

June 28, 2013

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

We have audited the financial statements of the City of Cincinnati, Ohio (the "City"), as of and for the year ended December 31, 2012, and have issued our report thereon dated June 28, 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 June 28, 2013, for the year ended December 31, 2012.

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 June 28, 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 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 Recommendations

1. Parking Meter Collections

During our review of parking meter collections policies and procedures, it was noted that new guzzlers to collect coins from the meters were purchased in 2012. The new guzzlers were not numbered which resulted in the Treasury Daily Log Sheet, utilized to sign in and out the guzzlers, not being completed during 2012.

We recommend all guzzlers are numbered and further, each guzzler should be signed in and out on the Treasury Daily Log Sheet.

Management's Response: The City has begun using a daily log sheet and has uniquely lettered each of the newly purchased guzzlers.

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2. Procurement – HOME Investment Partnerships Program (CFDA # 14.239), Shelter Plus Care Program (CFDA # 14.238) and ARRA Neighborhood Stabilization Program (CFDA # 14.256)

During our review of procurement contracts for the programs indicated, we noted the City did not maintain documentation of the City's verification the vendor was not suspended or debarred.

We recommend that the City implement procedures to ensure that documentation is maintained to indicate the City verified that the vendor was not suspended or debarred prior to awarding the contract.

Management's Response: The City will develop a procedure to verify and document whether a vendor has been suspended or debarred before awarding contracts to grant vendors. With recent staff changes, we believe an extensive knowledge of grant requirements will be available to the purchasing staff.

3. Subrecipient Monitoring – HOME Investment Partnerships Program (CFDA # 14.239) and Shelter Plus Care Program (CFDA # 14.238)

During our review of the subrecipient agreements for the programs indicated, we noted the agreements did not include the CFDA number of the program, as recommended by OMB Circular A-133.

We recommend the City implement procedures to ensure that all subrecipient agreements contain all the required elements, including the program CFDA number, to ensure proper accounting and reporting of the programs by subrecipients.

Management's Response: The Accounts and Audits division of the Finance Department will be assuming additional responsibilities for the monitoring of grant subrecipients. Contract content requirements will be defined and a template will be created for subrecipient contracts.

4. Subrecipient Monitoring – ARRA Energy Efficiency and Conservation Block Grant Program (CFDA # 81.128)

During our review of subrecipient monitoring under this program, we noted the City did not request or receive the subrecipient's annual audit report.

We recommend that the City implement procedures to ensure the City requests and receives subrecipient annual audits to ensure their subrecipients are in compliance with OMB Circular A-133.

Management's Response: The Accounts and Audits division of the Finance Department will be assuming additional responsibilities for the monitoring of grant subrecipients. Procedures will be developed to request and maintain A-133 reports from subrecipients.

Recommendations Repeated from the Prior Year

5. Segregation of Duties – Purchasing and New Vendor Setup

During our review of the Purchasing Department new vendor setup procedures, it was noted that one individual has the ability to set up new vendors within the system and also access to approve purchases.

Ideally, these responsibilities should be segregated to mitigate the potential risk of committing and concealing the misappropriation of funds.

Management's Response: Due to continued staff reductions, the employee that administers the Vendor Self Service system does not have access to approve PDQs and DOs that require override for administrative reasons such as the commodity being on a contract or the commodity being IT related that require prior ETS approval. The funds are approved by Accounts and Audits. This employee only approves PDQs and DOs when acting in the roll of back up. The Purchasing Division is currently undergoing management change and with that change will be a review of the division's processes.

6. Financial Disclosures Statements

During our testing of timely filing of financial disclosure statements by elected officials and City administrators, we noted three instances where the Financial Disclosure statement was stamped as received after the deadline.

We recommend the City's Human Resources (HR) department properly stamp all forms on the date of receipt and that the HR Department take the necessary action, as stated in the Financial Disclosure policy to ensure timely filing of all forms.

