

March 28, 2018

To: Budget and Finance Committee

From: Harry Black, City Manager

Subject: FY 2017 Auditor's Management Letter

A report dated March 7, 2018, was submitted to City Council providing the City of Cincinnati's 2017 Financial Audit, the Auditor's Management Letter, and the transmittal letter. The Management Letter includes comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments represent matters for which the auditors believe improvements in compliance, internal controls or operational efficiencies might be achieved.

Transmitted with this memo is the Auditor's Management Letter along with responses from City Departments. This information will be reviewed at the Budget and Finance Committee meeting scheduled for April 4, 2018.

c: Reginald Zeno, Finance Director

Noncompliance Findings

1. * 115 Trust Fund Policy

The **Collaborative Settlement Agreement Operative Settlement Terms Section Paragraph 25** states that "Healthcare Funding Obligation: The City shall 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/or could lead to possible litigation for the City not being able to meet healthcare requirements per the Agreement.

We recommend the City 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 Collaborative Settlement Agreement.

Cincinnati Retirement System response: In accordance with the relevant terms of the CSA, the City presented a 115 funding policy to the parties. It continues to negotiate with the parties under Court supervision regarding the terms of the proposed policy. The Court continues to actively work with the parties to obtain resolution, and reserves the right, pursuant to the CSA and accompanying Consent Decree, to impose a funding policy at the request of the parties or upon a formal finding of impasse.

2. **The Labor-Management Agreement By and Between the City of Cincinnati (the City) and American Federation of State, County and Municipal Employees (AFSCME) Ohio Council 8 Locals 190, 223, 240, 250, 1543 and 3119 Article 8 Section D** states in part "Effective January 1, 2014, AFSCME members shall donate four (4) hours per year to a Union Release Time bank. Members' funding shall be deducted on a proportional basis. Any unused donated Union Release time shall rollover from year to year. In addition, the City will place in two-thousand (2,000) hours into the Union Release time bank from the unused 2013-14 year allotment. The parties will meet on a quarterly basis to review all used union release time. Union release time may be used for the purpose of conducting business related to contract administration, representation of bargaining unit members, education seminars and trainings, and other forms of Union business. Local officers and stewards shall receive their full salary and benefits to which they are normally entitled to receive when using union release time."

The City did not begin deducting four hours of leave from AFSCME members until calendar year 2017. The City and AFSCME did not negotiate an hourly rate to be used to determine the amount of monies owed if chargeable union time were to exceed the hours in the Union Release time bank. Documentation of the City placing hours into the Union Release time bank from the unused 2013-2014 allotment was not provided for audit.

Failure to deduct union members hours according to the negotiated labor agreement could lead to the City incurring expenses for employees working on union tasks. Failure of the City and Union to have a negotiated hourly rate for union time that exceeds the Union Release Time bank hours could lead to a disagreement with the City and Union for the monies owed to the City for the hours. We recommend the City deduct AFSCME members the required four hours each calendar year according to the labor agreement. We also recommend the City and Union come to an agreement

Noncompliance Findings (Continued)

for the hourly rate to be used when chargeable union time exceeds the hours in the Union Release Time Bank.

Human Resources response: The collective bargaining agreement that established the 'Union Time Bank' was effective from 2013-2016. However, this CBA was not officially executed by the City and the union until April 2015. The parties re-entered negotiations in 2016 upon the expiration of the previous CBA. Once the 2016 negotiations were completed, the City moved towards implementing the 'Union Leave time' deduction from AFSCME members. We started with the first pay period in 2017 and set up the deduction to take .2 hours vacation time from each member over the first 20 pay periods (.2 x 20 = 4 hrs./yr.). The City will continue to deduct 4 hours per year from each member in the same fashion moving forward, unless otherwise changed through future negotiations.

The City can explore through negotiations with AFSCME setting an hourly amount for union time in the instance where the union time bank has been depleted. However, the City does not believe that this will ever occur as most of the union activities that are performed by the AFSCME union representatives fall under the 'Non-Chargeable' category in the CBA (meaning that the time for those duties performed are not charged against the union leave time bank).

