal Officer’s office. The cash journal presents receipts deposited to and checks drawn against the Village treasury and the fund to which the receipts and checks were recorded. Entries to the cash journal are posted sequentially by date from source documents, such as pay-in orders and checks. The related pay-in order or check 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 to be recorded.

Receipt Ledger – The receipt ledger is used to summarize receipts by fund and account. In addition, the estimated receipts and uncollected balance is presented for each source of revenue. Estimated receipts are recorded from the detail and/or supplemental information used in the preparation of the tax budget and is 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 should reflect the encumbering of obligations of the Village, identifying the warrant/check issued for the payment of the obligation, and accommodate any adjustments to an appropriation account. The ledger also facilitates budgetary control by enabling the Fiscal Officer to keep the Village’s disbursements and encumbrances within the amounts appropriated by Village Council. The unencumbered appropriation balance provides information on the amount available for disbursement. At the end of each month, month to date totals and year to date totals are recorded.

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Methods Used by the Village

The Village utilizes the Uniform Accounting Network (UAN). All reports required by the administrative code are available through UAN software.

The Fiscal Officer is the only one with administration access to the UAN system to input and make changes. The Fiscal Officer backs up the system to a CD every two weeks. After the system is backed up the CD is stored in a fireproof safe.

The Fiscal Officer prints various reports during the month to support the monthly activity. At any time, the Fiscal Officer is able to print reports for any month requested. Up to five years of prior information can be maintained on the UAN system.

At council meetings, the Fiscal Officer provides a copy of the following reports to the Village Council: Cash Summary Report, Receipt Listing, Payment Listing, Monthly Bank Reconciliation, RITA Report, and Appropriation Status Report.

The Village does not have a written disaster recovery plan identifying how the Village would restore operations, including information technology and accounting functions if the Village would experience a serious incident (flood, explosion, computer malfunction).

Auditor of State Comments

- The Village does not have a written disaster recovery plan for the restoration of operations in the event of a serious incident. A disaster recovery plan should be adopted by Village Council. The disaster recovery plan should include procedures to restore information technology and accounting functions of the Village.

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Receipt Transactions

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded, and deposited in accordance with State statute. The receipt or pay-in-order form should be a multi-part form that is pre-numbered and issued consecutively. The receipt should identify the name of the entity and reflect the date received, the payer, the amount, the purpose or nature of the receipt, the 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. Departmental receipts should be summarized and remitted to the finance department daily. The finance department should issue pay-in-orders to those departments depositing daily collections to the finance department and for any payments received from the public. The pay-in-order forms should be a multipart, pre-numbered form that bears the name of the entity, the date received, the payer, the amount, the purpose or nature of the receipt, the account code, and the signature or name of the person preparing the pay-in-order. Supporting documents should be attached to a copy of the pay-in-order. All receipts or pay-in-orders should be recorded in the cash journal and receipts 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, depositing of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38 of the Revised Code provides that a person who is a public official, employee, or agent shall deposit all public monies 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 monies received exceeds one thousand dollars. If the total amount of the public monies so received does not exceed one thousand dollars, the person shall deposit the monies 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 monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies 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.

Section 733.40 of the Revised Code requires all fines, forfeitures, and costs in ordinance cases, and all fees that are collected by the Mayor that in any manner come into the Mayor's hands, or that are due the Mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all monies received by the Mayor for the use of the municipal corporation shall be paid by the Mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the Mayor shall submit a full statement of all monies received, from whom and for what purposes they were received, and when they were paid into the treasury.

Administrative Code Requirements

Section 117-2-02(D)(1) of the Ohio Administrative Code requires the date, amount, receipt number, account code, and any other information necessary to properly classify the receipt transactions be recorded in the cash journal. Section 117-2-02(D)(2) of the Ohio Administrative Code requires the amount, date, name of the payor, purpose, receipt number, and other information required for the transaction to be recorded in the receipts ledger.

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Methods Used by the Village

Summary of Utility Receipts

The Village provides water and sanitary sewer services for residence/business buildings monthly.

Some meters are read electronically and some meters are read manually. Meters are read the last week of the month by the Utility Operator. Bills are sent out the first week of the following month. The Village uses Badger reading system for its meters. The meter operator uses a hand held device (HHD) to read meters for usage. The Utility Clerk will upload the previous month's accounts and usage from a USB to the HHD before the Utility Operator reads the meters for the current month.

After the reading is completed the Utility Operator will return the HHD to the Utility Clerk. The Utility Clerk will download the HHD readings onto a USB and use that to upload the readings into the Egov system. If a meter cannot be read electronically or manually, the Utility Clerk will have the Egov system calculate an estimated usage based on previous months.

