



# Dave Yost • Auditor of State

## MANAGEMENT LETTER

City of Macedonia  
Summit County  
9691 Valley View Road  
Macedonia, Ohio 44056

To the City Council:

We have audited the financial statements of the City of Macedonia, Summit County, Ohio, (the City) in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2014, and have issued our report thereon dated October 9, 2015.

*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 October 9, 2015, for the year ended December 31, 2014.

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* report. 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 City. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

### Noncompliance Findings

#### 1. JEDD Distributions

**Northfield Center Township – Macedonia Joint Economic Development District (JEDD) Contract Section 9** requires income tax revenue for the JEDD to be remitted to the City of Macedonia and Northfield Center Township in the ratio of 50% each of the net total income tax generated. Additionally, it requires such remittances to be made quarterly in the month following the end of the quarter.

The City did not remit the net income tax from the JEDD to Northfield Township in accordance with the agreement. The first quarter distribution was not made until May 14, 2014; the second distribution was not made until November 19, 2014; and the third quarter distribution was not made until December 15, 2014.

To comply with the contract, the City should distribute the JEDD revenue to Northfield Center Township in the month following the end of the quarter.

A similar comment was included in the City's prior financial statement audit's management letter.

## Noncompliance Findings (Continued)

### 2. Appropriations Posting

**Ohio Admin. Code § 117-2-02(c)(1)** requires all local public offices to integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This includes designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Appropriations posted to the accounting system did not agree to the annual appropriation measure plus the Council approved amendments, for the General Fund and Capital Improvements Fund, with approved appropriations exceeding the recorded amounts by \$267,639 and \$570,106, respectively. Additionally, it was difficult to determine Council's intentions for amending appropriations in some circumstances, as the appropriations ordinances were not uniformly written.

Management should periodically review the budgetary information recorded in the accounting system to ensure appropriation amounts are posted accurately and timely. This will also help the City more accurately monitor its budget performance and compliance with budgetary laws and regulations. Additionally, appropriation ordinances should clearly identify the appropriation action such as documenting the current appropriation amount, the increase or decrease, and revised appropriation amount for each line-item.

A similar comment was included in the City's prior financial statement audit's management letter.

### 3. Interfund Transfers

**City of Macedonia Ordinances 26-2014 and 88-2014** authorized the transfers of \$250,000 from the General Fund to reserve funds, and \$24,820 from Capital Agency Fund to General Fund, respectively. The ordinances did not specify which reserve fund the transfer would be made to, as the City has two reserve funds. No transfers-out was made from the General Fund to any reserve fund or from the Capital Agency Fund to the General Fund. Additionally, **City of Macedonia Ordinances 26-2014, 68-2014, and 79-2014** approved transfers out from the General Fund to the Capital Improvement Fund in the amount of \$943,162; however, only \$893,162 was actually posted to the accounting records.

The transfer to the Capital Agency Fund was adjusted to the financial statements and accounting records by management. The other items were reported to management as unadjusted differences. Failure to properly record Council approved transfers could result in transfers posted that are contrary to Council's intentions.

The City should ensure all transfers approved by Council are recorded in a timely manner in the accounting system. To help accomplish more accurate recording of transfers, Council should consider approving individual transfers, rather than a lump-sum amount in the appropriation ordinances.

A similar comment was included the City's prior year financial statement audit's schedule of findings.

### Noncompliance Findings (Continued)

#### 4. Appropriations Compared to Estimated Resources

**Ohio Rev. Code § 5705.39** indicates the total appropriations from each fund shall not exceed the total of the estimated revenue plus unencumbered fund balance available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

The total amended appropriations at December 31, 2014 exceeded estimated resources by \$569,153 for the Capital Improvements Fund.

The City should ensure appropriations do not exceed estimated revenue and unencumbered fund balance as certified by the County Budget Commission throughout the fiscal year in order to avoid possible overspending.

A similar comment was included in the City's prior financial statement audit's schedule of findings.

