



Dave Yost • Auditor of State

MANAGEMENT LETTER

City of Portsmouth
Scioto County
728 Second Street
Portsmouth, Ohio 45662

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Scioto County, Ohio (the City), in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2012, and have issued our report thereon dated September 4, 2013, wherein we noted the City had a negative cash balance in the General Fund due to the cost of police, fire and other governmental services and that the City adopted *Governmental Accounting Standard Nos. 62, 63 and 65* during the year.

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 September 4, 2013, for the year ended December 31, 2012.

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 related to major federal financial assistance programs. We have issued the required report dated September 4, 2013, for the year ended December 31, 2012.

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 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.* **Ohio Rev. Code Section 9.24(A)** states no state agency and no political subdivision receiving more than \$50,000 in state funds in a fiscal year shall award a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person against whom a finding for recovery has been issued by the auditor of state, if the finding for recovery is unresolved.

OAG Opinion No. 2004-014 and Ohio Rev. Code Section 9.24 provided the following definitions which are further discussed in AOS Bulletin 2004-006:

Per OAG Opinion No. 2004-014, the term "contract" only applies to contracts requiring a competitive contracting process. This does not include employment contracts, ODAS state term purchases, or transactions made via other means such as purchase orders, credit cards, debit cards, etc. Senate Bill 189 also indicated that a contract is considered to be awarded when it is entered into or executed, irrespective of whether the parties to the contract have exchanged money.

Ohio Rev. Code Section 9.24(G)(1)(a) states that the only contracts subject to the provisions of the statute are those contracts in which the cost for the goods, services, or construction exceeds \$25,000. Division (G)(1)(b) provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous fiscal year, received contracts from the state agency or political subdivision, the aggregate of which exceeded \$50,000.

Per OAG Opinion No. 2004-014, the term "state funds" means moneys, other than federal funds, that are held in the state treasury and appropriated by the General Assembly in accordance with Ohio Constitution Article II, § 22 for expenditure by a state agency or political subdivision. If state funds are commingled with local funds, a contract paid with those funds would be presumed to include both state and local funds. In contrast, if a political subdivision segregates its funds and pays for a contract with only local funds, the contract would not be subject to Ohio Rev. Code Section 9.24.

For the purposes of Ohio Rev. Code Section 9.24(B), a finding for recovery is unresolved unless one of the following criteria applies:

1. The money identified in the finding for recovery is paid in full to the state agency or political subdivision to whom the money was owed;
2. The debtor has entered into a repayment plan that is approved by the attorney general and the state agency or political subdivision to which the money identified in the finding for recovery is owed. A repayment plan may include a provision permitting a state agency or political subdivision to withhold payment to a debtor for goods, services, or construction provided to or for the state agency or political subdivision pursuant to a contract that is entered into with the debtor after the date the finding for recovery was issued.
3. The attorney general waives a repayment plan described in division 9.24(B)(2) of this section for good cause;
4. The debtor and state agency or political subdivision to whom the money identified in the finding for recovery is owed have agreed to a payment plan established through an enforceable settlement agreement.
5. The state agency or political subdivision desiring to enter into a contract with a debtor certifies, and the attorney general concurs, that all of the following are true:
 - a. Essential services the state agency or political subdivision is seeking to obtain from the debtor cannot be provided by any other person besides the debtor;
 - b. Awarding a contract to the debtor for the essential services described in section 9.24(B)(5)(a) is in the best interest of the state;
 - c. Good faith efforts have been made to collect the money identified in the finding of recovery.

**Noncompliance Findings
(Continued)**

1.* Ohio Rev. Code Section 9.24(A) (Continued)

6. The debtor has commenced an action to contest the finding for recovery and a final determination on the action has not yet been reached.

The Auditor of State shall maintain a database, accessible to the public, listing persons against whom an unresolved finding for recovery has been issued, and the amount of the money identified in the unresolved finding for recovery. The Auditor of State currently has this database operational and the database will be updated periodically in accordance with Ohio Rev. Code Section 9.24(D). The database is available at the Auditor of State's website: www.ohioauditor.gov.

Before awarding a contract for goods, services, or construction, paid for in whole or in part with state funds, a state agency or political subdivision shall verify that the person to whom the state agency or political subdivision plans to award the contract does not appear in this Auditor of State database.

