



Dave Yost • Auditor of State

MANAGEMENT LETTER

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

To the Honorable Mayor and Members of Council:

We have audited the financial statements of City of Twinsburg, Summit County, Ohio (the City) in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2012, and have issued our report thereon dated August 23, 2013.

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 23, 2013, for the year ended December 31, 2012.

Office of Management and Budget 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 23, 2013, for the year ended December 31, 2012.

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 Office of Management and Budget 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 your City. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Findings

1. System for Award Management Documentation

2 CFR Part 180.300 states that non Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are excluded or disqualified or whose principals are excluded or disqualified. "Covered transactions" include those procurement contracts for goods and services under a non-procurement transaction (e.g., grant or cooperative agreement). When a non-Federal entity enters into a covered transaction the entity must verify that the entity is not excluded or disqualified. This verification may be accomplished by checking the Excluded Parties List System (EPLS) (prior to November 21, 2012) or System for Award Management (SAM) (after November 21, 2012) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

Noncompliance Findings (Continued)

The City contracted with vendors for various road repair projects that were greater than \$25,000 and were paid from the Highway Planning and Construction Program. While the City asserted the EPLS was reviewed for those vendors, no evidence was maintained documenting an EPLS or SAM search was performed, certification was collected from the entities, or clauses/conditions were added to the covered transactions. We subsequently reviewed the SAM, noting the entity was not listed on the SAM as having active exclusions.

The City should perform a search of the SAM before awarding contracts for goods or services expected to equal or exceed \$25,000, and attach a copy of the search results to the documentation supporting the contract. Alternatively, the City may collect a compliance certification from the contracting entity or add a clause or condition to the covered transactions with the entity.

2. Fiscal Officer Certificates

Ohio Rev. Code Section 5705.41(D) requires 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.

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.

Noncompliance Findings (Continued)

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 did not certify three reoccurring expenses selected for testing: insurance claims, utility bills, and bank analysis charges nor was there evidence the City issued Then and Now Certificates for these selected transactions. The City should certify the availability of funds for expenditure 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).

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

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.

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).

3. 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.

Noncompliance Findings (Continued)

Two of the twelve Gleneagle golf course receipt pay-ins tested (\$2,510.02 and \$150.00) and one of the nine Fitness Center receipt pay-ins tested (\$3,052) were deposited 2 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.

4. 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 2012, as follows:

Fund Name	Estimated Resources	Appropriations	Variance
Fire Pension	\$427,295	\$519,980	\$(92,685)
Police Pension	463,754	519,965	(56,211)

These variances were corrected prior to year end.

The City should monitor appropriations versus estimated resources to avoid overspending. Additionally, the City should request a "does not exceed" certificate from the Summit County Fiscal Officer.

Recommendations

1. Disaster Recovery Plan

While the City does have a formal Emergency Operations plan, the plan does not specifically outline procedures to enable continued operation of the City's data processing system in the event of a disaster. A plan lacking such elements could result in loss of valuable start-up time and delays in data recovery from the computer systems in the event of a disaster.

The City should include in its written plan procedures to help ensure the continuation of City operations in the event of a disaster. A documented plan for the recovery of interrupted or lost data processing activities should be developed and distributed to appropriate personnel. Arrangements for space, hardware, data files, programs, systems software, database and documentation should be included in the plan. A test of the disaster recovery plan should be executed to help ensure critical details have been included and the documented recovery activities are achievable.

Recommendations (Continued)

2. Comingled Federal Funds

The City receives various state and federal grants which are intended to fund capital improvements to be made by the City. These grant funds, along with City income tax revenue designated for use in capital improvements, are co-mingled in the City's accounting system into the Capital Improvements fund. While receipts can be easily identified based on the source and account information, expenditures related to these grants cannot be separated by grant program. Additionally, the local match contribution related to some grants are also paid from the Capital Improvements fund, where it is difficult to determine the source of funding for the local match portion.

In order to help ensure a proper audit trail and help demonstrate compliance with grant funding requirements, the City should establish a system to account for federal and state grants separately from local funds. The system should include a method of documenting what monies being received and disbursed represent federal dollars and which represent local matching funds. The Finance Director is currently in the process of establishing funds for each grant with the City's accounting system provider.

3. Sewer Fund Charges for Services

During our testing of Sewer Fund Charges for Services, we noted the City overcharged 2 customers (\$11 and \$1,830). The overcharges were due to incorrect rates and/or incorrect number of fixtures being input into the computer system. This could allow for other billing errors to occur and not be detected.

The Public Works Director should review standing data input by the Sewer Bill Accountant when there are any changes in rates or fixtures or when the City adds a new customer to the computer system.

Also the City should consider revising their billing statements to provide more detailed information on how the bill was computed (include the rates, the number of fixtures, the number of employees being charged, etc.). This would allow the customer to verify the City has the correct information input.

4. Posting Budgetary Information

The City's accounting system is updated to include the estimates established by the Finance Director and approved, along with the permanent appropriations, by City Council. However the estimated revenue amounts that were certified by the County Budget Commission on the Official Certificate of Estimated Resources and the Amended Official Certificate of Estimated Resources did not agree to the City's accounting system for the General, Fire Pension, and Police Pension funds.

In order to help ensure proper posting and accurate information for comparison, the Finance Director should review estimated revenue amounts posted to the accounting system to determine the amounts are in accordance with the approved budgetary information received from the County Budget Commission.

