

April 4, 2017

To: Rules and Audit Committee
From: Harry Black, City Manager
Subject: FY2016 Auditor's Management Letter

A FYI memo, dated March 22, 2017, was submitted to City Council providing the City of Cincinnati's Single Audit, Auditor's Management Letter, and the CAFR. The Management Letter included comments on the City's internal controls. These comments are either a compliance item or a recommendation and reflect matters that do not represent significant deficiencies but represent matters for which improvements in internal controls or operations might be achieved.

Transmitted with this memo are the Auditor's Management Letter items and recommendations with responses from City departments.

Attachments

c: Reginald Zeno, Finance Director

COMPLIANCE

1. ***2 CFR § 200.302** states that the financial management system of the non-Federal auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity, if any.

The determination of when a federal award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with the grants.

2 CFR 200.510(b) states in part the City must prepare a schedule of expenditures of Federal awards for the period covered by the City's financial statements which must include the total Federal awards expended as determined by § 200.502.

The City maintained records accounting for the amounts reported on the schedule of expenditures of federal awards (SEFA). However, for the Public Health Research Fund (Fund 350) federal expenditures, we were unable to agree the amounts listed on the SEFA back to the City's general ledger or trial balance. We were able to agree these amounts to other supporting documentation. We noted the following reporting errors on the schedule of expenditures of Federal awards:

- Economic Development Initiative - Special Project Grant expenditures were overstated by \$5,966;
- Highway Planning and Construction Grant expenditures were understated by \$287,215;
- Airport Improvement Grant expenditures were understated by \$581,046;
- Family Planning Services Grant expenditures were understated by \$119,300;
- Maternal and Child Health Service Block Grant expenditures were overstated by \$119,300;

The City has made all the above adjustments to the schedule of expenditures of Federal awards.

Failure to accurately account for separate federal funds in the City's general ledger reduces the accountability over federal expenditures and reduces the ability to monitor compliance with federal grant requirements. Failure to properly report the schedule of expenditures of Federal awards could lead the schedule to be materially misstated, expenses not being properly reported to the federal awarding agency in the correct period and/or possible loss or payback of federal monies. The City should accurately account for separate federal funds in the City's general ledger and properly report the schedule of expenditures of Federal awards.

Department of Community and Economic Development (DCED) response– fourth paragraph, first bullet
Initially, DCED included both “hard” and “soft” costs as grant expenditures. We subsequently learned that only hard costs are eligible and DCED will charge only hard expenditures to the grant going forward. The balance of the grant will be expended toward the hard costs of a recently-approved project bill.

Department of Transportation and Engineering (DOTE) response– fourth paragraph, second and third bullets
We have adjusted our processes to prevent this from happening in the future.

Cincinnati Health Department (CHD) response- fourth paragraph, fourth and fifth bullets
The following is CHD's response to the State Auditor's finding number 1 related to the CHD's Reproductive Health and Wellness (RHW) grant. The State Auditor's office was unable to tie expenditures recorded in the City's general ledger to the multiple federal CFDA grant numbers that the Ohio Department of Health (ODH) used to fund the grant.

CHD's system for tracking expenditures in the City's general ledger is designed to collect and report those expenditures to the Ohio Department of Health (ODH) in the State's Grant Management System (GMIS) by the total ODH grant award. Per the grant award and GMIS, ODH does not require CHD to report expenditures by CFDA number. ODH only requires that CHD report on the total grant expenditures. CHD has successfully met all of the ODH expenditure reporting requirements for this grant. CHD has used the same methodology to collect and report expenditures for more than a decade for all ODH grants. CHD has successfully completed multiple site visits and desk audits of our grant expenditure reports by ODH during this time frame.

CHD has reviewed 100% of its current Notice of Awards from all grantors. The only grant that has multiple CFDA numbers associated with the award is the Reproductive Health & Wellness grant. For the current fiscal year and beyond for grant awards with multiple CFDA numbers, CHD will begin tracking expenditures by CFDA # inside of a grant award through separate schedules not included in the City's general ledger. If and when ODH or other grantors require reporting by CFDA number rather than the total award amount, CHD will adjust their methodology to record expenditures by CFDA in the city's general ledger.