#### 5. Public Records Request Procedures

**Ohio Rev. Code § 149.43(B)(5)** indicates "A public office or person responsible for public records may ask a requester to make the request in writing, may ask for the requester's identity, and may inquire about the intended use of the information requested, but may do so only after disclosing to the requester that a written request is not mandatory and that the requester may decline to reveal the requester's identity or the intended use and when a written request or disclosure of the identity or intended use would benefit the requester by enhancing the ability of the public office or person responsible for public records to identify, locate, or deliver the public records sought by the requester."

The City issued a Memorandum on March 5, 2015 addressed to Council Members which indicated "the request shall be in writing and directed to the Mayor's Executive Assistant, copy to the appropriate department head. The request may be made via e-mail. The request shall relate to pending Council business or duties, and must be reasonable in number and scope." These procedures are contrary to the aforementioned Ohio Revised Code Section which does not require a public records request to be in writing and does not provide for any limit on a public records request scope.

The City should revise its public records request procedures and ensure they are compliant with the Ohio Revised Code.

## Noncompliance Findings (Continued)

### 6. Public Fund Deposits

**Ohio Rev. Code § 9.38** provides public money must be deposited with the Treasurer or with the designated depository on the next business day following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the next business day following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

The City deposited a receipt collected outside of the Finance Department three days after collection. The City should ensure all receipts are deposited timely in compliance with the Ohio Revised Code.

### 7. Employee vs. Independent Contractor Determination

**26 C.F.R. 1.6041-1 and 1.6041-2** indicates wages, as defined in section 3401, paid to an employee are required to be reported on Form W-2. All other payments of compensation, including the cash value of payments made in any medium other than cash, to an employee by his employer in the course of the trade or business of the employer must also be reported on Form W-2 if the total of such payments and the amount of the employee's wages if any, required to be reported on Form W-2 aggregates \$600 or more in a calendar year. All other compensation of \$600 or more, such as compensation from independent contractors, are to be reported on Form 1099.

The Internal Revenue Service (IRS) has established guidelines for determining employee versus independent contractor relationships, which focus on the financial control, behavioral control, and relationship of the parties. Indications a worker is an independent contractor include less detailed instructions about when, where, and how to work, work does not necessarily have to be done on the premises, the worker does not necessarily have to give employers reports accounting for his or her actions, the worker has the opportunity to make a profit or loss, and the worker works for more than one entity or offers services to the general public. A worker is considered an employee when more control is the manner in which work is done, the worker has less financial control, and the worker works exclusively at one entity performing the particular services rendered. For Federal tax reporting purposes, the distinction between employee and independent contractor is important and incorrect determinations could lead to fines or penalties.

The City paid one individual \$5,688 as an independent contractor, reporting earnings on a Form 1099. However, the individual performed various general duties in the Finance, Human Resources, and Mayor's offices and completed time sheets for the work performed, making the relationship of the worker to appear to be more appropriately classified as an employee, requiring the reporting of wages on the Form W-2. Additionally, the City paid an employee in the Recreation Department \$3,790 for work performed outside the employee's working hours. This payment was not included in the employee's Form W-2; rather a separate Form 1099 was issued.

### Noncompliance Findings (Continued)

#### 7. Employee vs. Independent Contractor Determination

The City should use the guidelines established by the IRS to determine whether or not a worker is to be classified as an independent contractor or employee, and report earnings appropriately on the Form W-2 or 1099.

This matter will be referred to the Internal Revenue Service.

#### 8. Blanket Purchase Certificates

**Ohio Rev. Code § 5705.41(D)** allows political subdivisions to use "blanket" certificates (purchase orders) for the payment of lawfully appropriated goods and services of the subdivision in place of regular certificates orders. Only one "blanket" certificate order may be outstanding per appropriation line-item, the amount of the "blanket" certificate order may not exceed an amount that has been established by a majority of the legislative body of the subdivision, and the "blanket" certificate order may not run beyond the fiscal year.

Council has not adopted a maximum amount a "blanket" certificate order may not exceed through formal resolution. Failure to adopt a maximum blanket certificate amount could result in loss of control over spending limits and possible budget overages.

