

August 31, 2012

To the Honorable Mayor and Members of City Council  
City of Toledo, Ohio:

We have audited the financial statements of the City of Toledo, Ohio (the "City"), as of and for the year ended December 31, 2011, and have issued our report thereon dated August 31, 2012.

*Government Auditing Standards* require us to report significant internal control deficiencies, fraud and illegal acts (including noncompliance with laws and regulations), and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated August 31, 2012, for the year ended December 31, 2011.

The Office of Management and Budget (OMB) Circular A-133 requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated August 31, 2012, for the year ended December 31, 2011.

We are also submitting the following comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the reports *Government Auditing Standards* or OMB Circular A-133 require. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. However, these comments reflect our continuing desire to assist the City.

### Current Year Comments

#### 1. Contracts

The City is required to advertise contracts for competitive bids in the City Journal for two consecutive weeks. We noted that 1 of the 25 contracts selected for testing was not advertised in the City Journal for two weeks. Management indicated that it was an oversight as the ad for the 2nd week was inadvertently deleted. We recommend the City establish procedures to ensure bids are advertised for at least two consecutive weeks as required.

We also noted during testing of the HOME Investment Partnerships Program that, for one of the five contracts we tested, it did not contain a signed approval on the Fiscal Officer Certificate Fixed Amount certifying that the funds had been properly appropriated. We recommend the City should establish controls to ensure all forms are properly reviewed and signed by the appropriate individuals before contracts are executed.

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2. Real Property Acquisition

For the CDBG – Entitlement Grants Cluster, the City has policies and procedures for the appraisal, negotiation, and residential relocation requirements during a property acquisition. However, we noted that one of the two acquisitions we tested did not contain a signed certification from the owner that the property was vacant as required by the City's policy. We recommend that the City establish controls to ensure all certifications are properly reviewed and signed by the appropriate individuals.

3. Bonded Indebtedness Reporting

City Charter Section 122 requires the City to prepare a bonded indebtedness report by January 1<sup>st</sup> for the previous fiscal year. The City did not file its 2010 bonded indebtedness report until January 31, 2011. We recommend the City implement procedures to ensure the bonded indebtedness report is prepared and filed each year by the deadline in order to provide timely information to its users.

4. Cash Receipts

Cash receipts of City departments are required to be deposited with the City Treasurer on the same day as the receipt of funds. During our testing, we noted up to a month lag between when funds were received by the Sewers and Drains department related to certain customer deposits and subsequently deposited with the Treasury due to multiple layers of approval required. We recommend that the City expedite its approval process or deposit the funds while the approval process is conducted to ensure cash receipts are deposited timely and minimize the potential for misappropriation.

In addition, we also noted that deposits in the Parks and Forestry department were made on a monthly basis. We recommend that the City ensure all departments are aware of policies regarding deposits.

Finally, we also noted that the Erie Street Market was not retaining documentation of when funds were received. We recommend that the City ensure all departments are retaining documentation of dates funds are received.

5. Payroll

City employees earn vacation, sick leave and compensatory time off. We noted that the payroll department relies on each department to track vacation, sick and compensatory time for its employees. When processing payroll, the payroll department does not differentiate between regular hours and vacation, sick and compensatory hours within the payroll register. We recommend the payroll department code the various types of leave time within the payroll system to provide additional support for leave time used.

Individuals in the payroll department who process payroll also have the ability to add or terminate employees from the system. Ideally, these duties would be segregated between different departments. We recommend that the City consider segregating these duties between the human resources and payroll departments.

6. Periodic Inventory of Capital Assets

During our review of capital assets, we noted the City has not performed a physical inventory of its capital assets since 2009 when its current software package was implemented. Accurate and complete capital asset records are important for financial reporting as well as the physical security of City assets. We recommend that the City perform a biennial inventory of capital assets to ensure all capital assets are properly accounted for and secured as well as evaluated for impairment.

7. Purchase Requisitions

Ohio Revised Code §5705.41 (D) requires that orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The statute provides for the following exception to this requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

We noted that 6 out of 40 disbursements tested had a purchase requisition date subsequent to the invoice date with no Then and Now Certificate being used or approved by City Council.

**Comments Repeated from the Prior Year**

8. Unresolved Findings for Recovery Policy

Ohio Revised Code §9.24 prohibits a political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part, with State funds, to a person with an unresolved finding for recovery issued by the Auditor of State. It was noted that there was no evidence that the database was checked in 8 out of 12 State funded contracts tested. The City asserted that it is checking the AOS database for all contracts but not always including documented evidence. We recommend the City retain the documentation to support its verification that vendors who are awarded contracts are not listed on the database.

9. Budgetary Compliance

Ohio Revised Code §5705.36(A)(4) requires obtaining a reduced amended certificate of estimated resources if the amount of the deficiency will reduce available resources below the current level of appropriation. We noted appropriations exceeded actual resources in the Special Assessment Services and Operations Grants funds.

Ohio Revised Code §5705.39 states that appropriations from each fund should not exceed estimated resources. We noted instances of appropriations exceeding estimated resources in the Special Assessment Services, Capital Projects, Operation Grants, and General Obligation Debt Service funds.

Ohio Revised Code §5705.10 states in part that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund. The City had negative fund balances in the Special Assessment Services and Capital Projects funds.

Ohio Revised Code §5705.41(B) states that no subdivision is to expend money unless it has been appropriated. We noted instances of expenditures exceeding appropriations in the General, Capital Improvements, Special Assessment Services, Federal Block Grants, Operation Grants, Streets Construction Maintenance and Repair, Toledo HOME Program and General Obligation Debt Service funds.