Recommendations

1. Authorized Signatories for Bank Accounts

The Professional Services Agreement between the City and Ricore Investment Management Special Assets, LLC, to manage the Centennial II Plaza, Section 6.A. "Both the City and the Operator shall be authorized signatories on the Account."

The City was not an authorized signatory on the Huntington Bank or Republic Bank accounts. Failure to have an authorized signatory could result in the City's inability to access funds and account information.

We recommend that the City Treasurer or Finance Director be added as signatories to the bank accounts.

Department of Public Services response: Agree: DPS's division of City Facility Management had verbally requested during a quarterly meeting in October 2017 that the Huntington Bank and Republic Bank accounts include the authorized signature of the City. Upon receipt of the Auditor of State's Management Letter it was determined this had not occurred as requested. The process to include the City as a signatory has begun and will be in place.

2. * Investment Management Services

The City has 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.

Recommendations (Continued)

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.

Division of Treasury's response: The Finance Department will work with the Auditor to ensure the City is meeting the requirements for controls regarding the Investment Managers services. The City will be releasing an RFP for Investment Managers in the near future and will work with the Auditor in regards to the recommendation. The City currently requires the managers to adhere to the Investment policy and has hired an Investment Consultant to monitor the two Investment managers currently under contract.

3. * GASB 31 Investments

Governmental Accounting Standards Board Statement 31 states in part that "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. There was no significant financial statement impact; however, failure to record investments properly could result in future errors in the financial statements.

We recommend that the City record investments as of the trade date.

Division of Accounts and Audit's response: The GASB statement 31 is applied to the City's comprehensive annual financial report (CAFR) which is prepared on an accrual basis of accounting. GASB statements are applied to the CAFR and not the City's budgetary/operating system. The City's budgetary/operating system utilizes a cash basis. Applying the statement to the City's budgetary/operating system would result in transactions being recorded on a different basis of accounting from the other transactions in the budgetary/operating system. This would create issues when reconciling the budgetary system.

4. * IT Operations – 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.

Recommendations (Continued)

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 applications
- 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

Enterprise Technology Solutions' response: ETS has assessed the state and feasibility of our current disaster recovery plan and has submitted a request for funding to the City's IT Governance Board to address the identified issues long term. In the event funding for an enterprise wide disaster recovery solution is not approved, ETS has identified alternative disaster recovery opportunities involving the co-location of critical data in the data centers of other city departments. ETS will begin immediate work on updating the city's current disaster recovery plan to include the following:

- **Departmentally specific critical data sets (storage size, access control lists, recovery and restoration needs and timeline)**
- **Alternative data replication locations**
- **MOU's for critical data storage**
- **Data ownership documentation, classification levels, and access control requirements.**
- **Procedures to backup and restore identified data sets.**

5. * Active Directory 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 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.

Recommendations (Continued)

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.

Enterprise Technology Solutions response: The city's Active Directory Team is reviewing the current password parameters and will prepare a brief for the city's I.T. Governance Board regarding the need and feasibility of strengthening the password requirements and increasing the password expiration time limit and for all city users. All city system accounts will also be reviewed and disabled if no longer needed.

6. * IT Security – UNIX Passwords

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.

Enterprise Technology Solutions' response: In accordance with finding #5 above, the city's Unix Passwords will be reviewed along with the Active Directory password to insure we are meeting industry standards.

7. Collaborative Settlement Agreement – Collection of Class Counsel Fees

The Collaborative Settlement Agreement (CSA) Operative Settlement Terms Section Paragraph 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

Recommendations (Continued)

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 results in funds available to the CRS to fund the City's pension system.

We recommend the City finalize an agreement with the Current Employees Class as per the CSA to recoup attorney fees paid on behalf of the Current Employees Class.