Council should formally adopt a resolution for the maximum amount "blanket" certificates may not exceed pursuant to Ohio Rev. Code § 5705.41(D).

#### 9. Health Care Reimbursements

**City of Macedonia Ordinance 161.20 Employee Health Care** indicates "an employee who has duplicate medical coverage, may elect to cancel the City's medical, prescription, dental and eye care plan, so long as they maintain medical coverage on another plan, and shall receive a reimbursement from the City for a family plan of a maximum of one hundred fifty dollars (\$150.00) per month and for a single plan sixty dollars (\$60.00) per month. An employee who elects this option must provide verification of such other health care coverage which shall be maintained at all times.

An employee who received reimbursement for duplicated medical coverage had a waiver form included in his personnel file but did not have other documentation of such coverage.

The City should maintain adequate documentation to support an employee has alternative medical insurance coverage before allowing the employee to waive insurance coverage and receive the reimbursement benefit.

## Recommendations

### 1. Password Access

A necessary step in the internal control over financial reporting is ensure individual user identifications and passwords are used to restrict access and prevent unauthorized access to particular functions or standing data. The opportunity arises for unauthorized transactions under a user's log-in to occur when user identifications and passwords are shared.

The Accounts Receivable Clerk has access to the payroll system under the Payroll Administrator's log-in information. The City should ensure all authorized personnel is given individual access to applications and prevent sharing of log-in information.

### 2. Senior Snow Plow Program

**City of Macedonia Ordinance 93-2014** established guidelines for the Senior Snow Removal Program for the 2014-2015 winter season. The ordinance indicated all applicants must be residents of the City, be 65 years old or disabled and have no one living within their residence capable of shoveling snow, and the income level of residents must not exceed one hundred percent of the most recent HUD very low-income limit for the area. The ordinance also indicated the Mayor had the discretion under extraneous circumstances to increase the income threshold on a case by case basis. The ordinance also required any and all other regulations adopted by the Administration to be followed.

There was no Council review of the list of individuals provided this service. Lack of review of the Senior Snow Removal Program list from the department processing the eligibility applications could lead to ineligible residents being provided services contrary to Council's intentions.

To help ensure the Senior Snow Removal Program operates as intended and to help ensure only eligible individuals are provide this service the City should revise its Ordinance to remove vague language, such as giving blanket authority for the Administration to adopt regulations for the program. Additionally, Council should review the snow plow list prior to each season and should approve any additions to the list throughout the season.

### 3. Net Income Tax Allocation

**City of Macedonia Codified Ordinance Section 181.13** identifies the allocation of net income tax proceeds by purpose; however, these purposes are not clearly defined in relation to the City's fund structure. As a result, determination of compliance with the ordinance is subject to interpretation and could be open to varied interpretations.

The City should consider reviewing and amending the income tax ordinance to define the allocation percentages in terms of its fund structure. This would enable and ensure the allocation of net income tax resources is carried out in accordance with the City's intent.

A similar comment was included in the City's prior financial statement audit's management letter.

## Recommendations (Continued)

### 4. Health Savings Accounts

Fringe benefits provided to employees should be formally approved through negotiated union agreements, ordinance, or policy. The approval should include the benefit to be provided, any eligibility requirements, the amount of the benefit, and any maximum benefits to be received, if applicable.

The City provides employees with payments annually into the health savings accounts in the full amount of the deductible, which is \$2,000 or \$4,000 based on single or family coverage.

The City was not able to provide documentation to support this benefit as approved by ordinance, policy, or negotiated agreements for full-time employees. Additionally, one of the employees tested who received this benefit did not have documentation in their file to support establishment of a health savings account.

All employee benefits and compensation should be approved by the Council. Employee personnel files should include benefits and health savings account enrollment forms for verification.

### 5. Bank Reconciliation Review

A necessary step in the financial reporting internal control process is to reconcile the bank balance to the accounting record's cash balance each month. The reconciliation should be provided to Council as a part of the monthly report package to provide independent review and oversight apart from management and provide a strong internal control environment.