2. **24 CFR section 576.203** states "The recipient must pay each subrecipient for allowable costs within 30 days after receiving the subrecipient's complete payment request. This requirement also applies to each subrecipient that is a unit of general purpose local government". The City of Cincinnati did not pay Emergency Solutions Grant funds to Strategies to End Homelessness in the required time frame for 3 out of 15 (20%) transactions tested. Failure of the City to pay subrecipients in a timely manner could lead to the City not reporting federal expenditures in the correct year and/or leading to the subrecipient to be unable to provide adequate services as the grant is intended due to insufficient resources. We recommend that the City pay grant monies to subrecipients within the required timeframe.

DCED response (Attachment A):

Please see attached documentation related to payment requests. The City did pay subrecipient for allowable costs within 30 days after receiving subrecipient's complete payment request. The discrepancy was in the date on the voucher (subrecipient fills this portion out) and the date received by the City as evidenced by date and time stamp. (See Attachment A)

3. The **Collaborative Settlement Agreement** for the Cincinnati Retirement System states "the City shall develop a proper funding policy for the 115 Trust Fund." It also states "The City must fund the 115 Trust Fund at actuarially appropriate levels sufficient to provide the benefits for the term of the CSA." In addition the Collaborative Settlement Agreement states in part beginning six months after the Effective Date of the Agreement and every 12 months thereafter, the City and Class Counsel shall file a status report with the Court."

The City does not have a funding policy in place for the 115 Trust Fund (the Health Care Plan). Also, the City did not file a status report with the Court within the first six months of the effective date of the agreement. At December 31, 2015, the 115 Trust fund had an unfunded actuarial accrued liability of \$10,086,799. Failure to implement a funding policy as required could lead to an increase in the 115 Trust Fund actuarial accrued liability. Failure to file a status report with the Court could cause the City to be in contempt of Court and/or cause the Court to place additional requirements on the City.

We recommend the City develop a funding policy for the 115 Trust Fund and fund it at actuarially appropriate levels sufficient to provide benefits for the term and as required by the Collaborative Settlement Agreement. We also recommend the City file a status report with the Court as required.

Retirement response:

The City has presented a 115 funding policy to the parties as required by the CSA, and continues to negotiate with the parties under court supervision regarding the terms of the proposed policy. The City and the CSA parties continue to work under court supervision, and have recently reported to the court on

outstanding issues under the CSA, including the need for a status report. The Court has directed the parties to continue to work on various implementation items, including the 115 funding policy negotiation, and expects the parties to file a summary status report within the next 90 days.

4. The City of Cincinnati Police Department Procedure Manual Section 12.825 Compensatory Time and Paid Overtime states, in part:

. . . personnel working overtime must complete and submit a Form 68P, Overtime and Court Appearance Report by the end of the next working day after the overtime work has been completed. Authorization must be given prior to the employee working the overtime. Authorization of the pre-approval of overtime will be documented in the "Overtime pre-approved by" block on the Form 68P in the form of a signature of a supervisor or name of the unit or name of the supervisor authorizing the overtime. The Form 68P is then completed by filling out the "Duty hours", "Overtime hours" and "Reason" block. After the Form 68P is completed a supervisor must sign the "Verified by" line after verifying the overtime worked and the accuracy and completeness of the form. When the Form 68P is finished the overtime can be entered into the system for payment.

We reviewed 354 instances where Form 68P's were required and noted the following noncompliance with the above policy:

- 160 of 354 (45%) of the 68P Forms tested were not pre-approved;
- 1 out of 354 of the 68P forms were not received:
- 6 out of 354 (2%) of the 68P forms fields on the forms were not complete.

Failure to adhere to the policies implemented could lead to the abuse of overtime, overtime pay being denied and errors in overtime payments.

We recommend the City implement controls to ensure that employees are adhering to the overtime approval policies.

Police response (Attachment B):

The Police Department has reviewed the informational packet supplied to the staff of the Auditor of the State of Ohio in preparation for this letter of response, explanation/refutation and actions to correct the information identified. The three bullet points are addressed as follows:

160 of 354 (45%) of the 68P forms tested were not preapproved

The packet does contain 160 Forms 68Ps without preapproval notation of which 157 (98.13%) are narrowly and specifically related to Court Appearances. The management of Court Appearances, including but not limited to the approval of compensation is managed by Procedures 12.815: Court Appearances, Jury Duty, and Other Hearings, 12.817: Court Management as well as the listed Procedure 12.825: Compensatory Time and Paid Overtime. The process includes a multi-layered notification process, in lieu of subpoena service, which requires supervisory oversight at four separate levels prior to approval for compensation for pay or time. The Pre-Approval signature is not required and its omission did not result in unwarranted compensation.