Under Ohio Rev. Code Section 9.24, bonding companies, insurance companies, self-insurance pools, joint self-insurance pools, risk management programs, or joint risk management programs are exempt from the provisions of this statute unless a court has entered a final judgment against the company and the judgment has not yet been satisfied. Medicaid provider agreements (see Ohio Rev. Code Chapter 5111) or payments or provider agreements under disability assistance medical assistance (Ohio Rev. Code Chapter 5115) are also exempted. Lastly, if federal law dictates that a specified entity provide the goods, services, or construction for which a contract is being awarded, the entity is exempt, regardless of whether that entity has an unresolved finding for recovery.

Also, ORC 9.24 (G)(1)(a) states that the only contracts subject to the provisions of the statute are those contracts in which the cost for the goods, services, or construction exceeds \$25,000. Division (G)(1)(b) provides an exception to this rule and applies the statute to a contract awarded to any person who, in the previous fiscal year, received contracts from the state agency or political subdivision, the aggregate of which exceeded \$50,000. Consequently, state agencies and political subdivisions should immediately review their contracts awarded in the previous fiscal year in order to identify persons to whom this aggregating provision applies. In summary, ORC Section 9.24 applies only to contracts which are the subject of a competitive contracting process and which either exceed \$25,000 or meet the aggregating criteria described above.

The City did not have a formal process for reviewing the Auditor of State's unresolved finding for recovery database nor could the City provide evidence that a search was completed for the contracts that were entered into. This could result in the City entering into contracts with individuals or companies that have unresolved findings for recovery against them.

We recommend the City develop a formal process or procedure for viewing the finding for recovery database at www.ohioauditor.gov for each vendor with which the City enters into a contract. The result of the search should be printed and maintained on file with the contract documentation.

**Noncompliance Findings
(Continued)**

2. **Ohio Rev. Code Section 117.103 (B) (1)** states that 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. The auditor of state shall provide a model form on the auditor of state's web site (<http://www.ohioauditor.gov/publications/issues/FraudReportingSystemModelForm.pdf>) to be printed and used by new public employees to sign and verify their receipt of information as required by this section. The auditor of state shall confirm, when conducting an audit under section 117.11 of the Revised Code, that new employees have been provided information as required by this division.

The City did not comply with notifying all new employees after May 4, 2012 of the new fraud reporting system.

We recommend the City Auditor implement the new fraud reporting system confirmation to all new employees with-in thirty days after employment.

- 3.* **Ohio Rev. Code Section 307.514** created the county law library resources fund, effective January 1, 2010. The fund shall receive all revenue that is required to be deposited in the fund pursuant to division (D)(1) of section 307.51 of the Revised Code.

Pursuant to the Ohio Rev. Code Section 307.515 (A)(2): All fines and penalties collected by, and moneys arising from forfeited bail in, a municipal court for offenses and misdemeanors brought for prosecution in the name of a municipal corporation under one of its penal ordinances, where there is in force a state statute under which the offense might be prosecuted, or brought for prosecution in the name of the state, except a portion of those fines, penalties, and moneys that, plus all costs collected monthly in those state cases, equal the compensation allowed by the board of county commissioners to the judges of the municipal court, its clerk, and the prosecuting attorney of that court in state cases, shall be retained by the clerk of that municipal court and shall be deposited by the clerk each month in the county law library resources fund that is created under section 307.514 of the Revised Code in the county in which that municipal corporation is located. The sum that the clerk of the municipal court deposits in the county law library resources fund shall in no month be less than twenty-five percent of the amount of such fines, penalties, and moneys received in that month, without deducting the amount of the allowance of the board of commissioners to the judges, clerk, and prosecuting attorney. In counties having a population of in excess of fifty thousand but not in excess of one hundred thousand, eight thousand dollars and the maximum amount paid by any of such courts shall not exceed five thousand dollars in any calendar year.

All fines and penalties as described under Ohio Rev. Code Section 307.515, up to a maximum of \$5,500 should have been deposited by the clerk each month in the county law library resources fund. The Municipal Court withheld 40% of the funds required to be deposited into the fund from Scioto County fines, instead of taking them from the City.

We recommend the Clerk of the Municipal Court follow requirements listed in ORC Section 307.513 when determining the amount to be paid to the Law Library Resources Fund.

