



Dave Yost • Auditor of State

MANAGEMENT LETTER

City of Twinsburg
Summit County
10075 Ravenna Road
Twinsburg, Ohio 44087

To the Honorable Mayor and City Council:

We have audited the financial statements of the City of Twinsburg, Summit County, Ohio, (the City) in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2013, and have issued our report thereon dated October 31, 2014.

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 October 31, 2014, for the year ended December 31, 2013.

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 report *Government Auditing Standards* requires. 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 your City. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

NONCOMPLIANCE FINDINGS

* 1. Fiscal Officer Certificates

Ohio Rev. Code Section 5705.41(D) provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

NONCOMPLIANCE FINDINGS (Continued)

* 1. Fiscal Officer Certificates (Continued)

1. "Then and Now" Certificate – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), 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 City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The City utilized a "Then and Now" certification for the purchase of insurance for one of 34 (2.94%) expenditures tested. However, the amount was approximately \$19,300 and no approval of the City Council for the use of "Then and Now" certification was noted. The Finance Director noted Then and Now certificates greater than \$3,000 will be approved by Council beginning in 2014.

In addition, Ohio Rev. Code Section 5705.41(D)(3) provides for the use of "regular blanket" certificates for a sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority of the subdivision or taxing unit. The section also provides that Fiscal Officers may have open only a single "regular blanket" purchase order per line-item appropriation, or at the City's legal level of control.

The City utilized "regular blanket" certificates as provided for in Ohio Rev. Code Section 5705.41(D) (3) during the audit period, however, City Council has not formally established, by resolution or ordinance, a limit to the "regular blanket" certificate amount. Additionally, the City had multiple "regular blanket" certificates open simultaneously for a single line-item appropriation during the audit period. While the City has not yet established a limit for Blanket purchase orders, the Finance Director asserted the City has discontinued use of "regular blanket" certificates in 2014.

NONCOMPLIANCE FINDINGS (Continued)

* 1. **Fiscal Officer Certificates (Continued)**

To help improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend City Council establish a maximum "blanket" certificate amount. The City should maintain only one "regular blanket" certificate for a single line-item appropriation at a time. In addition, the Finance Director should certify the availability of funds for expenditure prior to commitment and also implement the use of Then and Now Certificates, Blanket Certificates and Super Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

* 2. **Timely Deposits**

Ohio Rev. Code Section 9.38 indicates monies should be deposited with the Fiscal Officer or designated depository within 24 hours of collection and requires that monies be deposited on the next business day if the daily receipt amounts exceed \$1,000. If daily receipts do not exceed \$1,000 and the receipts can be safeguarded, the public office may adopt a policy permitting their officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it.

One of the thirteen Gleneagle golf course receipt pay-ins tested (\$1,881) and two of twelve Fitness Center receipt pay-ins tested (\$1,386) were deposited two days or more after initial collection.

Delays of this nature could cause the City's daily receipts to be lost or misplaced without being detected in a timely manner. The City should properly safeguard receipts and implement Ohio Rev Code Section 9.38 relative to depositing requirements and procedures.

* 3. **Original Appropriations exceeding Original Estimated Resources**

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund.

The City had original appropriations in excess of original estimated resources during 2013, as follows:

Fund Name	Estimated Resources	Appropriations	Variance
Police Pension	\$570,702	\$588,365	\$(17,663)
Fire Pension	552,412	648,646	(96,234)

These variances were corrected prior to year end.

The City should monitor appropriations versus estimated resources to avoid overspending and maintain compliance with the Ohio Rev. Code.

RECOMMENDATIONS

* 1. Financial Statement Adjustments

The financial statements were adjusted to correct the following issues identified during our testing:

- Ohio Department of Transportation (ODOT) grants of \$500,000, were presented as a part of Leisure Time Activities Capital Grants and Contributions but would be more properly presented as Transportation Capital Grants and Contributions on the Statement of Activities.
- The Financial Statements improperly reported several types of Intergovernmental Revenue as follows: \$1,843 of Registration amounts in the Street Construction, Maintenance, and Repair Fund and \$241,135 of Electric and Telephone Utility Tax in the General Fund were originally classified as Licenses, Permits, and Fees and \$143,374 of Municipal Motor Vehicle License taxes in the Municipal Motor Vehicle License Tax Fund were originally classified as Charges for Services.
- The City's Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual for the General Fund included original and final budget expenditures for transfers-out that were understated by \$1,668,637 and \$4,060,257, respectively. The transfer-out accounts were rolled into General Government Expenditures rather than transfers-out for presentation purposes, also overstating General Government expenditures by those amounts.
- As a part of the City's GAAP Conversion, the City did not report the amount by which 2014 permanent appropriations, \$29,553,823, exceeded the 2014 estimated receipts (excluding the unencumbered fund balance), \$23,466,422, from the Official Certificate of Estimated Resources - Amendment 2 in the General Fund as assigned fund balance as required by Governmental Accounting Standards Board (GASB) Statement Number 54, resulting in a reclassification entry of \$6,087,381 from Unassigned Fund Balance to Assigned Fund Balance.
- Contrary to the requirements of GASB Statement Number 54, the City included the Capital Improvements Fund ending fund balance of \$2,815,206 as Restricted Fund Balance of \$661,877 and Committed Fund Balance of \$2,153,329. While the restricted amount was based on the recorded Ohio Public Works Commission (OPWC) and Ohio Department of Transportation (ODOT) grant amounts, this would be more properly classified as assigned, based on the City's policy of using restricted resources first, leaving no restricted monies in the ending fund balance. The committed amount was determined based on the City transferring monies into the fund from Income Taxes in the General Fund by ordinance; however, no specific purpose is outlined in the ordinance, making the fund balance only assigned by the City's management.

Furthermore, our financial statement testing resulted in the following adjustments reported to management as unadjusted items:

- Deferred Revenue was overstated and Municipal Income Taxes was understated by \$37,822 in the General Fund due to the exclusion of the related retainer amount from revenue on the full accrual basis of accounting.
- Accounts Receivable and Sewer Charges for Services revenue were understated by \$3,609 in the Sewer Fund due to improper calculation of the receivable amount.

RECOMMENDATIONS (Continued)

* 1. Financial Statement Adjustments (Continued)

To help ensure proper financial statement presentation and more accurate GAAP related estimates, the City and GAAP Conversion team should:

- Review revenue accounts, as combined for presentation on the Statement of Activities, for reasonableness based on the source of the account's funds.
- Review with GAAP Conversion workpapers for proper classification of revenue accounts.
- Review with the GAAP conversion team which accounts represent transfers-out.
- Determine the amount by which next year's appropriations exceed next year's estimated receipts and report those amounts as assigned fund balance rather than unassigned fund balance.
- Include the Capital Improvements Fund Balance as Assigned rather than Restricted and Committed for reporting purposes in accordance with GASB Statement Number 54.

* 2. Sewer Non-Cash Adjustments

The City's utility billing accounting system allows for non-cash adjustments to be made to customer accounts; however, no documentation is maintained to support the approval by management for adjustments made. This could result in unauthorized adjustments being made to accounts.

The City should document management's approval of non-cash adjustments made to the utility billing accounting system.

* We also reported these matters in our prior audit of the financial statements.

We intend this report for the information and use of City Council and management.



Dave Yost
Auditor of State
Columbus, Ohio

October 31, 2014