The packet also contains 3 Form 68Ps (1.87%) without preapproval notation. The 3 68Ps are related to Outside Employment Extension of Police Services Details which were generated and assigned by the Detail Coordination Squad/COPLOGIC software utilized by the Department. The listing of preapproval is addressed in Procedure 12.825: Compensatory Time and Paid Overtime, Section A.1.c. which states in part:

- c. In cases of contingency or reimbursable overtime, such as details assigned by the Detail Coordination Squad (DCS), preplanned City Paid details, SWAT incidents, etc, no signature is required. However, the name of the unit (e.g. DCS) or the supervisor authorizing the overtime will be entered into the "Overtime Preapproved by" block.

The Department recognizes an error in the 3 Form 68Ps identified. The 3 Form 68P's involve three different officers who worked the Outside Employment Extension of Police Services Details in a District in which each was not assigned. A pattern does not exist with any personnel involved in the approval process. The Department will review Procedure 12.825 Compensatory Time and Paid Overtime, Section A.1.c with personnel to address and correct the omission.

1 out of 354 of the 68P Forms was not received:

The identified officer listed, Sergeant Victoria Wysel, on the Payroll Activity Report supplied to the Auditor's Office received compensation for a Court Appearance on June 2, 2016. The packet provided did not contain the associated Form 68P. The original Form 68P is on file at her unit of assignment. The omission is attributed to a failure to include it in the packet or a failure in the scanning process. No further action is required.

6 out of 354 (2%) of the 68P forms fields on the Forms were not complete.

The Management Letter fails to identify specific fields which were omitted. A review of the packet by Police Department personnel was unable to identify specific fields omitted in the process.

Conclusion:

The Police Department believes it has sufficient procedures, controls and processes in place to maintain the integrity of the management of compensation for employees, but will implement the previously listed corrections.

RECOMMENDATIONS

1. *Investment Management Services

The City contracted with Bond-Tech and Nuveen Asset Management, LLC, for investment management services. The City has not established procedures to determine whether the service organization has sufficient controls in place, which are operating effectively, to reduce the risk that securities have not been purchased or sold in accordance with the contract and City guidelines.

We recommend the City ensure securities have been purchased or sold in accordance with the contract and City guidelines. Furthermore, we recommend the City specify in its contract with the third-party investment manager that an annual SSAE 16/SOC 1 audit be performed. The City should be provided a copy of the SSAE 16/SOC 1 audit report timely and should review the report's content. A SSAE 16/SOC 1 audit should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party investment manager refuses to provide a SSAE 16/SOC 1 audit report, we recommend the City only contract with a third-party investment manager that will provide such a report.

Finance response:

The City will review the reports and work with the Auditor to get more clarity on the requirement of the SSAE 16/SOC 1 audit. Future investment management contracts will require the SSAE 16/SOC 1 audit. Currently, Nuveen and Bond-tech are registered SEC firms and have provided the ADV parts I and II.

Form ADV is the uniform form used by investment advisers to register with both the SEC and state securities authorities. The form consists of two parts. Part 1 requires information about the investment adviser's business, ownership, clients, employees, business practices, affiliations, and any disciplinary events of the adviser or its employees. Part 2 requires investment advisers to prepare narrative brochures that contain information such as the types of advisory services offered, the adviser's fee schedule, disciplinary information, conflicts of interest, and the educational and business background of management and key advisory personnel of the adviser. The brochure is the primary disclosure document that investment advisers provide to their clients.

2. Unsecured Loan

The City should provide adequate collateral for loans and such collateral should be sufficient to cover potential default losses. The City amended a promissory loan to Mahogany at the Banks LLC on March 17, 2015. The amendment did not contain any provisions related to security or collateral for the repayment of the loan should the debtor default. Failure to provide sufficient collateral for loans could result in potential default losses and impair the ability to collect on outstanding loans. We recommend the City, when acting as a lender, incorporate security or collateral provisions in all loan agreements to avoid potential losses on defaults.

DCED response:

The amendment to the loan to Mahogany at the Banks LLC was a unique situation in that the amendment was intended as resolution of a prior loan default. With the exception of this particular loan, the City, as lender, has incorporated adequate security or collateral provisions in all loan agreements.