**Noncompliance Findings
 (Continued)**

- 4.* **Ohio Rev. Code Section 1901.31(G)** requires on the first Monday of each January, the clerk must list all cases more than one year past for which money has been collected but unclaimed. The clerk must transmit notice of unclaimed funds to the party or to the party's attorney. Money still unclaimed each April 1 must be paid to the municipal treasury.

The Clerk of the Municipal Court did not pay in unclaimed funds in 2012. There were several long outstanding checks on the December 31, 2012 outstanding check reports. There were several checks dated as far back as 2003 on the Civil outstanding check listing and several checks dated as far back as May 2010 on the Criminal/Traffic outstanding check listing.

We recommend the Clerk of the Municipal Court pay these long outstanding checks into an unclaimed monies fund.

- 5.* **Ohio Rev. Code Section 4115.04** states that every public authority authorized to contract for or construct with its own forces a public improvement, before advertising for bids or undertaking such construction with its own forces, shall have the State director of Commerce determine the prevailing rates of wages of mechanics and laborers in accordance with Section 4115.05 of the Rev. Code for the class of work called for by the public improvement, in the locality where the work is to be performed. Such schedule of wages shall be attached to and made part of the specifications for the work, and shall be printed on the bidding blanks where the work is done by contract.

We noted that monitoring of prevailing wage rates was not completed for all contracts subjected to testing during audit.

We recommend prevailing wage documentation be obtained and properly maintained with all required contracts.

- 6.* **Ohio Rev. Code Section 5705.41(B)** prohibits a subdivision or taxing unit from making any expenditure of money unless it has been appropriated as provided in such chapter.

Budgetary expenditures exceeded appropriations at the legal level of control at December 31, 2012 in the following line items:

Fund/Account	Classification	Type	Appropriation	Total Expenditures	Unexpended Balance
101.111.5111	Municipal Court	Personal Service	\$496,809	\$516,039	(\$19,230)
101.221.5115	Police	Personal Service	1,775,950	1,789,324	(13,374)
101.221.5121	Police	Pensions	407,570	457,927	(50,357)
101.223.5111	Fire	Personal Service	226,335	281,932	(55,597)
101.223.5122	Fire	Personal Service	59,439	83,827	(24,388)
101.227.5203	Street Lighting	Electricity	215,000	257,505	(42,505)
101.333.5111	Cemetery/Grounds	Personal Service	8,235	23,184	(14,949)
101.333.5203	Cemetery/Grounds	Utilities	30,000	44,506	(14,506)
604.772.5111	Water Works Filtration	Personal Service	1,491,284	1,525,329	(34,045)
604.772.5203	Water Works Filtration	Utilities	430,000	435,084	(5,084)

The City Auditor should not certify the availability of funds and should deny payment requests exceeding appropriations. The City Auditor may request City Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Noncompliance Findings
(Continued)**

7.* **OHCP Financial Management Rules and Regulations (A)(3)(O)** states record keeping for Program Income is as follows: The records maintained for program income must follow the same requirements as any OHCP-awarded grant, except that program income should be maintained in an interest bearing account. In addition, records for program income loan activities must include:

1. Name and address of borrower;
2. Amount and date of loan;
3. Terms of loan (interest rate, maturity date, and frequency of payments);
4. Payments and current balance; and
5. If program income from OHCP-awarded funds is mixed with other program income for a grantee, records must distinguish:
 - a. The portion of the program income funds derived from OHCP-awarded funds; and
 - b. The percentage of OHCP-awarded funds involved if there is a mixture of funds.

The City established the Business Revolving Loan Fund to assist small businesses within the City by promoting business expansion inside the city limits. The Ohio Small Cities Community Development Block Grant funds the Revolving Loan Fund. During our testing, we noted that payments and current balance was not monitored. We also noted that the City is not posting the principal and interest separately in their financial records for proper reporting and monitoring of this revenue.

We recommend the City monitor all activity of the loan and that an amortization schedule be maintained to keep an accurate balance amount.

8. **The OHCP Financial Management Rules and Regulations Handbook** requires Community Development Block Grant Program funds to be reported to the State of Ohio, Department of Development (ODOD). This handbook, along with attachment C of the agreements, outlines the three reports required for reporting purposes. They were the Form DS5 - Request for Payment and Status of Funds Report; Status Report; and Final Performance Report.