The monies received come in the form of cash, check, money order and one electronic deposit. Payments can be mailed in, placed in the Village's dropbox located inside the entrance of the town hall, or hand delivered to the Utility Clerk. Customers who choose to use the dropbox or mail their bill will not get a receipt back or confirmation unless requested. Customers who pay in person do not receive a receipt; the Utility Clerk will mark the customer's portion of the bill with date of payment, amount paid, and initials.

Council determines the rates of the utilities. If rates were to change, the Utility Clerk would call Egov and have them change the rates in the system.

The Village does not have a policy for adjustments to utility bills. The Mayor is the only person that approves any adjustments. When a customer requests an adjustment an adjustment notice is completed by the Utility Clerk. This is given to the Mayor for his review. If the Mayor approves the adjustment notice, it is signed and given to the Utility Clerk. The Utility Clerk will post the adjustment to the Egov system and file it with the batch report.

The Utility Clerk separates daily payments in relation to how the bill was paid (cash, check, etc). Once bill stubs are separated by type of payment the Utility Clerk prepares the deposit slip for each type and posts them into the Egov system. Deposits to the bank are either made by the Utility Clerk or Mayor the same day or next business day. If deposits are held to the next business day it is safeguarded within a fireproof safe located in the Utility Clerk office. The Utility Clerk is the only person with access to the safe. After the deposit is made at the bank, the transaction receipt is returned to the Utility Clerk. A copy of the transaction receipt, one copy of the deposit slip, batch report and a screenshot of any miscellaneous items are given to the Fiscal Officer. The Utility Clerk does not provide these items to the Fiscal Officer in a timely manner.

The Fiscal Officer, Utility Operator, Utility Clerk, and Mayor are bonded through separate bonds. Utility Clerk primarily handles monies for utilities; all other monies are given to the Fiscal Officer.

Summary of General Receipts

The Fiscal Officer receives monies in Electronic Fund Transfers (EFT's) and checks only. All checks are paid through the mail. Checks are deposited by the Fiscal Officer or Mayor the same day or next business day. The Fiscal Officer receipts EFT's into the system before performing the monthly bank reconciliation by viewing the bank statements for EFT's on a daily basis.

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The county distributes property tax, local government tax, and permissive tax to the Village. All checks are mailed to the town hall. The Fiscal Officer records the receipt in the UAN system into the correct funds. The Fiscal Officer will fill out a 3-part deposit slip. One copy is given to the bank when the check is deposited. The other two deposit slips are attached to the UAN receipt along with the bank transaction receipt, scanned check, and a copy of any other supporting documentation. The Fiscal Officer staples the papers and files them in a monthly binder in a locked filing cabinet.

Summary of Income Tax Receipts

The Village levies a one percent income tax. All Village residents 18 and older are required to file an annual income tax return due on April 30. Residents and businesses are taxed at a rate of one percent of gross wages on earned income. The Village Council approved the tax rate by ordinance and all income tax revenue is recorded in the General Fund.

The Village contracted with the Regional Income Tax Agency (RITA) for income tax processing and collection. Income tax withholdings, quarterly estimates, and payments filed with the return are sent to RITA. Income tax receipts are deposited electronically by RITA twice a month into the Village's checking account. The amount deposited is net of RITA's administration fee. This fee is based on the amount of taxes collected, approximately three percent of collections. The Village receives a report from RITA within a couple of days after the deposit reflecting the amount of income taxes collected less the collection fee. Some businesses have opted to file with the Ohio Department of Taxation (ODT). These entities remit monthly taxes to ODT and ODT will remit quarterly payments to the Village. The Fiscal Officer records the gross amount of income taxes collected in the accounting system as revenue and records the collection fees as an expenditure.

The Fiscal Officer backs up the UAN system on a blank CD once every two weeks, and stores the CD in a fireproof safe located in the Fiscal Officers office for a full year. After a year the CD's are stored in a locked hallway closet along with the monthly binders.

Auditor of State Comments

- The Utility Clerk should provide all deposits and supporting documentation to the Fiscal Officer on the day the deposits are made.

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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 that the purchasing process be integrated with the budget. The process should include a justification of need and 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 and that the amount has been appropriated and is free from previously encumbered obligations. 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 disbursement of monies 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 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 the Village 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 disbursements 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 appropriation line 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 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 disbursements 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; fuel oil, gasoline, food items, roadway materials, utilities, and any purchase exempt from competitive bidding under Revised Code Section 125.04, and any other specific disbursement that is a recurring and reasonably predictable operating expense.

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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 that, 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 Village Council has thirty days from the 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 Village.