Cincinnati Retirement System response: In accordance with the relevant terms of the CSA, the City presented an attorneys' fees collection proposal and schedule to the parties. It continues to negotiate with the parties under Court supervision regarding the terms of such proposal and schedule. The Court continues to actively work with the parties to obtain a negotiated resolution, and reserves the right, pursuant to the CSA and accompanying Consent Decree, to impose a collection policy at the request of the parties or upon a formal finding of impasse.

8. * Park Board Trust Fund Endowment 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 purchased a Kroger gift card totaling \$250 on and did not maintain support for the purpose of the gift cards or the persons receiving 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:
 - Meyer Trust: this trust is for park beautification. The following expenditures were charged to this fund:
 - Crabbe Brown & James - \$18,974, consulting services of unknown purposes
 - Helmer, Martins & Rice - \$98,134, legal fees related to advice on disagreement with City over endowment fund management.
 - Miles Edward Trust: this trust is for park beautification. The following expenditure was charged to this fund:
- Staples - \$293, for cash register tape, APC replacement battery, storage containers, and flash drives

Recommendations (Continued)

- Drabner Trust: this trust is for park purposes, beautification, concerts/entertainment, and improvements. The following expenditure was charged to this fund:
 - American Express - \$331, for coffee supplies, \$250 Kroger gift card, and \$55 charge to Moerlein Lager House with no detail receipt to show that alcohol was not purchased.
- The Park Board did not provide for audit a policy for credit card purchases, reimbursements and the purchase of gift cards.

Expenditures not related to the endowment funds should be made from City general fund or special funds restricted for Park activity:

Failure to properly document the purpose of each expenditure and ensure that the expenditure is in accordance with the related bequest could result in 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.

Park Board response: The Park Board is working closely with the City Administration through the City Solicitor to address spending associated with non-general fund revenue sources, including its endowment accounts. The Park Board and the City intend to enter a memorandum of understanding that details spending controls and financial oversight that includes increased scrutiny of approved endowment expenses authorized by the Board. Upon entering into the memorandum, and with the approval of the Board, the parks administration intends to provide the agreement to both the State Auditor and other interested state agencies for their review. In the future, endowment expenses will be more closely monitored consistent with the memorandum to be formalized this fiscal year.

9. * Park Board Crowe Horwath Findings

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.

During the 2017 fiscal year:

- The Park Board did not obtain a Memorandum of Understanding between themselves, the Parks Department, and Parks Foundation.
- 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

Recommendations (Continued)

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: With regard to the majority of recommendations found in item 9, the response and implementation of the memorandum will address many concerns. Additionally, as reflected in Board meeting minutes, the Park Board secured the services of Clark, Schaefer, Hackett & Co. (CSH) to perform a review and offer recommendations moving forward. As a result, they recommended moving forward with securing a double-entry accounting, and specifically recommended Quick Books. As reflected in Board minutes staff accepted the recommendation and are moving forward with implementing the double-entry accounting software.

10. * 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 as not yet been approved by the City Records Commission. We recommend that the Board complete revising the form and send the final version to the City Records Commission for approval.

Park Board response: The Park Board has previously updated the RC-4 form and per protocol submitted to the City's Records Commission.

11. Water Works Financial Statement Review

When designing the public office's system in internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

Recommendations (Continued)

The City's Water Works department erroneously included the same invoice for electrical services twice in the calculation of construction contracts payable which caused an overstatement of \$224,638.

Failure to accurately record activity on the financial statements could lead to materially misstated financial statements.

We recommend the City's management review financial statement account balances for accuracy.

Water Works' response: After further research we found that the item in question is due to a duplication of an invoice being erroneously added twice into the yearend CIP workpaper and accrual entry. We will revise that workpaper so it does not happen again. The correction will be reflected on this year's Comprehensive Annual Financial Report.

12. * Lack of SOC 1 Report and Security Review

Entities 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 and the operating effectiveness of the 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. LRS did have a SOC-2, Type 1, 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 operating 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, internal controls, operating effectiveness of the controls, and an opinion of the overall processing environment.