During testing, we noted all Requests for Payment and Status of Funds Reports were properly completed and filed. However, we did note there were no status reports completed for the AF-10 grant in 2012. We also noted the Final Performance Report completed for AF-09 was not filed in a timely fashion. The report was due to be filed on April 30, 2012; however, it was not filed until September 10, 2012. The lack of filing reports and/or filing in a timely fashion could create difficulty for the oversight agency to properly monitor the activity of the program.

We recommend the City complete all required reports and filing them in a timely fashion.

Recommendations

1. **Municipal Court Canceled Checks**

Auditor of State Bulletin 2004-010 states an auditor can regard electronic imaging of checks as evidence when performing an audit. The Bulletin provides, in part, that a bank may use the electronic image to create a "substitute check" for a bank that chooses to continue receiving paper checks. This substitute check has the same legal effect as the original paper check. A substitute check is a paper reproduction of the original check that: contains an image of the front and back of the original check; bears a magnetic ink character recognition (MICR) line containing all of the information appearing on the original check's MICR line, with certain exceptions; conforms, in paper stock, dimension, and otherwise, with generally applicable banking industry standards for substitute checks; and is as suitable for automated processing as the original check. A substitute check that meets these requirements and bears the following legend is considered the legal equivalent of the original paper check.

For governments that do not receive their cancelled original or substitute checks, the Auditor of State suggests these governments request that their banks send images of the front and back of all issued checks. This will enable governments to review and scrutinize the transactions and ensure that the payees as well as the various endorsements are appropriate. As monthly bank statements are received, reconciliation between check numbers and the amounts paid should be conducted promptly.

If questionable items are identified, governments should immediately request their bank investigate these items for possible adjustment to the government's account. Furthermore, a government may want to request a substitute check or the best available source document from the bank (e.g., copy of the front and back of the check) when a questionable item is identified.

The Municipal Court received images of their cancelled checks from the bank. However, those images did not include the backs of the checks, and thus, it was impossible to examine the endorsement of checks on the back. By not having the reverse side of the check, it is not possible to ensure that the payees as well as the various endorsements are appropriate. This could result in a lack of sufficient audit evidence or could result in a failure to follow the records retention laws.

We recommend the Municipal Court consult with the bank to have the bank provide images of both the front and reverse side of each canceled check for disbursements. As an alternative, the bank could send the original canceled checks back to the Municipal Court.

2.* **Municipal Court Reconciliations**

Bank account reconciliations for the Civil and Criminal bank accounts should be performed monthly by the Clerk of the Municipal Court in order to detect errors or substantial misstatements. The bank account reconciliation should include a comparison of the bank account balance to the book balance. The Clerk has not prepared a formal reconciliation from the Court system cashbook, bond on hand, deposit on hand, and open items listing to the bank accounts for several years. In addition, the Clerk was unable to provide a total book balance for audit. By not performing accurate reconciliations each month, errors have gone undetected and possibly have accumulated.

During audit, we did make an attempt to reconcile the criminal and civil accounts. This resulted in unknown variances for the criminal and civil accounts of \$2,007.05 and \$2,834.48, respectively.

Recommendations (Continued)

2.* Municipal Court Reconciliations (Continued)

We recommend that the Clerk of the Municipal Court prepare monthly reconciliations between the Court system cashbook and open items listing to the bank accounts each month. We further recommend the Court Clerk review his month end reports, such as the bonds on hand, cash on hand, and open items report to ensure they are accurate and complete when being utilized for the reconciliation.

3.* Credit Card Policy

Most governmental entities have the authority to provide credit cards and purchasing cards for use by authorized employees. For example, the Ohio Rev. Code authorized counties, municipalities, townships, park districts and agricultural societies to use credit cards. The use of these items should be specified in a policy the government's legislative body adopts. These policies should, at a minimum, identify authorized users, guidelines for allowable use/purchases, method of reimbursement (if personal use is allowed), specific unallowable uses, reporting, monitoring of use by appropriate levels of management, and other guidelines the legislative body deems appropriate. The City utilized credit cards for certain purchases during the audit period. There was a formal policy governing the use of the credit cards. However, according to this policy, the City should not issue credit cards for use by its officers and/or employees. The policy stated credit cards meant items such as Visa, Mastercard, Discover, American Express, etc... However, we noted during our testing that a Visa card was used by the City. We also noted the policy stated that vendor specific cards were allowable, but proper receipts had to be maintained and we identified a purchase from a SAM's card that had only the statement attached as support. No individual receipt was maintained to determine the actual items purchased. Without detailed receipts on file, it is difficult to determine if purchases are for proper public purpose.