3. *Capital Assets

City management is responsible for preparing and fairly presenting their financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal controls relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

We noted the following conditions related to the City's record of capital assets:

- The City improperly removed a portion of the asset ML King/I-71 Interchange from Construction in Progress (CIP) and classified the portion as Improvements in the amount of \$20,076,747. The asset was still under construction at the end of the fiscal year, and should be classified as Improvements only when it is complete.
- The City has projects recorded as CIP, which have not had any activity in at least three years.

Lack of internal controls over accounting and financial reporting increases the risk that errors, theft or fraud could occur and not be detected in a timely manner. Failure to accurately post financial activity can lead to material misstatements in financial reporting. We recommend that the City exercise due care when posting entries to the financial records and financial statement preparation to prevent errors and assist in properly reflecting the City's financial activity in the financial statements.

The City made an adjustment to the financial statements to correct the classification of the \$20,076,747 asset.

Finance response:

The impact of updated procedures which were provided to departments in early 2016 has addressed the issues described. Also, improvements are being made to the fixed asset reporting system to assist with providing appropriate information in the fixed asset reports.

4. **GASB 31 Investments**

Governmental Accounting Standards Board Statement 31 states in part "Investment transactions should be accounted for based on the trade date. The trade date is the date on which the transaction occurred and is the date the government is exposed to (or released from) the rights and obligations of the ownership of the instrument." The City currently records investments as of the settlement date instead of the trade date. Failure to record investments properly could result in financial statements being materially misstated. We recommend that the City record investments as of the trade date.

Finance response:

The procedures have been updated to record investments as of the trade date for financial reporting.

5. ***Park Board Records Retention Schedule**

The City uses form RC-4 to document records retention schedules for each of the City's departments, offices, boards, and commissions. The City Records Commission approves all RC-4 forms. The Park Board's retention schedule did not address the retention of electronic records. We recommend the Park Board update its form RC-4 to address the retention of electronic records. Park Board management indicated that they are in the process of updating its form RC-4, but the form RC-4 is in draft form and has not yet been approved by the City Records Commission.

Park Board response:

Staff and the Board of Park Commissioners have completed the RC-4 form and we have been scheduled by the City's Records Commission to present our new retention schedule, which includes electronic record keeping, in July 2017. Please see attachment C-Exhibit A.

6. **Application Level Password Parameters – Tax**

Users should be granted access to only those computer systems and functions they require to perform their job. To help ensure this, passwords are used to authenticate the identity of the user attempting to gain access to the computer systems. To prevent the integrity of these passwords from being compromised, passwords should have a password minimum length set. Certain password parameters did not meet City Information Security Policy, Version 3.0, June 2010, Section - 4.0 User Acknowledgements and Responsibilities. Consistent with the City's security policy, application user accounts should be configured with password parameters that meet the City's policy. Additionally, the user access request form should include employee sign-off acknowledging acceptance of the City's policy.

Enterprise Technology Services (ETS) response (Attachment D):

The ETS department is currently in the process of updating the city's Information Security Policy. While the policy update is in process, ETS will immediately increase the minimum password length and develop an access control list for the Tax systems. We will also insure that all approved users have completed an access request form for the system.

7. ***Disaster Recovery**

In order to ensure minimal disruption to the services it provides, the City should maintain a disaster recovery plan that identifies procedures to perform which facilitate the City's continued processing of information in the event of a disaster. The City did not have a formal disaster recovery plan documenting processes/procedures to follow in the event of a disaster. Without an adequately documented disaster recovery plan with contingency arrangements for alternate processing, the City may experience considerable and untimely delay in restoring its data processing functions following a disaster.

The City should develop a formal disaster recovery plan. Upon its completion the plan should be tested and updated periodically to ensure its applicability to the City's data processing function.

The plan should include, but is not limited to the following:

- Assessment of mission critical systems/prioritization of software
- Team member contact information
- Team member responsibilities
- Vendor contact information
- Evaluation of damages/planned contingency measures
- Hot site designation
- Hardware profile needs
- Data backup and restore procedures

ETS response (Attachment D):

ETS is currently working to develop a Disaster Recovery Plan for each of the city's data center locations. The ETS Centennial Data Center, the Radcliff Emergency Operations Center, Water Works Chester Park Complex, and MSD are the city's highest rated and most robust server locations. Opportunities to coordinate with each department to utilize system infrastructure and rack space and replicate critical city data between each location for disaster recovery purposes is being evaluated. ETS has also requested FY18 I.T. Capital to replicate critical city data offsite to a shared or hosted disaster recovery location outside of city limits.