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

Bidding - All contracts calling for disbursements in excess of \$50,000 shall be in writing and made to the lowest and best bidder. Revised Code section 731.14 requires that bids be opened and publicly read by the Fiscal Officer at the time, date, and place specified in the advertisement for bids. Village Council must authorize and direct all such disbursements. 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 Village if a 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, State statute (Revised Code 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 a person against whom a finding for recovery has been issued by the Auditor of State on or after January 1, 2001, if the finding for recovery is unresolved.

Per Auditor of State Bulletin 2004-006, a contract for purposes of Section 9.24 of the Revised Code is awarded when a written agreement is executed pursuant to a formal competitive contracting procedure that may include competitive bidding, requests for proposals, or invitations to bid. A purchase arrangement that does not involve competitive contracting procedures does not constitute the awarding of a contract and is not subject to Revised Code section 9.24. For purchases made from the State term schedule, the Ohio Department of Administrative Services engages in a contracting process as described under Attorney General Opinion 2004-014 and, consequently, is required to comply with Revised Code section 9.24. State agencies and political subdivisions that purchase from the State term schedule do not engage in their own contracting processes and are not subject to the provisions of Revised Code section 9.24.

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Section 9.24 (G)(1)(a) of the Revised Code states that the only contracts subject to the provisions of the statute are those contracts in which the cost of goods, services, or construction exceeds \$25,000. Section 9.24 (G)(1)(b) of the Revised Code provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous year, received contracts from the State agency or political subdivision, the aggregate of which exceeded \$50,000.

Delinquent Personal Property Taxes - Section 5719.042 of the 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 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.

Campaign Financing (HB 694) - Section 3517.13 of the Revised Code states any bid or unbid contract, purchase order, or collective bargaining agreement with a value of more than \$500 requires the vendor to certify to the contracting authority that the vendor has not made a contribution to the contracting authority in an amount that exceeds the limits provided by law.

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 are made.”

Method used by the Village

The Village has not had any projects that have gone out for bid since the current Fiscal Officer and Mayor have been in office.

The UAN system keeps a vendor list, which the Fiscal office is able to access and obtain vendor related reports from. When adding a new vendor, the Village Fiscal Officer has the vendor fill out a W-9, only if the vendor will be issued a 1099 at the end of the year. For other vendors, the Fiscal Officer obtains the vendor’s name and address. The Fiscal Officer then adds the vendor to the UAN system, and if applicable files the W-9. The Fiscal Officer maintains the W-9’s in a folder in a locking filing cabinet in the Fiscal Officer’s office. The Fiscal Officer does not check new vendors against the findings for recovery database.

The Village does not have a formal purchasing policy in place. Any Village employee can initiate a purchase. For routine purchases an employee of the Village tells the Fiscal Officer that a purchase is necessary, and explains the need to the Fiscal Officer. If the Fiscal Officer determines that the purchase is appropriate for the Village, the employee can then take a purchase voucher to the vendor to get an estimated cost for the purchase. The employee provides the purchase voucher, with the vendor’s estimated cost, to the Fiscal Officer. The Fiscal Officer then sends an email or calls the members of the Finance Committee to approve the purchase. If the Finance Committee approves the purchase, the Fiscal

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Officer creates a purchase order, and the employee can complete the purchase. Some vendors require a purchase order before they will allow the Village to make a purchase. Unless the vendor requires a purchase order prior to a transaction, the Fiscal Officer does not provide purchase orders to vendors.

When an invoice is received, the Fiscal Officer matches it to the corresponding purchase order. Some purchase orders are not printed until the invoices are paid. The Fiscal Officer maintains voucher packets in monthly folders. Printed purchase orders are filed in the same folder with the corresponding voucher packets, but are not attached to the voucher packets.

“Then and Now” certificates are used when a purchase voucher and purchase order are done after the purchase is completed. There are instances when “Then and Now” certificates in excess of \$3,000 are not approved by Council resolution. The Village sometimes uses “Then and Now” purchase orders for nonemergency purchases.

Village Council passed a resolution that allows the Fiscal Officer to issue blanket purchase orders for recurring invoices. The legislation states that the blanket purchase orders expire after 90 days. However, the legislation does not put a dollar limit on the amount for which the Fiscal Officer is authorized to issue blanket purchase orders. The Village does not utilize super-blanket purchase orders.