We recommend the City revise their policy to address what type of credit cards or lines of credit they will allow. Also, we recommend no payment of credit card bills be made without proper detailed receipts on file to show what type items were purchased.

4. Equipment Policy

Most governmental entities have the authority to provide government-owned equipment (e.g., computers, tractors, backhoes, etc.) for use by authorized users. The use of these items should be specified in a policy the government's legislative body adopts. These policies should, at a minimum, identify authorized users, guidelines for allowable use/purchases, methods of reimbursement (if personal use is allowed), specific unallowable uses, reporting, monitoring of use by appropriate levels of management, and other guidelines the legislative body deems appropriate.

The City did own various types of equipment. There was no equipment policy included in the City's Personnel Policies and Procedures Manual to indicate who the authorized users were, specified uses, etc. Lack of a specific policy could result in unauthorized usage.

We recommend the City Council approve an equipment usage policy. This policy should address the items noted above.

Recommendations (Continued)

5. Public Records Policy

In order to ensure compliance with Ohio Sunshine Laws, the City's public records policy should include components such as:

- a. An employee or department responsible for public records requests;
- b. A method to track public records requests received by date and the fulfillment of each request;
- c. A policy regarding determination of records or portions of records which are not considered "public" that would be subject to redaction/withholding;
- d. A policy regarding the length of time and method that specific types of records are maintained;
- e. The method of providing requested records (email, paper copies, etc.) and the cost charged to provide the record, if applicable.

We noted the City's policy did not state an employee or department responsible for public records request or a method to track public records requests received by date and the fulfillment of each request. We did note during testing that the City's departments have developed various ways of tracking requests. For example, the City Auditor maintains all requests and responses in a folder within his email for tracking purposes. However, there is no consistency across the departments for how requests should be tracked due to the fact the policy does not outline any specific guidance.

We recommend the City update its public records policy to include the components stated above.

6. Accounts Receivable Policy

The City of Portsmouth uses a percentage to calculate account receivables for Municipal Court. This percentage was calculated on December 31, 2003. There is no official policy for calculation of Municipal Court accounts receivable. Not having a policy that is current with how percentages are calculated could lead to the City not using correct percentages for the amounts that they expect to receive in the next year.

We recommend that the City develop a policy to calculate the account receivable amounts for municipal court and to update the policy periodically.

7.* Manual Checks

The City Auditor runs approximately one hundred blank checks from the laser printer at the beginning of the fiscal year. These checks are prepared manually to pay current year bills while the yearend procedures from the prior year are being completed. The City also keeps manual carbon checks that are used throughout the year by the City Auditor. This results in checks being issued that are not in sequential order (various different check sequences were utilized) and results in cumbersome reconciliations.

We recommend the City Auditor limit the number of blank checks run, if necessary, at the beginning of the fiscal year to only those required for immediate use. We recommend checks be kept in the same sequential order as those in the system to allow for ensuring completeness of expenditures.

Recommendations (Continued)

8.* Check Dates

The City Auditor did not close out the accounting system for 2012 until February 22, 2013. The City Auditor was paying bills due in 2012 in 2013. Approximately 245 checks were dated December 31, 2012, but were written in calendar year 2013. The total of the checks that were dated December 31, 2012, but were issued in 2013 was \$187,205. The City Auditor was back-dating the dates on the checks to make it seem like they were actually paid in 2012 but they were actually written in January and February of 2013. The checks were not clearing the bank until January and February of 2013. This resulted in an understatement of payables on the financial statements. In addition, this also creates the possibility for expenditures to be inflated for any grant that would end in December. When checks are written after year end, but posted in that year, the expenditures reported as grant expenditures on any type of expenditure report could be overstated and could cause noncompliance with period of availability compliance requirements.