Council did not receive the monthly reconciliation after September 2014. Council failing to receive and review the monthly bank reconciliation could lead to undetected errors and leaves the City susceptible to fraud and increases the risk of financial statement and accounting errors.

The bank reconciliation and listing of outstanding checks and other reconciling items should be provided to Council each month for review. Management should provide timely answers to any questions Council has regarding the reconciliation.

### 6. Tree Planting Fees

**City of Macedonia Codified Ordinance 1121.11 Street Tree Requirements** indicates "the developer of a residential subdivision shall pay a fee to the City, to be used by the City for the installation of trees in the tree lawn portion of the public right of way. The City shall furnish and install, at least one tree for every forty feet of tree lawn but no less than two trees per lot. The caliper of tree shall not be less than two inches nominally. The amount of the fee shall be established in the rate schedule set forth in Section 1137.06. The fee shall be collected by the Building Commissioner upon the subdivision's final plat approval." Additionally, Codified Ordinance 1321.09 Miscellaneous Fees "installation of residential street trees per Section 1121.11", indicates "fee deposit shall be a reasonable amount to cover the purchase and installation of each tree as determined by the City Engineer, and based on current cost estimates."

## Recommendations (Continued)

### 6. Tree Planting Fees (Continued)

Tree fund fees are normally collected when the subdivision plat is approved. However, the actual planting of the trees does not occur until after the subdivision is completed by the developer. The City did not maintain documentation of the actual tree fund fees assessed. Additionally, there were no established procedures to ensure tree fund deposits collected were used as intended. The 2014 accounting records indicated no tree fund fees collected or expended during the year.

Failure to specifically approve and document a tree fund fee and lack of accounting procedures to ensure such fees collected are expended according to management's intention could lead to loss or misappropriation of funds and accounting errors.

The City should specifically approve and document the tree fund fee and implement accounting procedures to ensure such fees collected are expended in accordance with management's intentions.

### 7. Purchasing Controls

Management is responsible for designing control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. For non-payroll disbursements, including credit card disbursements, part of the risks associated with the cycle are to ensure transactions are properly authorized and have occurred and pertain to the entity.

The City's established internal control procedures for non-payroll disbursements include a Department Head submitting a requisition before a purchase is made, approval of the purchase order by the Finance Director or designee, and providing detailed, supporting invoices that are signed by the Department Head when goods or services are received. The City's credit card policy, effective January 11, 2008, includes procedures for the use of bank credit cards provided to Department Heads. The credit card policy indicates charges exceeding or expected to exceed \$100 must have a purchase order in advance, all purchases must not include sales tax, card holders are required to maintain itemized receipts for all transactions, personal purchases are prohibited, and no charges for unauthorized persons or spouses is allowed.

The following deficiencies were noted contrary to the City's established policies and procedures or were not consistent with management's responsibility to achieve an effective internal control environment:

- For three independent contractors providing various services to the City, there was no formal contract establishing the specific scope of the services provided, evaluation of the services, or a specific rate of pay.
- 16 out of 22 bank credit card charges exceeding \$100 did not have a purchase order prior to incurring the expense. In some instances, a purchase order was obtained after the expense was incurred and in other cases the bill or portion of the bill was just stamped with a "Then and Now" certification.
- For two bank credit card charges to local vendors, sales tax was paid to the vendor.

## Recommendations (Continued)

### 7. Purchasing Controls (Continued)

- For six bank credit card charges and one additional disbursement, no detailed receipt was provided for the transaction, the credit card statement or a handwritten note was the only support for the transaction, making it difficult to determine the actual items purchased.
- For six bank credit card restaurant charges, only summary credit card receipts were provided, making it difficult to determine if the items purchased, included alcohol or meals purchased for unauthorized users.
- For two retailer credit card/account purchases, detailed, itemized receipts were not provided, making it difficult to determine the actual items purchased.
- For one bank credit card charge, the item purchased did not support the operations of the City; rather, the item was purchased on behalf-of another entity, which was subsequently billed and reimbursed to the City.
- The City does not address the use of retailer or other similar purchasing cards/accounts in its credit card policy.