Auditor of State Comments

- The Village does not have an official purchasing policy and documented purchasing procedures. A purchasing policy for the Village should be developed, adopted by ordinance, and distributed to all departments. Some of the elements to be included in the purchasing policy are: purchase order approval process, new vendor policy, emergency purchases, contract bidding process, the use of then & now purchase orders, and the use of blanket and super blanket purchase orders.
- The Village has not established by resolution, an amount for blanket purchase orders without prior approval by the Village Council.
- The original purchase order is not sent to the vendor. The purchase order should be mailed or faxed to the vendor.
- The Fiscal Officer should attach the purchase orders to the check stub, invoice and any other documentation that is maintained to support the purchase.
- The Village does not use the Auditor of State Finding for Recovery Database when adding new vendors. Section 9.24 of the 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 Fiscal Officer should review the vendor list in the UAN system annually. Vendors should be deleted from the system if they have more than one vendor number or if the Village no longer uses the vendor.
- The Fiscal Officer should obtain a W-9 from all vendors, and maintain vendor files for all active vendors. Vendor files should include all information required by law.

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- Village Council, Per section 5705.41(D)(1), Revised Code, should approve all “Then and Now” purchase orders in excess of \$3,000 within thirty days. The Fiscal Officer does not have the authority to issue “Then and Now” certifications in excess of \$3,000 without action by Council.

Village of Mount Sterling - Madison 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 Village. 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 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. Vouchers should be approved for payment by an appropriate official. A check should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data), and a properly executed certification by the Fiscal Officer. Checks should be signed by the Fiscal Officer and the Mayor 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:

Checks - Disbursements may only be made by a proper check drawn against an appropriate fund. The check must show upon its face the appropriation from which the disbursement is made and the fund which it is drawn upon.

Restrictions – Monies are drawn from the Village treasury only for appropriations enacted by the Village Council. Disbursements from each fund may be used only for the purposes of such fund and to the extent that cash exists in the fund.

Certification - If no certificate of the Fiscal Officer is furnished, as required, upon receipt by the Village Council 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 Village Council may authorize the drawing of a check in payment of amounts due upon such contract, but such resolution shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than \$3,000, the Fiscal Officer may authorize it to be paid without such affirmation of the Village Council, if such expenditure is otherwise valid.

Administrative Code Requirements

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 check 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.”

Method used by the Village

The Village utilizes the Uniform Accounting Network (UAN) financial software to record all purchases. The Fiscal Officer is the only one who has access to the UAN software.

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Report on Accounting Methods

The Fiscal Officer keeps the check stock in a safe in the Fiscal Officer's office. The Village uses three part perforated checks. The top part is the actual check, the other two parts are stubs. The checks require two signatures. Currently, the Mayor and the Fiscal Officer are the only authorized signers.

The Fiscal Officer usually processes invoices twice per month. In emergent situations, checks are processed as needed. Before mailing the payments, the Fiscal Officer copies the signed checks. The Fiscal Officer attaches the Village's part of the check stub to the copy of the signed check and the invoice. The voucher packets are filed in monthly folders, in a drawer in the Fiscal Officer's desk. Within each folder, the voucher packets are not filed in any order.

When the Fiscal Officer voids a check, "VOID" is written across the check, and the check is voided in the UAN system. The voided checks are kept in the monthly folder with the other checks that were issued in the same month in the Fiscal Officer's desk.

Invoices that have been paid since the previous Village Council meeting are prepared before the next Village Council meeting for the Finance Committee to review. When the members of the Finance Committee review the invoices, they sign the purchase vouchers and purchase orders. The Village Council members who are not on the Finance Committee do not review the individual checks.

Auditor of State Comments

- The Fiscal Officer should include the invoice or sales receipt for all purchases in the voucher packet. The voucher packets should be filed in numeric order or by vendor within each monthly folder.

Village of Mount Sterling - Madison 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 state and federal taxes should also be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the Village 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 relevant employee information and any other information required by state and/or federal laws.

Statutory Requirements

The following State statutes apply:

Section 705.13, of the Revised Code requires the legislative authority of a municipal corporation to set, by ordinance, the salary of its members so that each shall be paid in equal monthly installments. For each absence from regular meetings of the legislative authority, unless authorized by a two-thirds vote of all members thereof, there shall be deducted a sum equal to 2 percent of such annual salary. Absence for ten successive regular meetings shall operate to vacate the seat of a member, unless such absence is authorized by the legislative authority.

Section 731.13 of the Revised Code requires the legislative authority of a Village to fix the compensation and bonds of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority must, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office. All bonds shall be made with sureties subject to the approval of the Mayor. The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his/her term of office.

Methods Used by the Village

The Fiscal Officer maintains the employees' personnel files. The personnel files are kept in a locked drawer in a filing cabinet in the Fiscal Officer's office. The Fiscal Officer is the only person who has access to the employee personnel files. Most of the personnel files contain an Ohio new hire form, a W-4, Ohio tax withholding information, a federal employment eligibility verification form and OPERS information. Some employee personnel files also have copies of driver's licenses, social security cards, drug test results, BWC injury reports, disciplinary letters and points, and medical insurance enrollment forms. There is no consistency as to what information is in each employee's personnel file among the Village employees.