We recommend the City Auditor close out the accounting system in January following the fiscal year end. We further recommend the City Auditor not back date the dates on the checks written in January and February to the bills that were due back in December. We further recommend that the City Auditor date checks in the system on the actual date they are paid. Thus, ensuring all expenditures posted to the system properly reflect the date expenditures were truly made.

9. City Council Approval of Financial Computer Printouts

The City Auditor's office provided monthly financial computer printouts to the various departments for their review. These financial computer printouts were also provided to City Council. However, throughout 2012, there was no indication in the minutes of City Council that Council reviewed these financial computer printouts or approved them. There was no mention of the financial computer printouts in the minutes or any type of discussion related to them. Without proper review and discussion of the financial status of the City, Council may not be properly informed when making all necessary decisions.

We recommend City Council begin formally addressing the review of the monthly financial computer printouts during regular council meetings. This review should be documented in the minute record as well.

10.* Utility Deposit Report

The Utility Office maintains a list of deposits on hand. This list is run at the end of each month with the monthly reports and at year end. However, deposits are only charged to tenants not to people who own their property. In addition, deposits have changed over the years so there are deposits on hand ranging from \$20 to \$200.

We did note during testing that the total of the deposit report run by the Utility office on December 28, 2012 was \$308,090. We also noted that the balance of Water Rent Guarantee Fund (609) on the City's Fund Report for December 31, 2012 indicated a balance for refundable deposits of \$321,499. This is a variance of \$13,409 or 4%. This discrepancy could result in the City maintaining a larger than necessary fund balance to cover outstanding Utility deposits. This would, in turn, make these funds unavailable to meet the current cash flow needs of the City.

We recommend the Assistant Director of the Utility Department reconcile all of the Utility Department funds to the Utility reports at the end of each month to ensure receipts are properly posted to the correct funds.

Recommendations (Continued)

11.* Fully Depreciated Capital Assets

The City's Capital Asset Listing included capital assets which were fully depreciated and thus, had no book value. The listing included forty-three police cruisers with a total value of \$918,918 and acquisition dates ranging from 1997 through 2006. In addition, the listing included seven fire trucks with a total value of \$710,542 and acquisition dates ranging from 1950 through 1993. It was not considered cost beneficial to calculate the total amount of fully depreciated assets as of December 31, 2012.

We recommend the City review fully depreciated capital assets to determine whether the assets are still being used (i.e., that they have not been discarded or abandoned). If fully depreciated assets are still in use, we recommend that asset lives for capital assets in a similar asset class be reevaluated. If an asset will outlive its expected life, the asset life should be increased and any remaining undepreciated value should be allocated over the new estimate of remaining life.

12.* IT – Disaster Recovery Plan

In order to minimize disruption to computer services, a disaster recovery plan, which identifies the procedures to perform in the event of a disaster, should be maintained. Disaster recovery plans identify arrangements for alternative data processing on compatible hardware and software. A proper plan removes as much time-consuming decision making as possible from the period immediately following the disaster.

A disaster recovery plan did not exist.

Without current and accurate documented business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. As a result, substantial costs could be incurred in attempting to retrieve and recreate pertinent financial information for internal and external purposes.

A disaster recovery plan should be developed and include the following information:

- Arrangements for temporary contingency data processing, including possible hot-sites.
- Business continuity procedures to be followed in the event that the building is inaccessible for an extended period of time due to extended power outage, bomb threat, fire, flood or other natural disaster. An alternate processing site, that is not considered temporary, should be used in case the building cannot be occupied. This would include procedures for manual record keeping and business functions.
- The types of disasters should be defined and what procedures should be followed for each type.
- Key vendor contacts and their phone numbers.
- Inventory lists, including software, and location of all hardware and software.
- Location of backup data and source documents.
- Backup procedures.
- Restore procedures.
- Key individuals at the City to be contacted and their phone numbers.
- Procedures for restoring data from backups for all systems included in the plan.

Recommendations (Continued)

12.* IT – Disaster Recovery Plan (Continued)

Once completed, the plan should be periodically reviewed and tested to ensure its continued applicability. Testing of the plan should include:

- Verification of all Disaster Recovery Plan information at least annually.
- Testing validity of backups by performing planned restores at least annually and documenting when they were performed and the results of the restores.