8. *Lack of SOC 1 Report and Security Review

Entities may opt to use outside service organizations to process transactions as part of the entity's information system. Service organizations provide services ranging from performing a specific task under the direction of an entity to replacing entire business units or functions of the entity. When the operating activity is not directly administered by the entity, such as when utilizing a service organization, it is critical that appropriate monitoring controls are designed and implemented to reasonably ensure the service organization has adequate controls to achieve management's goals and objectives and complies with applicable laws and regulations. SOC-1 audits are performed over these service organizations to provide information about their internal controls to management and to auditors who rely on the SOC-1 report results for the audit of the entity's financial statements and IT systems.

The City Retirement System contracted with Levi, Ray, and Shoup (LRS) for a software hosting agreement including hosting, backup, technical assistance, system enhancement, and system updates of the Pension Gold application. The Retirement System also relied on the service organization's backup procedures and disaster recovery plan. However, a SOC-1 audit or internal security review was not completed for the Pension Gold applications that would provide the Retirement System with information about the effectiveness of the internal control over data processed at the service organization. Without a SOC-1 audit, the Retirement System may not have sufficient information to reasonably ensure controls are in place to ensure the integrity of the data processed, maintained, and reported by the LRS software applications.

Future request for proposals and/or vendor contracts should include provisions for a SOC- 1 audit. The Retirement System should also take measures to ensure that the SOC-1 audit is completed for the LRS applications to provide the Retirement System and its auditors with a description of the system, results of the software application internal control testing, and an opinion of the overall processing environment.

Retirement response:

The Pension Gold vendor, LRS, completed their SOC 2 Readiness Assessment with their auditor, Sikich LLC in 2016. LRS' auditor will perform an initial audit to verify all controls are in place and provide LRS with a SOC 2, Type 1 Report around January 2017. LRS' auditor will immediately test the controls over the next year and if all passes, will provide LRS a SOC 2, Type 2 Report toward the end of 2017.

Special Note – LRS is obtaining a SOC 2 versus a SOC 1 for the following reason. SOC 1 is for a true service organization providing services such as a third party administrator. The SOC 1 is focused on financial reporting, etc. SOC 2 is for an organization that is providing a system, more importantly hosting a system (but not using the system on the customer’s behalf). Therefore, they are seeking a SOC 2 report focused on controls related to security, availability and confidentiality of data.

9. *Retirement System: Disaster Recovery Planning

In order to ensure minimal disruption to the services it provides, the Retirement System should maintain a disaster recovery plan that identifies procedures to perform which permit the Retirement system to continue processing information in the event of a disaster. The Retirement System did not have a documented disaster recovery plan, and instead relied solely on its hosting agreement with its third party software vendor pertaining to disaster recovery planning. A SOC-1 audit or internal security review was not completed for the Pension Gold software applications that would provide the Retirement System with information about the effectiveness of the internal control over data processed at the service organization, including measures for disaster recovery, including periodic testing of backups.

Without an adequately documented disaster recovery plan with contingency arrangements for an alternate processing site, the Retirement System may experience considerable and untimely delay in restoring its data processing function following a real disaster. The Retirement System should document a disaster recovery plan. Upon its completion the plan should be tested as possible and updated periodically to ensure its applicability to the Retirement System’s data processing function.

Retirement response:

CRS accesses the Pension Gold administration system, supported by the firm LRS, through an online portal. In a disaster, CRS staff would be able to access Pension Gold from a remote location. LRS’s disaster recovery plan includes an automatic server replication in another region of the country.

The City’s Treasury Division processes CRS vendor payments, and checks for pensioners who do not use direct deposit. During the next year, ETS plans to establish an offsite location for these processing needs in the event of a disaster. CRS will prepare a written disaster recovery plan.

10. *Retirement System: Network Security

Network security parameters should be configured to require an authentication process for user login based on passwords which expire at a fixed interval and are not easily guessable.

Certain aspects of network security were not consistent with industry standards. Lack of appropriate authentication parameters according to industry standards weakens logical network security and exposes the network to greater potential for unauthorized access.

Password security parameters should be configured to restrict access to the network by requiring:

- Forced password expirations of at least 90 days for all users.
- Minimum password age of at least one day to prevent users from cycling through old passwords.
- Password history of at least four passwords in conjunction with a minimum password age, thereby preventing a user from simply reusing an old password upon its expiration for at least four password life cycles.
- Password complexity requirements to prevent users from using common words or all letters in their password.
- Minimum password length of at least six characters

Accounts should be locked out after three bad logon attempts, thereby requiring the network administrator to

verify authenticity of accounts before resetting them.