10. Credit Card Policy

During our review of the City's policies and procedures, we did not find any formal written guidelines addressing credit cards. Further, in testing credit card transactions, we noted that the City incurred finance charges, late fees and were not always supported by receipts. We recommend that the City implement a credit card usage policy, which, at a minimum, identifies authorized users and guidelines for allowable uses as well as specific examples of unallowable uses. Implementing such policies will help minimize inconsistent or inappropriate uses, reduce the occurrence of finance charges and late fees and could help the City in resolving or defending itself against disputes. Examples of credit card policies can be found in the Auditor of State's *Best Practices* – Winter 2004, available on the Auditor of State's website.

11. Cash, Investments, and Disbursements

The Administrative Services Officer has the ability to receive mail, make deposits, record deposits and make transfers. This individual also can authorize investment transactions, access on-line investment accounts, record investment transactions and execute electronic funds transfer arrangements. The Administrative Services Officer can prepare checks, sign checks or authorize a mechanical signature of checks, access mechanical signature plates and mail the checks. Detective controls have been implemented which includes quarterly reports to the Investment Committee and semi-annual internal audits by the City Auditor. However, this situation presents a lack of segregation of duties.

12. Tax System

The Security Administrator for the Taxation System (UTAX) has operator access and access to batches. Further, we noted that income tax employees can access their own income tax account. Detective controls have been implemented which includes a review of system change and transaction logs. However, these situations present a lack of segregation of duties.

13. Accounts Payable Cut-off

During our testing of liabilities, we identified 38 invoices out of 81 tested that were not reported in the appropriate period. The net effect of the unrecorded differences was immaterial to the financial statements. We recommend the City review its current cut-off procedures and more strongly emphasize the importance to minimize the likelihood of these errors in the future.

14. Cell Phone Authorization and Usage

We selected 10 cell phone users to determine if use of a cell phone had been authorized under City policies. We noted 9 of the 10 selections did not have authorization forms on file. City staff asserted they do not retain the forms for more than one year and at times may be authorized verbally. We recommend that the City establish procedures to document authorized users of cell phones and maintain such authorizations.

It was also noted that only ICT runs reports randomly to attempt to identify personal calls. Further, ICT does not attempt to collect any reimbursement from the employee for personal usage of a cell phone, as all minutes, personal or otherwise, are part of a pool for all City cell phone users. We recommend that ICT run reports to identify personal calls on a routine basis as well as establish protocol for collecting reimbursement from employees for personal usage of a cell phone.

15. Travel Expenditures

The City uses a preapproval form (A-1) to obtain authorization for travel costs to be incurred on City business. The Department of Finance keeps a log of authorized travel costs and a final form (A-2) is submitted for final costs incurred for reimbursement. We selected items from the A-1 log

maintained by the Department of Finance for testing. We noted 3 out of 10 A-1 forms and 1 out of 10 A-2 forms selected for testing were not completed. We also noted 2 out of 10 selected for testing where charges were greater than the amount allowed by the City's policy. We recommend that controls be put in place to ensure that all travel expenditures are properly reviewed and approved and for allowable amount.

16. Third-Party Administrators Internal Control Considerations

During our review of third-party administrators used by the City, we noted that service organization reports for ADP related to payroll, Intermedix related to EMS revenue, and CompManagement related to workers' compensation were not being obtained and reviewed for internal control considerations in the City's internal control procedures. We recommend that the City request and evaluate all service organization reports from third-party administrators to ensure all suggested internal controls are considered.

17. Bank Reconciliations

During our review of the City's bank reconciliations, we noted that the operating and utility holding accounts had a significant number of uncleared positive and negative reconciling items dating back to 2010 when the new SAP system was implemented. Although the net difference is considered immaterial, we recommend that the City work to clear these items to ensure that these accounts are being accurately reconciled to the bank balances.

18. EECBG Federal Program Reports

The City is required to submit quarterly financial and performance reports to the U.S. Department of Energy. We noted that the City filed the 1st quarter performance and the 1<sup>st</sup> and 3<sup>rd</sup> quarter financial reports after the required deadline of 30 days and 10 days, respectively, of the month following quarter. We also noted that the reports did not always tie out to the accounting records but lagged by a period of time. We recommend that the City implement controls to ensure all grant reports are completed, reviewed and submitted by required deadlines and with the most up-to-date financial information.

19. As part of our audit, a review was conducted of the information systems infrastructure of the City to assess the current control environment for the computer systems that process the financial information within the City. Our observations and recommendations follow:

- IT Policies

As noted in the prior year review, there is currently no enterprise-wide, formalized information security policy or change management policy. Without formal policies, it is difficult to ensure that personnel and third party IT service providers are aware of City management expectations for the overall governance of the IT environment. Additionally, there are currently very limited formal, documented policies and procedures to support the processes in place for the management of the SAP and UTAX applications. Without detailed procedures, correct system functions may not be performed according to established policies and management's expectations. This increases the risk of errors, missed steps, or incomplete records, and it is difficult to validate that the correct functions have been performed. Furthermore, if any key personnel were to leave the City, there is a risk that important information is lost as to how to correctly perform processes.

- IT Disaster Recovery and Business Continuity Plans

As noted in the prior year review, the city contingency plan, which encompasses aspects of both disaster recovery and business continuity, has not been tested since 2006. Without comprehensive testing of the contingency plan, personnel may not be prepared to take necessary actions after a disaster, increasing the risk that the City will not be able

to restore critical business systems and supporting processes in an organized and consistent manner.

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This report is intended solely for the information and use of the Mayor, Members of City Council, the audit committee, the City's management, and other within the City. Thank you for the opportunity to meet the audit needs of the City of Toledo, Ohio. We also appreciate the excellent cooperation we received from your personnel in our engagement.

*Clark, Schaefer, Hackett & Co.*