Additionally, this review should also ensure that personnel are sufficiently trained to carry out procedures necessary to restore functions critical to business operations. All individuals responsible for the disaster recovery plan tasks should be knowledgeable of their duties and retain a copy of the plan. Finally, an updated copy of the plan should be kept off-site.

13.* IT – Auditor Application Access

Users of software applications should be granted access to only those computer applications and functions they require to perform their job. To help ensure this, only authorized individuals should be granted access to the system and applications. In addition, all accounts should be identifiable and reviewed periodically.

It was found that too many users have administrative access to the applications. This type of access should be restricted to one or two users other than the vendor. These access rights may be more than what is needed for a normal user to perform their job function.

These weaknesses increase the risk that an individual might have unauthorized access to the system, applications, or data.

A review of all user accounts and access rights should be performed periodically to ensure the accounts belong to valid City employees and that users are granted the appropriate access needed to perform their job duties.

14. IT – Municipal Court Disaster Recovery Plan

In order to minimize disruption to computer services, a disaster recovery plan, which identifies the procedures to perform in the event of a disaster, should be maintained. Disaster recovery plans identify arrangements for alternative data processing on compatible hardware and software. A proper plan removes as much time-consuming decision making as possible from the period immediately following the disaster.

A disaster recovery plan did not exist.

Without current and accurate documented business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. As a result, substantial costs could be incurred in attempting to retrieve and recreate pertinent financial information for internal and external purposes.

Recommendations (Continued)

14. IT – Municipal Court Disaster Recovery Plan (Continued)

A disaster recovery plan should be developed and include the following information:

- Arrangements for temporary contingency data processing, including possible hot-sites.
- Business continuity procedures to be followed in the event that the building is inaccessible for an extended period of time due to extended power outage, bomb threat, fire, flood or other natural disaster. An alternate processing site, that is not considered temporary, should be used in case the building cannot be occupied. This would include procedures for manual record keeping and business functions.
- The types of disasters should be defined and what procedures should be followed for each type.
- Key vendor contacts and their phone numbers.
- Inventory lists, including software, and location of all hardware and software.
- Location of backup data and source documents.
- Backup procedures.
- Restore procedures.
- Key individuals at the Municipal Court to be contacted, their phone numbers, and assigned roles.
- Procedures for restoring data from backups for all systems included in the plan.

Once completed, the plan should be periodically reviewed and tested to ensure its continued applicability. Testing of the plan should include:

- Verification of all Disaster Recovery Plan information at least annually.
- Testing validity of backups by performing planned restores at least annually and documenting when they were performed and the results of the restores.
- Testing key procedures in the plan to ensure they work as intended.

Additionally, this review should also ensure that personnel are sufficiently trained to carry out procedures necessary to restore functions critical to business operations. All individuals responsible for the disaster recovery plan tasks should be knowledgeable of their duties and retain a copy of the plan. Finally, an updated copy of the plan should be kept off-site.

15. Municipal Court Password Changes

Users of software applications should be granted access to only those computers applications 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 those computer applications. To prevent the integrity of these passwords from being compromised, passwords should be a minimum of six characters and they should be changed periodically. Additionally, standard security controls require the review of user accounts to confirm they are granted only the access necessary to perform job related duties.

**Recommendations
(Continued)**

15. Municipal Court Password Changes (Continued)

Of the 48 accounts on the UNIX system that have passwords, only 11 accounts had password changes recently or during the audit period. It was also noted that 1 account existed on the system that belong to a user who is no longer employed and should be removed. In addition, the password lengths could not be verified.

These weaknesses increase the possibility that an individual might learn or guess one of these passwords and attempt to gain unauthorized access to the system, applications, or data. Maintaining idle accounts on the system increases the risk that those profiles could be used for unauthorized activity, thereby losing accountability for user actions.

Passwords should be changed periodically, every 90 days is the suggested standard. The minimum length of a password should be at least 6 characters. In addition, passwords should be chosen so that they are not easily associated with the user to which they were assigned. A password log should be maintained to ensure passwords are changed on a periodic basis. In addition, a review of all user accounts on the system should be performed at least once a year to ensure access rights are appropriate and remove or disable inactive accounts.

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



Dave Yost
Auditor of State

Columbus, Ohio

September 4, 2013

* We also reported this matter in our audit of the 2011 financial statements.