Retirement response:

The recommended Network Security password rules and requirements are being implemented in Pension Gold in the next 3 weeks.

11. Unix Password Parameters

System level users should be granted access to the accounts and functions they require to perform their job. To help ensure this, passwords are used to authenticate the identity of the user attempting to gain access to the system. To prevent the integrity of these passwords from being compromised, passwords should be changed periodically and have a minimum length required. The Unix passwords for the Financial, Payroll and Tax applications are not set to industry standards. These weaknesses increase the possibility that these passwords could be compromised and attempts be made to gain unauthorized access to the system.

System level passwords should be changed periodically, as ninety days is the suggested standard. The minimum length of a password should be at least six characters. In addition, passwords should be chosen so that they are not easily associated with the user to which they were assigned. City management should routinely review system accounts to assess the reasonableness and need for these accounts. Authorized access control options (e.g. password change intervals, disabling accounts, authorized privileges etc.) should be reviewed and assigned on an as-needed basis only.

ETS response (Attachment D):

As noted in item # 6 above, the ETS department is currently in the process of updating the city's Information Security Policy. While the policy update is in process ETS will immediately increase the minimum password length and password expiration time period on the noted systems and develop an access control list for each. We will also insure that all approved users have completed access request forms for the systems and insure they are reviewed by management on a re-occurring basis.

12. IT Security – Active Directory

System level users should be granted access to the accounts and functions they require to perform their job. To help ensure this, passwords are used to authenticate the identity of the user attempting to gain access to the system. To prevent the integrity of these passwords from being compromised, passwords should be changed periodically and have a minimum length required. The Active Directory passwords for the City are not set to industry standards. These weaknesses increase the possibility that passwords could be compromised and attempts be made to gain unauthorized access to the system.

System level passwords should be changed periodically, as ninety days is the suggested standard. The minimum length of a password should be at least six characters. All users should be assigned a password. In addition, passwords should be chosen so that they are not easily associated with the user to which they were assigned. City management should routinely review system accounts to assess the reasonableness and need for these accounts. Authorized access control options (e.g., password change intervals, disabling accounts, authorized privileges, etc.) should be reviewed and assigned on an as-needed basis only.

ETS response (Attachment D):

ETS will evaluate the password parameters for the city's Enterprise Active Directory environment and insure that password change frequency, minimum password length, password complexity, and username-password similarity restrictions are enforced in accordance with industry standards.

13. *Employee Separation

Proper computer security requires that user accounts be disabled or removed from the system upon employee separation. Departments were responsible for notifying the ETS staff upon employee separation as the City did not have an automated process for identifying separated staff. The Enterprise Technology Solutions (ETS) utilized a termination checklist for removing access rights to systems and applications. The form was required by ETS, while other departments are encouraged to use the termination checklist. Upon employee separation, ETS reviewed application software and network access rights to identify access assigned to the former employee for necessary removal of rights.

Eight ETS staff separated employment. The termination checklist was not completed upon their separation. Instead, a service request was completed on only four of the eight employees documenting steps taken to remove their access rights.

As ETS was required to manually review access rights of separated ETS staff and ETS staff inherently have higher access rights, documented review and termination of access rights for ETS separated staff is crucial. Because the City employs 6,500 employees, some of which are part-time, without an automated procedure, it is possible the ETS department will not be notified in a timely manner regarding an employee separation.

The City should devise an automated procedure for notifying ETS upon employment separation to help ensure access privileges of those no longer with the City are immediately removed or disabled from the system. The City should document a review of access rights for all separated staff to help reduce the likelihood of unauthorized access. In addition, management should periodically review user accounts and their privileges to help ensure access rights are consistent with assigned job responsibilities.

Human Resources response:

A memo has been sent to the department Human Resources Liaisons with Standard Operating Procedures for the removal or disabling of an employee's computer access upon separation. See Attachment E.

14. Park Board

The City of Cincinnati initiated a contract with the accounting firm of Crowe Horwath LLP wherein Crowe Horwath LLP would provide financial analysis and advisory services relative to the Park Board, Parks Department and Parks Foundation. Crowe Horwath issued a July 26, 2016 report that included the following recommendations: the Park Board obtain a Memorandum of Understanding between the Board, City and Foundation; the Park Board prepare a comprehensive budget of all sources of anticipated revenues and expenditures; and the Park Board utilize a double entry accounting system to track its activities and balances.