Recommendations (Continued)

5. Budgetary Statements

The following issues were noted while testing the General, Fire Pension, and Police Pension Funds, Statement of Revenue, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual:

- The statements included revenues from the first Amended Certificate of Estimated Resources, dated February 2, 2012, as the Original Budget Revenues instead of the Official Certificate of Estimated Resources, dated December 30, 2011. The original appropriations, intended to fund the entire year, were passed on November 22, 2011 making the Official Certificate the one in place at the time appropriations were passed. As a result, adjustments to original budgeted revenue totaling \$1,400,000, \$91,173, and \$54,699, were noted for the General, Fire Pension, and Police Pension Funds, respectively.
- The Original and Final Budget Revenues did not include estimated revenues from the respective Certificate for the Reserve Fund (072) of \$20,000 and \$40,500, which is included as a part of the General Fund for presentation purposes. Additionally, Original and Final Budget Expenditures in the General Fund did not include appropriations related to the Unclaimed Monies Fund (027) of \$10,000 each, which is also included as part of the General Fund.
- Original and Final Budget Revenue and Expenditure amounts are allocated to the individual line items based on actual receipts and expenditures rather than by the amounts approved by the County Budget Commission or City Council, respectively.
- Original and Final Budget Expenditures in the General Fund reflected only a portion of prior-year outstanding encumbrances rather than the entire amount noted in the prior year budgetary statements, resulting in adjustments of \$306,267 and \$306,269, respectively.
- Original Budget, Final Budget, and Actual Expenditure amounts in the General Fund included Dispatch expenses as Leisure Time Activities, which would be more properly classified as Security of Persons and Property. Adjustments of \$768,972, \$633,883 and \$645,891 were made to the Original and Final budget and Actual columns, respectively.

The financial statements were adjusted for the items noted above. In order to help ensure proper presentation of the budgetary statements, the City and GAAP Conversion team should:

- Utilize the Certificate of Estimated Resources in place at the time appropriations are approved.
- Include Original and Final Budget estimated resources and appropriations for all funds that are presented as a part of the General Fund.
- Present budgeted revenues and expenditures as they are approved by the County Budget Commission and City Council to the greatest extent possible, in order to reflect the most correct information.
- Include all amounts presented as prior-year encumbrances, as applicable, as a portion of Original and Final Budget expenditures.
- Review the purpose of the accounts included in the General Fund to determine the proper classification of related statement amounts.

Recommendations (Continued)

6. Financial Statement Adjustments

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

- The original and two subsequent draft financial statements included various mathematical errors (did not foot and cross-foot).
- Concert Donations and Contributions of \$119,730, which included ticket sales, was presented as a part of Transportation Charges for Services but would be more properly presented as part of Leisure Time Activities Charges for Services on the Statement of Activities. Dispatch expenditures of \$645,891 were recorded as leisure time activity expenditures in the General Fund but would be more properly presented as security of person and property expenditures. Motor vehicle license receipts of \$194,122 were recorded as licenses, permits and fees receipts and Ohio Department of Transportation receipts of \$19,485 were recorded as miscellaneous receipts in the Street Construction Maintenance & Repair Fund but would be more properly presented as intergovernmental revenue.
- The City improperly recorded several types of Intergovernmental Revenue as Property Tax Revenue, including \$17,521 of Homestead and Rollback receipts in the Fire Pension Fund, \$336 of Public Utility Reimbursements in the Fire Pension Fund, \$19,954 of Personal Property Reimbursements in the Fire Pension Fund; and \$87,607 of Homestead and Rollback receipts in the Park Debt Service Fund. Additionally, \$1,224 of Public Utility Personal Property tax was improperly recorded in the Police Pension Fund when it should have been included in the Fire Pension fund.

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

- Deferred Revenue was overstated and Property and Other Local Taxes was understated by \$21,994, \$4,398, and \$4,398 in the Park Debt Service Fund, Fire Pension Fund, and Police Pension Fund, respectively, due to delinquent taxes being excluded from Property and Other Local Taxes revenue on the full accrual basis of accounting.
- Accrued Payroll and Security of Persons & Property were overstated by \$8,048 and \$6,234 in the Police Pension Fund and the Fire Pension Fund, respectively, due to the improper inclusion of part-time employee wages in the City's calculations. Additionally, as a result of the miscalculation, Accrued Pension payable and Security of Persons & Property expense was overstated by \$176 and \$1,781 in the Police Pension Fund and the Fire Pension Fund, respectively, because Accrued Payroll is used in the calculation of Accrued Pension.
- The Compensated Absences calculation for the Sewer Fund improperly included \$2,202 and \$594 for sick leave and vacation leave, respectively, for employees who were not vested or eligible for vacation payments according to the City's bargaining agreement.

Recommendations (Continued)

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

- Review the draft financial statements for mathematical errors;
- Ensure all employee accrued wage and pension amounts are calculated correctly based on the applicable pension plan;
- Exclude from the compensated absences calculation employees who are not vested or do not qualify for sick leave conversion and vacation leave.
- Review revenue accounts, as combined for presentation on the Statement of Activities, for reasonableness based on the source of the account's funds.
- Take the necessary steps to ensure all transactions are properly accounted for and classified in the City's accounting system. Monies received by the City that are reimbursements from the State to make up lost revenue should be recorded by the City as Intergovernmental Revenue.

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



Dave Yost
Auditor of State
Columbus, Ohio

August 23, 2013