January 9, 2014

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"), in accordance with *Government Auditing Standards,* as of and for the six month period ended June 30, 2013, and have issued our report thereon dated January 9, 2014.

Government Auditing Standards require us to report significant internal control deficiencies and material weaknesses, 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 January 9, 2014, on internal control over financial reporting and on compliance and other matters for the six month period ended June 30, 2013.

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 over compliance related to major federal financial assistance programs. We have issued the required report dated January 9, 2014, for the six month period ended June 30, 2013.

We are also submitting the following comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the 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, 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. Disbursement Testing – CDBG (CFDA # 14.218)

    During our review of expenditures of the CDBG Program, we noted one expenditure, out of forty tested, where the original invoice could not be located to test for certain procedures. We were able to perform other corroborative procedures. However, we recommend the City ensure original documentation is maintained to provide support for all federal expenditures, including appropriate approvals.

    Management's Response: The City's policy is to pay only from original invoices. The procedures for payment auditing and processing will be reviewed with disbursements and the Department of Trade and Development staff.

2. Cincinnati Police Department Impound Lot

During our review the Impound Lot's process and procedures, we noted there was no formal reconciliation process between the blotter book, which manually records the vehicles that have been impounded, and the vehicles recorded in the Permit Plus System. Additionally we noted there is no formal reconciliation between the Permit Plus System and the City's financial reporting software, CFS.

We recommend the City implement procedures to ensure the vehicles recorded manually in the blotter book are reconciled to the vehicles coded in the Permit Plus System and that the Permit Plus System is reconciled with CFS.

Management's Response: The Police Department will require staff training to ensure that reports are run and the necessary corrections are made between the blotter book and Permits Plus and will also develop procedures to reconcile the blotter book to Permit Plus System and Permit Plus System to CFS.

3. Procurement – CDBG Program (CFDA # 14.218) and HOME Investment Partnership Program (CFDA # 14.239)

During our review of procurement contracts for the programs indicated, the documentation the City provided to support its verification of vendors not being suspended or debarred was dated after awarding of the contract.

We recommend that the City implement procedures to maintain supporting documentation of the verification process taking place prior to awarding the contract.

Management's Response: The Department of Trade and Development ("DTD) has created and will implement a Debarred Contractor Search Policy. This policy will ensure consistency and maintenance of debarred search printout prior to contract execution; as well as continued review of contractors and subcontracts. The policy is included in the DTD's Procurement Handbook.

4. Fraud Reporting System

Ohio Revised Code Section 117.103(B)(1) states a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. During our testing, we noted an instance in which a new hire did not have the required signed form within the thirty-day requirement.

We recommend the City implement procedures to ensure that each new hire completes and returns the required form in relation to the Ohio fraud reporting system within the required time frame.

Management's Response: Human Resources is in the process of finalizing Onboarding procedures for employees. The fraud reporting information will be included in the new Onboarding procedures to ensure employees are provided with the required information.

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 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. Parking Meter Collections

    During our review of parking meter collections policies and procedures, it was noted that the Treasury Daily Log Sheet, utilized to sign in and out the guzzlers, not being completed during 2013.

    We recommend all guzzlers be signed in and out on the Treasury Daily Log Sheet.

    Management's Response: The City will develop procedures to assure the daily log sheet is used to sign in and out each guzzler.

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. 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.

9. 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.

10. 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

11. 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 developed a review process to review changes made to the system. There are enhancements planned to Pension Gold in the first quarter of 2014 which will provide for additional supervisory approval prior to the completion of any process that impacts benefit calculations.

- 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: 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 places 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 currently receives data for active employees electronically and the information is transmitted from CHRIS (Cincinnati Human Resources Information System) into the Pension Gold System. CHRIS records cannot be modified by Retirement staff. Retiree data is based on the member's previously transmitted data from CHRIS. Any change to the retirees' data in Pension Gold requires supporting documentation in accordance with established Retirement policies and procedures.

- 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 access 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 is currently having an Active Directory assessment and health check performed by a third party. Part of the assessment incudes reviewing best practices for account and password management. After the assessment is completed ETS will begin to a project to address any password configuration issues.

- 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 has subsequently implemented an employee exit checklist for ETS management. The checklist provides a procedure to help remove system access upon an employee's exit from the City of Cincinnati employment.

- 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: The installation of the IDS system was completed and is currently online for E-Gov DMZ. The system is currently in a monitoring, alert and notification phase. There are plans to increase monitor traffic in other City of Cincinnati DMZ's.

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.