Management's Response: The Human Resources Department will ensure the proper date stamping of all forms and take any necessary disciplinary action to ensure compliance with the Financial Disclosure Administrative Regulation.

7. Segregation of Duties – ACH Payment Processing

During our review of City Treasury processes and procedures, we noted that one employee has the ability to set up new users within the banking software and also access to approve ACH transfers.

Ideally, these responsibilities should be segregated to mitigate the potential risk of committing and concealing the misappropriation of funds.

Management's Response: The City Treasurer has the ability to set up users and initiate ACH transactions on the City's banking software. The City Treasurer is the administrator on the City's banking software and as such does have the ability. The bank accounts are reconciled on a monthly basis as a check on the account and this would catch ACH payments that were not authorized. In the normal course of business, the Treasurer does not set up or approve ACH transactions.

8. Contract Advertisement

During our testing of compliance with City Municipal Code, Chapter 321, Section 17 – Procurement; Supplies, Services and Construction in Excess of \$250,000, we noted one contract was not advertised in the City Bulletin as required.

We recommend that the City implement procedures to ensure that all contracts are advertised as required by City Municipal Code.

Management's Response: Purchasing has established procedures for advertising bids via the City Bulletin in accordance with the Cincinnati Municipal Code. Bids are advertised via the Internet on Vendor Self Service. The process will be reviewed to ensure that all bids requiring advertisement in the City Bulletin are properly marked to be advertised as required.

9. Segregation of Duties – Check Processing Software Access

During our review of City Treasury processes and procedures, we noted that two employees have access to both the check printing software as well as the positive pay file sent to the bank. Under such circumstances, there is the potential to circumvent the controls in place to prevent unauthorized check printing.

Ideally, access to the positive pay files sent to the bank should be assigned to someone without check preparation responsibilities to achieve adequate segregation of duties.

Management's Response: In routine processing of checks and positive pay files, the person who sends the positive pay file to the bank does not have check printing responsibilities. Nor does that individual have access to the check printing system. It is only in unusual cases where a person with access to both systems would print checks and send the positive pay file to the bank. Treasury continues to explore options for better segregation of these duties, however with continued budgetary challenges the options are very limited.

10. Segregation of Duties – Credit Memo Processing

During our review of the Treasury Division's credit memo process and procedures, we noted one employee has access to process receipts and approve credit memos.

Ideally, these responsibilities should be segregated to mitigate the potential risk of committing and concealing receipt misappropriation.

Management's Response: In the routine course of business, the receipt processing for Accounts Receivable is performed by one individual and credit memos are processed by another individual. It is only in rare cases where the person who processes the credit memos would also be in a position to perform receipts. Treasury will develop a set of procedures to better segregate these duties.

11. Cash Collections

During our review of the Cincinnati Recreation Commission's cash collection procedures, we noted several locations use a manual receipting process.

We recommend use of cash registers to ensure all transactions are properly recorded and accounted for to ensure completeness of cash receipts and minimize access to only authorized personnel.

Management's Response: While cash registers at each location are preferable, the continued budgetary climate makes an implementation of such not feasible. With many CRC locations having a low level of cash transactions, better oversight of the sequentially numbered receipt books and timely bank deposits with prompt reconciliation have improved our oversight of the cash coming into CRC.

12. Computer Systems

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:

- Pension Gold System Access

Several retirement users have the ability to make unauthorized changes to the pension benefit calculations. Users of the Specialist and Technician groups have the ability to change pension benefit calculations, override years of service, pension amounts and add contributions. Authorization is not required to make these changes, and only manual checks of system logs would catch an inappropriate change.

It is recommended the City review system logs periodically and audit changes to benefit calculations.

Management's Response: The Pension Gold System has limitations which are only completely addressed with an implementation of a new system. Until such time, the retirement office will develop a review process that will review changes made to the system.