As of the 2016 audit completion date:

- The Park Board has not obtained a Memorandum of Understanding between themselves, the Parks Department, and Parks Foundation.
- The Park Board does not have a comprehensive budget of all sources of anticipated revenues and expenditures. The Park Board prepared, approved, and monitored a budget for the Park Board and the City of Cincinnati prepared a separate budget for certain Park activity accounted for in the City funds.
- The Park Board did not utilize a double entry accounting system to track its activities and balances.

Failure to document the responsibilities of each entity through a Memorandum of Understanding

increases the risk of unauthorized transactions, insufficient monitoring of budgets, and confusion as to roles and responsibilities of each entity in joint projects, and lack of criteria for establishing charges for services provided between entities. Failure to prepare a combined budget leaves the Park Board and City of Cincinnati without a complete picture of Cincinnati Park activity and could result in inefficiencies, increased costs, and lack of proper monitoring by the Park Board and Cincinnati City Council. Failure to use a double entry accounting system increases the risk that errors, theft and fraud could occur and not be detected in a timely manner.

We recommend the Park Board, Parks Department and Parks Foundation review and implement the recommendations in the July 26, 2016 Crowe Horwath report.

Park Board response (Attachment C):

The Audit letter reference the Crowe Horwath review and presented observations for a MOU, providing a document of anticipated endowment resources/expenses and a double entry accounting system. Staff is working on all three and we look forward to a revised time line, approved by City Council, for follow up.

15. Park Board Expenditures

The City maintains four endowment funds to account for bequests left to the Park Board for specific purposes. The Park Board should ensure that purchases made from endowment funds are consistent with the purpose of the endowment.

We noted the following conditions related to endowment expenditures:

- Documentation provided by the Park Board for certain expenditures did not indicate that the expenditures were consistent with the purpose of the bequest.
- The Park Board did not provide supporting documentation for 11 purchases made over three months on American Express credit cards totaling \$1,422;
- The Park Board did not provide itemized receipts for 10 restaurant charges made over two months on American Express credit cards totaling \$861, and one hotel charge totaling \$1,797;
- The Park Board incurred interest expenses in August 2016 of \$355, interest year to date charges as of August 2016 of \$1,441, and fees year to date of \$38 on the American Express credit card due to balances carrying forward;
- The Park Board purchased gift cards totaling \$700 on American Express credit cards and did not maintain support for the purpose of the gift cards or the persons receiving the gift cards;
- Credit card records indicated that someone redeemed credit card points for a \$100 gift card, but the Park Board provided no documentation for who received the gift card;
- The Park Board made certain expenditures from the endowment funds that did not appear to be related to the purpose of the bequest. Examples of these expenditures include payments for a new website, supplies for parks not associated with the bequests, car allowances, floral arrangements for Board member/spouse for opening day and a park donor, gift basket for Park Board President, and iTunes charges;
- The Park Board's description of certain expenditures from the endowment funds indicated that the expenditures were for lobbyist activities;
- The Park Board paid some car allowances from the endowment funds;

- The Park Board did not provide for audit a policy for credit card purchases, reimbursements and the purchase of gift cards.

Failure to properly document the purpose of each expenditure and ensure that the expenditure is in accordance with the related bequest could result in the Park Board spending bequests for other than their intended purpose.

We recommend the Park Board establish policies and procedures related to credit card purchases, travel/meal reimbursement and required documentation, timely payment of credit cards, and the use of gift cards (including the reporting of gift cards to Park Board staff as taxable income). We recommend that the Park Board document the purpose of each endowment expenditure and ensure each endowment expenditure is in accordance with the bequest. Finally, we recommend that the Board consult with legal counsel to determine if expenditures for lobbyist activities are in accordance with endowment fund bequests and allowed by Ohio law.

The City indicated that they are working to bring the Park Board into conformity with applicable City Charter and Ohio Revised Code sections. This process will involve a thorough review of prior practices and legal advice, and the City's current understanding of the financial requirements of City and state law. We recommend that the City continue this process to ensure that Park Board financial practices are in conformity with applicable laws and to promote transparency and accountability of Park Board finances.

Park Board response (Attachment C):

A response on the condition noted within the Audit letter is represented below in *italics*.