Cincinnati Retirement System's (CRS) response: CRS contracts with the firm LRS to provide and support the software application, PensionGold, which is used by CRS staff to process pension benefits. The Auditor's report incorrectly states that LRS processes data for CRS. LRS does not process data on behalf of CRS. The provision of software applications and data hosting, are associated with SOC 2 reports which focus on controls

Recommendations (Continued)

related to data security, availability, processing integrity, confidentiality, and privacy. Whereas SOC 1 focuses on service organizations that perform, for example, third party administrative services, and the controls affecting those services that have an immediate or downstream effect on an entity's financial statements. The data that affects the City's financial statements are not processed by LRS but instead are compiled by CRS with the assistance of the Finance Department, using reports and schedules generated in PensionGold by CRS staff, ledgers maintained by CRS, journal entries, and other supporting documents maintained by CRS. The operational and financial activities of CRS are audited each year by the State. For these reasons, LRS and its independent auditor have pursued and completed a SOC 2 report and maintain the position that they are not subject to the SOC 1 report.

13. * City Retirement – Disaster Recovery

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.

Cincinnati Retirement System's (CRS) response: CRS relies on LRS, the City's Treasury Division, and ETS to administer and process retirement benefits and services. As discussed in Item 12, the PensionGold software, utilized by CRS staff to administer and process benefits, is supported by the firm LRS which has received a SOC 2 report confirming the security and availability of the data. PensionGold is accessed through an online portal over the internet, and the data is maintained in real time on mirrored servers in different regions of the country. In the event of a disaster affecting the City, staff would be able to process benefits using the PensionGold software from remote locations with internet access, including their homes. It is our understanding that ETS plans to establish an offsite location for the City's processing needs in the event of a disaster. Beyond accessing the data, CRS follows procedures for backing up data on a weekly basis and storing the backups on offsite servers as arranged by ETS in addition to keeping redundant copies on external hard drives. CRS relies on the Treasury Division to process checks and advices for pensioners, and to authorize the movement of money to 5/3 Bank to fund the monthly pension payments. Though CRS has developed its own disaster recovery plan, we are unable to control other needed aspects of a comprehensive disaster recovery plan due to the involvement of other departments at this time. CRS agrees with the recommendation to develop a written disaster recovery plan in conjunction with the Treasury Division and ETS.

Recommendations (Continued)

14. * 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 Enterprise Technology Solutions (ETS) staff upon employee separation as the City did not have an automated process for identifying separated staff. 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.

Four ETS staff separated employment. For two of the four forms, most parts of the checklist were not completed or signed off, as required.

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. 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.

Enterprise Technology Solutions' response: ETS will work with city central HR to develop a standardized, automated, and repeatable process for offboarding separated employees. Identifying user accounts and system access rights that need to be disabled, devices that need to be collected, and final signoffs from the departments involved that need to be completed to insure the separation process is thoroughly completed will be critical components of the new automated process.

Human Resources' response: The Human Resources Department will work with ETS on an automated procedure that notifies ETS when an employee is terminated or otherwise leaves City service.

15. Keep Cincinnati Beautiful

The City of Cincinnati conducted an internal audit related to the contract between the City of Cincinnati and Keep Cincinnati Beautiful and released a report dated August 2, 2017 that included the following recommendations:

- Revise the current contract and enter into a new agreement with Keep Cincinnati Beautiful which will require the development and implementation of a policy and procedures manual for effective internal controls, complete and accurate documentation and proper approval of expenditures,

Recommendations (Continued)

- Seek reimbursement for expenses noted in the internal audit report totaling \$15,707 and \$3,924,
- Review current contracts and determine if duplications exist within personnel expenses,
- Create efficient controls over employee time sheets,
- Maintain relevant documentation within the City's department for contract oversight. As of December 28, 2017 (the 2017 audit report date):
- No new or revised agreement had been entered into with Keep Cincinnati Beautiful which details the new policy and procedure manual for effective internal controls, new requirements for accurate documentation and proper approval of expenditures, and defines what an employee time sheet should include for proper submission and reimbursement.