Village Council approves all hiring and termination of employees, which is reflected in the minutes. Village Council also approves all pay rates and pay increases by ordinance. ADP provides payroll related functions to the Village.

Village of Mount Sterling - Madison County

Report on Accounting Methods

The Village has six Council members, the Mayor, and six employees. Exempt Village employees track their time by writing their time in and out on a timesheet that covers the two-week pay period. Nonexempt Village employees, Utility Operators and Utility Workers, are required to use the badge machine to clock in and out. At the end of the pay period, the employees sign their timesheets/timecards and turn them in to the Fiscal Officer. The Fiscal Officer double checks the calculation of hours worked and gives the timesheets/timecards to the Mayor. The Mayor signs the timesheets/timecards and returns them to the Fiscal Officer. Upon approval from the Mayor, the Fiscal Officer enters the employees' hours into ADP's online payroll system.

Payroll Processing – Most employees receive their pay via direct deposit, however some employees receive a physical check. After ADP processes the payroll, they overnight summary reports, paystubs (for direct deposits), and physical checks with paystubs attached to the Fiscal Officer. The Fiscal Officer has to sign for this package. The Fiscal Officer distributes the paystubs and physical checks to the employees on payday. The employees do not sign that they have received their paystubs or physical checks.

The Village's pay period begins on Monday and ends two Sundays thereafter. ADP issues paychecks and direct deposits on the Friday following the end of the pay period.

Payroll Deductions – ADP calculates all withholdings based on information provided by the employees. ADP also calculates the employer's portion of Social Security and Medicare. ADP draws funds from the Village's bank account to cover the gross pay, minus the employees' portion of OPERS, plus the employer's portion of Social Security and Medicare. ADP pays all withholdings on behalf of the Village, except OPERS. ADP automatically draws the payment for their fees from the Village's bank account. The Fiscal Officer reports gross payroll online to OPERS monthly and pays the employee and employer portions via electronic check.

The Village does not use the payroll module from UAN. The Fiscal Officer enters payroll, employer portion of OPERS and ADP fees as direct charges in UAN based on the summary reports that ADP provides. The Fiscal Officer double checks ADP's withholding calculations.

Leave – Full-time Village employees accrue vacation, sick and personal leave in accordance with the employee handbook. ADP tracks the employees' accrual and use of their leave balances. Leave balances and usage are printed on the employees' paystubs. ADP does not provide the leave balances to the Fiscal Officer. The Mayor approves leave requests.

Elected Officials – The Mayor and Village Council members are paid from the General Fund. The Fiscal Officer tracks attendance in the minutes.

Retirement – Employees cannot carryover sick or vacation time from one year to the next. Employees are paid for unused vacation time that they have accrued from the beginning of the year through the retirement date.

Auditor of State Comments

- The Village should have a formal written policy regarding the payroll process. The Village should update the employee handbook to include the payroll policy changes.
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- The Fiscal Officer should review the personnel files and maintain the information that is required by law to be on file in each employee's personnel file. The information that is in each employee's personnel file should be consistent for all employees.

Village of Mount Sterling - Madison 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. An ordinance authorizing the issuance of debt must be passed by Village Council. The statute authorizing the issuance should be identified in the ordinance as well as the purpose of the debt, the maturity, the interest rate, and the source of revenue to be used for repayment. Debt proceeds should be recorded in a separate fund and used only for the purpose specified in the authorizing ordinance. Monies to be used for debt payments may be receipted into a separate fund created specifically for debt retirement. Care should be taken to ensure 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. The statutory requirements vary depending on the nature of the debt being issued.

A municipal corporation shall not incur net indebtedness that exceeds an amount equal to ten and one-half percent of its tax valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to five and one-half percent of that tax valuation.

Methods Used by the Village

The Fiscal Officer monitors debt payments using the debt service schedules and invoices for debt payments received by the Village. Debt issuances are authorized by Village Council Ordinance. The statute authorizing the issuance is identified in the Ordinance as well as the purpose of the debt, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment. All debt payments are made by check as a part of paying bills.