- Pension Gold – Policies and Procedures

There are currently no formal, documented procedures to support the processes in place for the management of the Pension Gold application. For example, although the application vendor is responsible for making changes to the application, the City is an active participant in this process, including user acceptance testing as well as management review and approval prior to any changes being applied. There is no documented procedure that would govern the overall behavior of personnel throughout the change process, which may result in decisions made that are inconsistent with management's expectations.

It is recommended the formal procedures should be developed for the Pension Gold application to document the specific steps for how an activity or process should be performed and by whom.

Management's Response: Management concurs. Retirement and ETS will work together to develop formal written procedures for the Pension Gold system.

- Pension Gold – Data Validation

The Pension Gold application stores employee and retiree data that must be manually entered by users. There are currently no data validation controls in place that would ensure the correctness and integrity of entered information.

It is recommended that City management works with the application vendor to implement data validation controls.

Management's Response: Retirement will work with the application vendor to implement such controls to mitigate the data integrity risks.

- IT Disaster Recovery and Business Continuity Plans

The creation, implementation, and testing of disaster recovery and business continuity plans is the responsibility of each department. However formal, documented plans have not been developed for the City's departments, including the business functions and supporting systems environment.

It is recommended that disaster recovery and business continuity plans are created and implemented for all departments in the City environment and the plans are tested and reviewed on a periodic basis.

Management's Response: The new security policy makes departments responsible for having and implementing disaster recovery and business continuity plans. Disaster recovery and business continuity are covered under the new security policy (pg.41-42). The ETS continues to work with departments to help prioritize and establish DR/BC procedures for systems. ETS has identified a secondary site to host systems in the event of a disaster.

- Password Configuration

Active Directory is used for enterprise-wide authentication and access controls. The current configuration requirements for passwords and account lockout are inconsistent with industry "best practice" standards. Pension Gold is hosted and maintained by the application vendor, which uses Active Directory for authentication and access controls. The vendor requirements for passwords are inconsistent with industry "best practice" standards. Deviations from industry best proactive standards may reduce the overall security and integrity of the data within in the systems.

IT is recommended that the City assess the risk associated with the current password requirements and account lockout settings. Additionally, in order to effectively protect Pension Gold data, City management should work with the application vendor to determine whether the password configuration can be strengthened.

Management's Response: ETS will review the Active Directory policy and make changes to be compliant with the City's of Cincinnati's password Policy.

- Access Management

When individuals leave or change jobs within the City, access provisioning process stipulates that it is the responsibility of their supervisor to inform human resources; the supervisor is also responsible for contacting system owners. There is currently no requirement or process for human resources to communicate recent terminations or position changes to other departments. Additionally, there is no formalized process in place for periodic review of user access for the Active Directory.

It is recommended that a process is implemented for human resources to periodically communicate terminations and job changes to system owners. It is further recommended that a periodic user access reviews are performed for the Active Directory.

Management's Response: The ETS Office of Security recognizes this and is developing a plan and process to work with HR to address this.

- Network Connectivity

Management should consider installing a redundant internet link for the City's network. While there are currently four connections, none of these back up the others.

If internet connectivity were lost on any one of these connections, access would remain down until the link is restored; resulting in the City's inability to perform certain tasks and provides certain services to its residents and customers.

Management's Response: ETS has installed a redundant Internet link. ETS is currently in the process of configuring the redundant link.

- Intrusion Detection System

An intrusion detection system ("IDS") is not currently in place to help ensure that unauthorized system access attempts would be proactively identified and investigated before such activity is successful in its objectives.

It is recommended that the City consider implementing an IDS within the City systems environment. Without an IDS, there is potential that an undetected individual gains unauthorized or inappropriate access to the city network or specific machine on the network.

Management's Response: ETS is working on installing an IDS system. ETS has identified software and are reviewing the best configurations of the IDS software in the City of Cincinnati MAN.

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

Clark, Schaefer, Hackett & Co.