



Dave Yost • Auditor of State

MANAGEMENT LETTER

City of Medina
Medina County
132 North Elmwood
Medina, Ohio 44256

To the City Council:

We have audited the financial statements of the City of Medina, Medina County, Ohio, (the City) in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2015, and have issued our report thereon dated June 30, 2016, wherein we noted the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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 June 30, 2016, for the year ended December 31, 2015.

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. Public Fund Deposits

Ohio Rev. Code § 9.38 indicates monies should be deposited with the Treasurer or designated depository within 24 hours of collection and requires monies be deposited on the next business day if the daily receipt amounts exceed \$1,000. If daily receipts do not exceed \$1,000 and the receipts can be safeguarded, the public office may adopt a policy permitting their officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it.

Six recreation center receipts ranging from \$354 and \$1,533 were not deposited with the bank until two days after receipt.

Three fines & forfeiture receipts containing parking fine payments ranging from \$10 and \$25 were not deposited with the Finance Department for a period of up to eight days after receipt.

Failure to deposit funds timely could leave the City susceptible to theft and financial misstatements.

The City should ensure all individuals responsible for receiving funds at collection points outside of the Finance Department deposit funds within the required time frame specified in the Ohio Revised Code.

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

2. Blanket Purchase Orders

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

Council has not adopted a maximum amount a "blanket" purchase order may not exceed through formal resolution or ordinance.

Failure to adopt a maximum purchase order 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" purchase orders may not exceed pursuant to Ohio Rev. Code § 5705.41(D).

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

Recommendations

1. Court Bank Reconciliation to System

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance each month. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the Court's accounting records at a specific point in time.

The Court utilizes a manual spreadsheet to reconcile to the bank balance. The Court did not reconcile to system reports during the audit period. Subsequent reconciliation to the system resulted in variances in the Civil and Bond accounts in the amounts of \$30 and \$15, respectively.

Failure to reconcile to the system may significantly weaken internal controls which could hinder management's timely detection of errors or irregularities.

The Court should resolve unadjusted differences between the system and the manual reconciliation spreadsheet so they are not carried forward. In addition, the adjustment should be appropriately documented.

2. Capital Asset Policy

The City does not have a formal approved capital asset policy or effective procedures for the capitalization and disposal of assets. This may allow items to be inadvertently omitted from the capital asset accounting records or allow those items which are not intended to be recognized to be included in the capital asset accounting records.

The City should formally adopt a capital asset policy which contains the following elements at a minimum:

- The threshold amount for the capitalization of assets, including the useful life;
- Whether items purchased which, in aggregate, exceed the threshold, but individually do not, should be capitalized;
- How depreciation will be calculated (straight-line, fraction of years);
- How assets will be added and deleted;
- The definition of an improvement versus a repair;
- How improvements will be added and how the addition will affect the useful life of an asset;
- How infrastructure will be added and deleted, and at what cost infrastructure will be added and deleted; and
- Accounting procedures for capital asset changes.

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

3. Credit Card Policy

City provided credit cards are susceptible to misuse without formal, written policies and procedures. Formal policies and procedures should provide clear guidelines to employees for usage, procedures for monitoring, and consequences for misuse.

The City has not adopted formal, written policies and procedures for City provided credit cards.

Failure to adopt formal, written policies and procedures could lead to possible fraud or misuse of funds.

The City should formally adopt a credit card policy which contains the following elements at a minimum:

- Authorized users
- Types of expenditures for which a credit card may be used and any spending limits
- Process for safeguarding credit cards when they are not in use
- Procedures for monitoring credit card use and the individuals responsible for monitoring usage
- Prohibition against using credit cards for personal use
- The requirement for employees to provide individual, itemized receipts for all credit card purchases
- Consequences for misuse or failure to follow the policy

All employees using a City issued credit card should receive a copy of the policy and be required to sign an acknowledgment form, agreeing to abide by the policy.

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

4. Disaster Recovery Plan

Contingency planning includes the evaluation and implementation of a written plan to define the actions to be taken in the event of various disaster situations related to computer hardware and software. This plan should remove as much time-consuming decision making as possible from the period immediately following the disaster.

The City has not adopted a disaster recovery plan. Without effective business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. In addition, the City could incur substantial costs in attempting to retrieve and recreate pertinent financial information for internal and external purposes.

The City should formally prepare and adopt a disaster recovery plan. The disaster recovery plan should be tested, and results documented and reviewed so improvements in the plan can be made. This will help ensure the City has effective disaster recovery plans developed to efficiently restore critical resources in the event of a disaster.

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

5. Travel Policy

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid 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 and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The City has a travel reimbursement policy; however, it does not establish the maximum reimbursements for job-related expenses such as hotel, parking, etc. Additionally, no policy exists regarding the accumulation and/or use of "frequent flyer" miles accumulated by employees while on official business for the City.

Failure to have guidance regarding maximums for such items could result in extravagant expenses being submitted for reimbursement and misuse of public funds. In addition, without a policy regarding the use of "frequent flyer" miles, employees could improperly use their positions with the City to obtain free or discounted airline tickets for personal use.

The City should amend its reimbursement policies and establish maximum allowances for hotel, telephone, parking, and any related reimbursed expenses employees may incur. The City should also adopt a policy regarding the accumulation and use of "frequent flyer" miles that either (1) prohibits the accumulation of "frequent flyer" miles by officials and employees of the City or (2) requires any such miles earned to be used for future official travel for that employee or another employee of the City, or to forfeit any such miles. The City's policy should be similar to Ohio Ethics Commission Advisory Opinion No. 91-010 which applies to State officials and employees.

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

6. Segregation of Duties – Online Bank Transactions

Controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Controls should assist management in identifying unexpected results and/or possible misstatements. One effective control is ensuring adequate segregation of duties.

The procedures for online bank transactions include only one Finance Department employee who enters, authorizes, and sends orders through the online banking applications to process electronic transfers, wire transfers, and ACH transactions without any additional review and approval.

This lack of segregation of duties increases the risk of fraud or error.

The City should consider assigning a person independent from data entry to approve electronic transactions prior to bank processing of the transaction. This will reduce the risk of unauthorized electronic transactions and errors.

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

7. Dispatch Services

The City contracts with a third party for emergency medical services while the City provides the related dispatch services. One third of the cost of the dispatch services are reimbursed quarterly by this third party. However, the City does not have a formal, written contract with the third party specifying the terms of the reimbursement for the cost of the dispatch services.

Failure to have a formal, written contract can lead to incorrect payments.

We recommend the City enter into a formal, written contract with the third party specifying the terms of the reimbursement for dispatch services.

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

June 30, 2016