The Village's debt is described below:

Debt Issue	Issue Date	Interest Rate	Original Issue Amount	Date of Final Maturity	Principal Outstanding 6/30/2018
Business-Type Activities:					
<u>Ohio Public Works Commission:</u>					
Phase A-US 62a Improvements	5/30/2007	0.00 %	\$135,575	1/1/2029	\$71,177
Phase B-US 62a Improvements	7/15/2008	0.00 %	413,258	1/1/2030	237,624
<u>Ohio Water Development Authority:</u>					
High Street Storm Sewer Phase 2	7/1/2016	2.00 %	500,000	1/1/2046	241,761
WWTP Improvements	1/1/2015	0.00 %	6,104,412	7/1/2034	4,883,530
Main/Columbus Street Water Main Replacement	1/1/2010	1.15 %	260,173	7/1/2034	354,048
Storage Tank Replacement*	1/1/2017	3.03 %	443,055	7/1/2046	313,397
Water Tank Replacement*	7/1/2017	3.03 %	96,769	7/1/2022	65,467
Water Treatment Plant and Wellfield*	1/1/2018	0.96 %	2,042,747	7/1/2047	2,927,356
Water Treatment Plant and Wellfield*	1/1/2018	2.96 %	4,465,379	7/1/2047	6,507,063
Total Business-Type Activities					<u><u>\$15,601,423</u></u>

* These projects have not been completed as of 12/31/17

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The Village is not delinquent on any principal and interest payments.

The Land Acquisition Bonds were for the purchase of and improvements to land for the new water treatment plant. The bonds were issued for a five year period with final payment to be made in 2018.

The Ohio Public Works Commission (OPWC) loans relate to water line improvements along US 62. The loans will be repaid over 20 years at zero percent interest.

The Ohio Water Development Authority (OWDA) loans consist of money owed to the OWDA for the High Street Storm Sewer Phase 2 and WWTP Improvement. The loans will be repaid from the Sewer Fund. The Main/Columbus Street Water Main Improvement, Water Tank Replacement, Storage Tank Painting, and Water Treatment Plant and Wellfield loans will be repaid from the Water Fund.

Auditor of State Comments

None

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Report on Accounting Methods

Inventory of Capital Assets

Description of an Effective Inventory of Capital Assets

Capital assets of the Village should be adequately safeguarded against loss or theft. An inventory describing each item, cost, serial and/or model number, location, and date of purchase should be maintained by the Fiscal Officer. The inventory should be updated periodically for purchases and disposals. Verification of the listed assets should be performed at least annually. The disposal of an asset should be properly authorized and reported to the Fiscal Officer.

Administrative Code Requirements

Section 117-2-02(D)(4)(c) of the Ohio Administrative Code requires that all local public offices maintain capital 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. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Method Used by the Village

The Village has no policy or procedures for capital assets.

The Village does not have a complete inventory of capital assets. A listing of buildings, vehicles, equipment and furniture are listed on the Village's property insurance schedules, however, the listing has not been updated.

Auditor of State Comments

- The Village does not have a capital asset policy. Without an inventory of capital assets, the Village is unable to determine if there is adequate insurance coverage, whether assets have been lost or stolen, whether idle assets exist that can be sold to generate additional revenue, and whether assets are used in the most efficient manner. The Village should develop an inventory of all capital assets and update it annually.
- The Village Council should adopt policies and procedures to account for and track capital assets.
- The Village Council should implement written policies for the use of Village owned property (i.e. vehicles, equipment, cell phones) that address control and accountability and stipulates that the personal use of any Village owned property is prohibited.

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Report on Accounting Methods

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by the Village should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Idle cash should be invested in interest bearing accounts, certificates of deposit, STAR Ohio, and/or other investments as authorized by State statute. Investment transactions should be conducted in accordance with the policies adopted by Village Council. Deposits of public monies should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocated should be in accordance with the Ohio Constitution and State statutes.

A reconciliation between the bank and cash journal should be completed for all accounts on a monthly basis. The reconciliation should be completed immediately after the books are closed for the month and upon receipt of the bank statement. Reconciling items should be specifically identified and listed by the Fiscal Officer.

Statutory Requirements

Section 135.14(O)(1) of the Revised Code states, "Except as otherwise provided in divisions (O)(2) and (3) of this section, no treasurer 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 treasurer or governing board. The policy shall require that all entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision".

Section 135.14(O)(2) of the 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 treasurer or governing board of that subdivision shall invest the subdivision's interim monies only in interim deposits pursuant to division (B)(3) of this section or interim deposits pursuant to section 135.145 of the Revised Code and approved by the Treasurer of State, no-load 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) of the Revised Code states, "Divisions (O)(1) and (2) of this section do not apply to a treasurer 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 treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the treasurer 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 of the Revised Code requires the Fiscal Officer to attend annual training programs of continuing education for treasurers provided by the Treasurer of State. A Fiscal Officer is not subject to this training if the investments are limited as defined by the Revised Code and an exemption form is certified by the Treasurer of State.

Section 135.12 of the Revised Code requires that the designation period for depositories be five years.

In addition to the training required by section 135.22 regarding investing, section 733.27 of the Revised Code requires that the Fiscal Officer attend annual training programs of continuing education for village clerks provided by the Auditor of State. This training encompasses a wide variety of topics.

