

# OHIO AUDITOR OF STATE KEITH FABER



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## MANAGEMENT LETTER

City of Cincinnati  
Hamilton County  
801 Plum Street  
Cincinnati, Ohio 45202

To the Honorable Mayor and Members of the City Council:

We have audited the financial statements of the City of Cincinnati, Hamilton County, Ohio (the City) in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2019, and have issued our report thereon dated December 30, 2019.

*Government Auditing Standards* require us to report significant internal control deficiencies, fraud, (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 December 30, 2019, for the year ended June 30, 2019.

2 CFR Part 200 subpart F 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 January 30, 2020, for the year ended June 30, 2019.

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 *Government Auditing Standards* or Single Audit reports. 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. These comments reflect our continuing desire to assist your government but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

### Noncompliance

#### 1. CSA Unfunded Liability

**Exhibit A of the Collaborative Settlement Agreement (CSA), Operative Settlement Terms No. 3** states the City shall create a 115 Trust Fund prior to the effective date for the purpose of holding and investing funds to provide healthcare retirement benefits. The City must fund the 115 Trust Fund at actuarially appropriate levels sufficient to provide the benefits for the term of the CSA.

The Pension Valuation Report provided by its actuary Cheiron indicates that at December 31, 2018 the actuarial liability of \$504,756,819 exceeded the actuarial value of assets of \$490,886,745 resulting in an unfunded liability of \$13,870,074.

## **Noncompliance (Continued)**

Failure to adequately fund the 115 Trust Fund could result in a deterioration of the funded status over time. The City should properly fund the 115 Trust Fund as required by the CSA.

### **2. CSA 115 Trust Funding Policy**

**Exhibit A of the Collaborative Settlement Agreement (CSA), Operative Settlement Terms No. 26** regarding Healthcare Funding Obligation states that the City develop and present a proper funding policy for the 115 Trust Fund no later than 30 days prior to the Fairness Hearing. The funding policy will satisfy all consent decree requirements including but not limited to the City's obligation to fully fund the 115 Trust at actuarially appropriate levels for the term of this Agreement.

The City has not presented a proper funding policy for the 115 Trust Fund which fully funds the 115 Trust at actuarially appropriate levels for the term of the Agreement.

Failure to present and implement a funding policy as required could lead to the City's accumulating an unfunded liability for the 115 Trust and possible litigation for the City not being able to meet healthcare requirements per the Agreement.

The City should develop a proper 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 CSA.

### **3. CSA Collection of Class Counsel Fees**

**Exhibit A of the Collaborative Settlement Agreement (CSA), Operative Settlement Terms No. 34** states in part any class counsel fees associated with representation of the Current Employees Class will be ultimately paid back to the Cincinnati Retirement System (CRS) Fund by members of that class from their pension benefits over time in a fair manner consistent with the terms of the Class Notice.

In October 2015, CRS assets were used to pay fees in the amount of \$4.6 million to the attorneys representing the Current Employee Class. The Board and CRS staff are unaware of any progress by the various City and plaintiff attorneys to finalize a collection approach. There are currently 530 Current Employee Class members who are retired, and according to the CSA, are eligible to have a portion of their pension benefit withheld to offset the attorney fees paid by CRS on their behalf.

Failure to collect the attorney fees is resulting in less funding for plan assets. The City should finalize an agreement with the Current Employees Class as per the CSA to recoup attorney fees paid on behalf of the Current Employees Class.

## **Recommendations**

### **1. Park Board Comprehensive Budget**

The City of Cincinnati initiated a contract with the accounting firm of Crowe Horwath LLP wherein the firm 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; and the Park Board prepare a comprehensive budget of all sources of anticipated revenues and expenditures.

## **Recommendations (Continued)**

For 2019 the Park Board did not maintain 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.

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.

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

### **2. Police Overtime Forms**

**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 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 then completed a supervisor must sign the "Verified by" line after verifying the accuracy and completeness of overtime documented on the form.

The completed Form 68P should be approved by the employee's supervisor and submitted to the payroll timekeeper for entering into the PeopleSoft payroll system. The City's policy also indicates that failure to have the form pre-approved and/or verified would result in the form being incomplete and not being approved by the reviewing district/section commander. Payment to the employee is based on information submitted into the payroll system.

We identified the following conditions related to management controls over police overtime procedures:

- Three of 25 (2.4%) employee forms had no pre-approved signature
- Four of 25 (3.2%) employee forms contained incomplete information
- Two of 25 (1.6%) employee forms did not have "verified by" signatures
- Two of 25 (1.6%) employee forms were not stamped or signed by timekeeper

Additionally, the employee forms noted above were approved by the commander, which is contrary to the City's policy. Furthermore, for 32 of 126 (25.4%) Forms 68p the commander did not actually sign the document, but a signature stamp was used.

### **Recommendations (Continued)**

Failure to properly document and approval overtime forms could result in employees being paid incorrect amounts and it increases the risk that theft, fraud, or errors could occur and not be detected in a timely manner.

All required forms should be completely filled out, properly pre-approved and verified, signed using an actual signature rather than a stamp to ensure that the forms are actually being reviewed and corrected if necessary.

#### **3. Commercial Paper Investments Procedures**

All public officials and management are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the operations of their respective public offices in certain categories.

The City may invest or deposit up to 40% of interim moneys available in commercial paper notes and bankers acceptances as described in Ohio Rev. Code § 135.14(B)(7). The investment in commercial paper notes of a single issuer shall not exceed in the aggregate 5% of interim moneys available for investment at the time of purchase.

The City relies on Meeder Investment managers to determine that the notes are in the highest classification rating and that the notes of a single issuer do not exceed 10% of the aggregate value of the outstanding commercial paper of the issuing corporation, but does not have a procedure in place to determine that the investments in commercial paper do not exceed 5% of the interim monies available for investment at the time of purchase.

Failure to verify the commercial paper investment percentage reduces the City's ability to monitor investment activities and increases the risk of noncompliance. The City should develop procedures to ensure investments in commercial paper do not exceed 5% of the interim monies available for investment at the time of purchase.

#### **4. IT - 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.

Seven city staff had CFS access removed from the prior audit. Three of the seven users retired from the City and did not have termination checklists.

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.

### **Recommendations (Continued)**

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. Until an automated process is implemented, ETS management should review and sign-off on the completed termination checklist to help ensure it is completed.

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.

#### **5. IT Security – Active Directory Password Expiration**

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 password expiration set at least 90 days.

The Active Directory password parameter at the City is set for 90 days. However, users existed without password expiration.

These weaknesses increase the possibility that passwords could be compromised and attempts be made to gain unauthorized access to the system.

All system users should have a password expiration set to 90 days. 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.

#### **6. IT Security – Linux 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 Linux passwords for the Payroll and Finance applications have not been recently changed.

This weakness increases 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.

The City of Cincinnati has responded to issues discussed in this Management Letter. You may obtain a copy of their response from Cheryl Watson at 513-352-5323.

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

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

January 30, 2020