Department of Public Services' response: Disagree: DPS worked with KCB to develop new deliverables to better align the department and City's mission in the framework of the existing contract. These deliverables addressed effective internal controls, documentation and approval procedures which were reviewed by DPS, KCB Board of Directors and the City Law Department. The deliverables are reviewed on a quarterly basis. In addition, the department worked with KCB to develop a timesheet that accurately reflects the percentage of time worked on activities within the scope of the contract.

Timesheets are reviewed in detail by the Director, Superintendent of Administration and Accounting staff for accuracy.

- Reimbursement for expenses totaling \$15,707 from the internal audit had not yet been sought.
- Reimbursement for \$3,924 from the internal audit had not yet been sought.

Department of Public Services' response: Agree: DPS after the initial Audit had coordinated resolution of the contract issues first, timesheets for ongoing work second and the repayment of both amounts beginning with the \$15,707 for December of 2017. Upon receipt of the Auditor of States Letter dated December 28, 2017 we contacted KCB to remind them the payments needed to be made and kept current. As of this memo three payments have been received and properly deposited.

- A training program for their department responsible for contract oversight had not yet been created.

Failure to properly monitor the contract between the City and Keep Cincinnati Beautiful could lead to the City paying for unallowable expenses.

Recommendations (Continued)

Department of Public Services' response: Disagree: DPS has been monitoring the contract and prior to the Internal Audit it was this monitoring and questions asked of KCB's staff that lead to their internal questions about activities of the former director. This resulted in KCB's Board requesting a City Audit fully understand any ongoing action and provide recommendations.

We recommend the Public Services Department and Keep Cincinnati Beautiful review and implement the recommendations in the August 2, 2017 City of Cincinnati Internal Audit report.

Department of Public Services' response: Disagree: DPS has been following the recommendations of the August 2, 2017 Internal Audit.

16. Duke Energy Convention Center Concession

The City of Cincinnati (the "City") has executed a contract with Spectra to provide food, beverage and catering services for events taking place at the Duke Energy Convention Center. The City is responsible for overseeing the financial and administrative functions, reconciling and depositing revenue into the City's account, and meeting with convention center officials on a monthly basis.

In addition, the City is required to transfer 2% of gross concessions monthly revenue into a Food Service Equipment Fund (FSEF) to be used to pay for the repair, maintenance, and replacement of food service equipment, and other capital improvements. At the end of the year any surplus funds from the FSEF are to be distributed to the City and Spectra based on a percentage calculated using the total gross revenue for the year.

The City of Cincinnati's Internal Audit Department performed an internal audit for compliance with the City of Cincinnati and Spectra contract and released a report dated January 19, 2017. We reviewed the internal audit report and are in agreement with the following conditions, which could lead to a future financial statement impact:

- The City did not review the disbursements of the FSEF;
- The surplus funds of the FSEF were not distributed to either the City or Spectra;

Failure to properly review disbursements of the FSEF could lead to monies being improperly spent according to the contract and/or could lead to possible fraud. Failure to receive monies from the surplus of funds in the FSEF could lead to the City not having monies at their disposal for other needs and/or not properly reporting cash balances on the financial statements.

We recommend the City review the disbursements from the FSEF and we also recommend the City calculate the surplus monies in the FSEF and collect the monies that should be distributed back to the City.

Duke Energy Convention Center's response: After the Internal Audit the Convention Center and Elizabeth and myself added to our monthly meeting Agenda to review the Food Service Equipment Fund, so it is now a part of our monthly routine. June will be the first FY end since the audit and we will deposit any excess in the fund into the City's Account (Fund 103 – Convention Center) after the June meeting/report or by the end of July.

* These matters were reported in the audit of the 2016 financial statements.