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Report on Accounting Methods

Federal Requirements

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that, in order for a depositor to have a valid claim to assets of a failed financial institution, there must be a security agreement. This agreement must have been:

1. in writing;
2. executed by the financial institution and the depositor making the claim;
3. approved by the board of directors or loan committee of the institution; and
4. an official record of the financial institution continuously from the time of its execution.

Methods used by the Village

The most current investment policy is from 1997, and follows the Revised Code Section 135.

The Village has one checking account. The Village does not have any investments.

The UAN software provides a reconciliation from bank to books which is currently being utilized by the fiscal officer. The reconciliation is printed from the software and includes an outstanding checklist. Upon completion of the monthly reconciliation, the Village Council reviews and signs the bank reconciliation as printed from the UAN software.

The Village does not earn interest on its bank account.

The fiscal officer is exempt from annual investment training provided by Treasurer of State and has an exemption for 2018 (filed June 19, 2018).

The fiscal officer attends seminars provided by Auditor of State's office annually.

Auditor of State Comments

- The Village should update their investment policy and file it with the Clerk of Bureau of the Auditor of State.

Village of Mount Sterling - Madison County

Report on Accounting Methods

Financial Reporting

Description of Effective Method of Financial Reporting

At least monthly, the Fiscal Officer should provide Village Council with a report that identifies year to date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the Village. In addition, information concerning the estimated and actual receipts, appropriations, and disbursements plus encumbrances should be presented for Village Council's review. On an annual basis the Fiscal Officer should prepare and publish financial statements, a comparison of budgeted versus actual information, a summary of debt activity for the year, and the outstanding principal balance on all debt obligations.

Statutory Requirements

Section 117.38 of the Revised Code requires that the annual financial report be filed with the Auditor of State within sixty days after the close of the year for reports prepared on the cash basis of accounting. At the time the report is filed, a notice should be published in the local newspaper that the report is completed and available at the office of the Fiscal Officer.

Section 733.45 of the Revised Code states, "The treasurer of a municipal corporation shall settle and account with the legislative authority, quarterly, and at any other time which it by resolution or ordinance requires. At the first regular meeting of such legislative authority in January, each year, the treasurer shall report to it the condition of the finances of the municipal corporation, the amount received, the sources of such receipts, the disbursements made, and on what account during the year preceding. Such account shall exhibit the balance due on each fund which has come into the treasurer's hands during the year."

Administrative Code Requirements

Ohio Administrative Code section 117-2-03(A)(1) requires that local public offices file their annual financial report electronically with the Auditor of State through the annual financial data reporting system (The HINKLE system) via an entity-specific link, unless the local public office has an approved waiver. A copy of the report is to be retained by the fiscal officer of the public office.

Ohio Administrative Code section 117-2-03(C) requires that local public offices that use the "Uniform Accounting Network" shall file their annual financial reports in accordance with the guidelines established by the Uniform Accounting Network.

Ohio Administrative Code section 117-2-03(D) requires that local public offices who do not prepare their annual reports using generally accepted accounting principles or another comprehensive basis of accounting shall file their annual financial reports on the regulatory basis prescribed by the Auditor of State.

Financial Reporting Requirements - On February 2, 2005, the American Institute of Certified Public Accounts (AICPA) issued an interpretation of one of its auditing standards (i.e., AU Section 623 Special Reports) that affects those governments that prepare financial statements using the cash or modified cash basis of accounting. According to the interpretations, the cash basis financial statement presentation must "look like" a generally accepted accounting principles (GAAP) presentation (i.e., GASB Statement No. 34); otherwise, the Auditor of State or contracted independent public accounting firm is required to issue an adverse opinion. For entities that are not legally required to prepare their financial statement in accordance with GAAP and elect not to present "look alike" statements (such entities in Ohio include

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libraries, townships, villages, and special districts), the Auditor of State will render a second opinion at the same time it issues its adverse opinion. Therefore, local governments receive two opinions as part of their audit report if their financial statements do not look like GAAP statements (i.e., GASB Statement No. 34).

Methods Used by the Village

The Village prepared its annual financial report on a regulatory basis for the year ended December 31, 2017. The report was filed with the Auditor of State on January 29, 2018, and a notice that the report had been filed and was available for public review was published in a local newspaper.

The Fiscal Officer provides the packet of financial reports in electronic format to the Council members. These packets give an overview of the Village's financial activity and status as of the date the reports are run.

The financial reports consist of the following:

Bank Reconciliation Report: This report provides the Village's cash reconciliation as completed in the UAN financial software. The report takes the original UAN balance at the beginning of the month, adds the total receipts received, and subtracts the total expenditures paid throughout the month to get an ending UAN balance. This balance is compared to the ending bank balance from the Village's bank account.