Failure to follow established internal controls for non-payroll and credit card disbursements could lead the City to pay for goods and services that do not pertain to its operations, a proper public purpose, or to pay for goods or services that have not been provided.

The City should ensure all independent contractors providing services for the City have a formal contract in place describing the scope of the work to be provided, a method for evaluating the service provided, and the specific rate or amount of pay for the service. All transactions, including credit card transactions should have sufficient supporting documentation, including detailed, itemized receipts to ensure the transactions relate to the operations of the City. If detailed receipts are not provided the City should not make payment to the vendor, or in the case of the bank credit card, should require the card holder to reimburse the City. The City should ensure all bank credit card purchases exceeding \$100 have an approved purchase order in place before the expense is incurred on the credit card. The City should also consider revising the dollar amount to include all purchases, in order to prevent the policy to be circumvented with many small purchases and to clearly document the purpose of the expense. The City should provide all vendors, including local vendors, with sales tax exemption forms and should not pay any sales tax. The City should amend its credit card policy to address retailer and other purchasing cards/accounts. Finally, the City should consider disciplinary action for employees that violate the policies and procedures relating to non-payroll and credit card disbursements, including items purchased that do not support the operations of the City.

### 8. Proper Public Purpose Expenditures

Government entities may not make expenditures of public monies unless they are for a valid public purpose. **1982 Op. Att’y Gen. No. 82-006**, addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to what may construed as a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

## Recommendations (Continued)

### 8. Proper Public Purpose Expenditures (Continued)

The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "... must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only. **Auditor of State Bulletin 2004-002** indicates "... to avoid an audit finding, the Auditor of State will require that expenditures of public funds for coffee, meals, refreshments, or other amenities have prior authorization by the appropriate legislative authority." The use of public funds to purchase alcohol will be considered arbitrary and incorrect and will be cited by the Auditor of State's Office.

We noted the following instances where the proper public purpose of certain expenditures was not clear:

- The City purchased coffee and other refreshments for meetings throughout the year; however, there is no policy formally approved by Council indicating these types of expenses will be considered a proper public purpose of the City.
- Two expenditures totaling \$180 were made for local fundraisers and/or donations.
- Six restaurant credit card charges did not have detailed, itemized receipts, making it difficult to determine if alcohol or other improper items were purchased.
- Three credit card charges were to local restaurants and the purpose of the meals was not clear.
- Six credit card transactions had no receipt; the credit card bill was the only support ; making it difficult to determine in all instances if the transactions were for proper public purposes.
- Purchases were made to local grocery stores and it was not always apparent how the items supported the operations of the City.

Council should formally adopt a policy indicating purchases of coffee, refreshments, meals, etc., are for a proper public purpose of the City. For any type of donation and/or fundraiser, Council should approval the expenditure before it is made. The City should not pay any credit card or other expenditures without adequate supporting documentation, including detailed, itemized receipts. Finally, all expenditures should clearly document they are for a proper public purpose of the City, with special care taken when dealing with local stores where purchases can be susceptible to personal use.

### 9. Separation Payments

Employees accumulate various types of paid leave during the course of their employment, which are often payable upon the employee's separation. The Human Resources Policies and Procedures Employee Manual specifies the method for paying sick and vacation leave upon separation from service, but there are no formal procedures for calculating the payout for accumulated birthday, personal, holiday, and compensatory leave. It has been the City's practice to pay employees the balance of their leave for birthday, personal, holiday, and compensatory leave.

### Recommendations (Continued)

#### 9. Separation Payments (Continued)

Failure to establish formal procedures for the payment of all paid leave upon separation could result in payouts that are contrary to Council's intentions.

The City should amend its Human Resources Policies and Procedures Employee Manual to include formal provisions for the payout of birthday, personal, holiday, and compensatory leave upon separation. Council should also consider any maximum amounts of leave balances that will be paid out at separation.

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 9, 2015