- **Documentation provided by the Park Board for certain expenditures did not indicate that the expenditures were consistent with the purpose of the bequest.**
Please review the endowment chart. Each endowment expenditure is always tied back to the specific endowment based on the Park Board's approved annual private endowment budget a report presented to the Board at its monthly public meeting and the endowment bequest. Please see attachment C-Exhibit B.
- **The Park Board did not provide supporting documentation for 11 purchases made over three months on the American Express credit card totaling \$1,422.**
Please see the documentation for each transaction associated to the Park Board's American Express credit card. All receipts are attached; however, the departmental policy will now require itemized receipts for all expenditures. Please note, these expenditures were funded out of the Meyer and Drabner endowments. Please see attachment C-Exhibit C.
- **The Park Board did not provide itemized receipts for 10 restaurant charges made over two months on the American Express credit card totaling \$861 and one hotel charge totaling \$1,797.**
The receipts are attached for your review. The hotel charge was for staff event training in Olgebay, Wheeling, West Virginia. The departmental policy will now require itemized receipts for all expenditures. Please note, these expenditures were funded out of the Meyer endowment. Please see attachment C-Exhibit D.
- **The Park Board incurred interest expenses in August 2016 of \$355 and interest year to date charges as of August 2016 of \$1,441 and fees to date of \$38 on the American Express credit card due to balances carrying forward.**
The interest expenses were associated to the transition of leadership at the Cincinnati Parks Foundation. The condition has been corrected and no interest has been charged

since the leadership has been solidified. Please see attachment C-Exhibit E.

- **The Park Board purchased gift cards totaling \$700 on the American Express credit card and did not maintain proper support for the purpose of the gift cards or the persons receiving the gift cards.**
The purpose of the gift cards are to support office supplies, monthly public Board, community, and Park Advisory meetings and the Park Board's internal training academy. The gift cards are assigned to either the Director's assistant or to the senior staff. The departmental policy will now require itemized receipts for all expenditures and Park staff will now sign for any and all gift cards prior to use. Please note, the expenditures were funded out of the Meyer and Drabner endowments. Please see attachment C-Exhibit F.
- **Credit card records indicate that someone redeemed credit card points for a \$100 gift card but the Park Board provided no documentation for who received the gift card.**
The Director of Parks redeemed the points for a card to be provided to staff to support the Park Board's employee training academy and outstanding staff work. The condition has been noted and in the future redeemed points for cards will include the employee whom the card is given and the purpose of the redemption.
- **The Park Board made certain expenditures from endowment funds that did not appear to be related to the purpose of the bequest. Examples of these expenditures include payments for a new website, supplies for parks not associated to the bequests, car allowances, floral arrangements for Board member/spouse for opening day and a park donor, gift basket for Park Board President and iTunes charges.**
Please review the endowment chart in attachment C-Exhibit B. Each endowment expenditure is always tied back to the specific endowment based on the Park Board's approved annual private endowment budget, a report presented to the Board at its monthly public meeting and the endowment bequest. Please note, the expenditures were funded out of the Meyer, Miles Edward, and the Drabner endowments. The two .99 iTunes expenditures were associated to enhancing (adding sound) on a community council PowerPoint presentation regarding the Cincinnati Parks system.
- **The Park Board description of certain expenditures from the endowment funds indicate that the expenditures were for lobbyist activities.**
Please review the endowment chart in attachment C-Exhibit B. This expenditure was approved by the Board and supported by City Administration. Each endowment expenditure is always tied back to the specific endowment based on the Park Board's approved annual private endowment budget, a report presented to the Board at its monthly public meeting and the endowment bequest. Please note, the expenditures were funded out of the Meyer and Miles Edward endowments. Please see attachment C-Exhibit G.
- **The Park Board paid some car allowances from the endowment funds.**
Please review, the endowment chart in attachment C-Exhibit B. Each endowment expenditure is always tied back to the specific endowment based on the Park Board's approved annual private endowment budget, a report presented to the Board at its monthly public meeting and the endowment bequest. Please note, the expenditures were funded out of the Meyer endowment.
- **The Park Board did not provide for audit a policy for credit card purchases,**

reimbursements and the purchase of gift cards.

Staff is working on a draft policy for the Board of Park Commissioners perusal and approval. Once that policy has been approved by the Board of Park Commissioners staff will forward a copy to your office for filing.

* These matters were reported in the audit of the 2015 financial statements.