Cash Summary by Fund Report: This report provides the starting fund balances as of the beginning of the month for all Village funds as recorded in the UAN financial software, the month to date revenues and expenditures, the ending fund balances, the reserves for encumbrances, and the unencumbered fund balances.

Appropriation Status Report: This report provides an analysis of the appropriation budget as recorded in the UAN financial software. The report includes total appropriations, year to date expenditures, current reserves for encumbrances, unencumbered balances, and the year to date percentage paid.

Payment Listing Report: This report provides a list of all expenditures posted to the UAN financial software during the applicable time period.

Receipt Listing Report: This report provides a list of all receipts posted to the UAN financial software during the applicable time period.

RITA: The Village contracts with RITA (Regional Income Tax Agency) to collect income taxes for the Village. The RITA report that is provided by the Fiscal Officer to the Council shows the current amount of income tax collected, fees withheld, and when applicable, includes any updates, news or communication from RITA.

The Bank Reconciliation is signed by the Fiscal Officer and the Council members. The other financial reports are individually approved by vote during the meeting and are recorded in the minutes. The Village does not have a policy in place that requires the Council members to sign the reports that they review or a signature page to be signed. The Fiscal Officer maintains the meeting minutes.

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Auditor of State Comments

- The Fiscal Officer should provide a revenue status report as part of the financial packet reports provided to council. Without such a report, the Village Council is unable to compare revenue collection to date to the estimated revenues. The Fiscal Officer should provide Village Council with revenue status reports each month, identifying estimated revenues, actual revenue collection, and percent collected year to date when compared to the estimated revenues.
- The Fiscal Officer should provide financial reports at month-end to ensure book balances reconcile to bank balances. By not reviewing the financial reports for the month, Council members are unable to make complete and accurate comparisons of the information provided to the bank reconciliations.

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Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The Village Council minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale supporting Village Council's decisions. 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 Village Council minutes, ordinances, and resolutions should be maintained as a permanent record of the Village.

Statutory Requirements

Section 121.22 of the 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 discussion 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 731.25 of the Revised Code address the passage, style, number of subjects, authentication and recording, and publication requirements of Village Council 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 Clerk of Council 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 Village Council and the yeas and nays shall be entered in the minutes. Ordinances, resolutions, and 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. If no newspaper is published within the Village, copies of the ordinances and resolutions must be posted in no less than the five most public places in the Village for not less than fifteen days prior to the effective date of the ordinances or resolutions or by publication in any newspaper printed in the State and of general circulation in the Village.

Section 149.39 of the Revised Code creates in each municipal corporation, a records commission composed of the chief executive or his appointed representative as chairman, the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary, who may or may not be a member of the commission, and who shall serve at the pleasure of the commission. The commission may employ an archivist to serve under its direction. The commission shall meet at least once every six months and upon call of the chairman. The functions of the commission shall be to provide rules for retention and disposal of records of the municipal corporation, to review applications for one-time records disposal, and schedules of records retention and disposition submitted by municipal offices.

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Methods used by the Village

Council meetings are held on the second and fourth Monday of every month. The council meeting is video recorded and posted to the Village website. The video of the meeting is backed up to a CD and stored in the storage room with the recording equipment. The Fiscal Officer takes notes during the meeting and prepares the minutes from said notes and video recording. The minutes include attendance, adoption of previous minutes, approval or objection of reports, resolutions and ordinances, committee reports, round table discussion, public comments/questions and adjournment. Minutes are signed by the Fiscal Officer and the Mayor. The Village keeps all passed Resolutions and Ordinances in separate binders. These binders do not include an index. The signed minutes along with any approved ordinances, resolutions, or bylaws are stored in a locked file cabinet in the Fiscal Officer's office.

The Village has a Schedule of a Records Retention and Disposition. The Village does not follow the schedule. The Records Commission did not meet during 2017 or for 2018 for the year to date.

Auditor of State Comments

- The Village should schedule meetings of the records commission to meet every once six months.
- The Schedule of Records Retention and Disposition should be reviewed and updated.
- The CD backup of the recorded council meeting, minutes, ordinances and resolutions should be stored in a fire proof location.

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Conclusion

The methods as described by the Village and included in this report are based on our inquiries and discussions with Village personnel and the related procedures documented from the Village's ordinances, administrative rules, and the 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 Village of Mount Sterling are not completely in compliance with Chapter 117 of the Revised Code and the requirements of the Auditor of State as disclosed throughout this report.



Dave Yost • Auditor of State

VILLAGE OF MOUNT STERLING

MADISON 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
NOVEMBER 20, 2018