



Dave Yost • Auditor of State

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, 2017, and have issued our report thereon dated December 28, 2017.

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 28, 2017, for the year ended June 30, 2017.

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 December 28, 2017, for the year ended June 30, 2017.

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. However, these comments reflect our continuing desire to assist your government. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

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.

Noncompliance Findings (Continued)

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.

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

Recommendations (Continued)

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. 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.

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.

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.

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

Recommendations (Continued)

- vendor contact information
- evaluation of damages/planned contingency measures
- hot site designation
- hardware profile needs
- data backup and restore procedures

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.

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.

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.

**Recommendations
(Continued)**

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.

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 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.

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.

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 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.

Recommendations (Continued)

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.

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.

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.

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.

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.

Recommendations (Continued)

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.

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.

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.

**Recommendations
(Continued)**

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.

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,
- 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.
- 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.

**Recommendations
(Continued)**

- 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.

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.

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.

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

We intend this report for the information and use of the governing board and management.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

December 28, 2017