



Dave Yost • Auditor of State

MANAGEMENT LETTER

City of Galion
Crawford County
301 Harding Way East
Galion, Ohio 44833

To the City Council:

We have audited the basic financial statements of the City of Galion, Crawford County, Ohio, (the City) in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2010, and have issued our report thereon dated October 20, 2011, wherein we noted the City was placed in fiscal emergency by the State of Ohio pursuant to Ohio Rev. Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Rev. Code § 118.05(G), the Auditor of State served as the City's financial supervisor. *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Rev. Code § 118.04.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, and illegal acts (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 20, 2011, for the year ended December 31, 2010.

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 report *Government Auditing Standards* requires. 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. Investment Policy

Ohio Rev. Code § 135.14(O) states that no treasurer or governing board shall make an investment or deposit under § 135.14, unless there is on file with the Auditor of State a written investment policy approved by the treasurer or governing board. The policy shall require the following:

**NONCOMPLIANCE FINDINGS
(Continued)**

1. Investment Policy (Continued)

1. All entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision.
2. All brokers, dealers, and financial institutions initiating transactions with the treasurer or governing board by giving advice or making investment recommendations shall sign the treasurer's or governing board's investment policy thereby acknowledging their agreement to abide by the policy's contents.
3. All brokers, dealers, and financial institutions executing transactions initiated by the treasurer or governing board, having read the policy's contents, shall sign the investment policy thereby acknowledging their comprehension and receipt.

Lastly, if a written investment policy is not filed on behalf of the subdivision with the Auditor of State, the treasurer or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits, no-load money market mutual funds, or the Ohio subdivision's fund.

On May 24, 2005, the Council approved a new investment policy. This investment policy was neither filed with the Auditor of State nor signed by financial institutions conducting investment business with the Council.

We recommend that the City file its current investment policy with the Auditor of State. We further recommend that the City require all financial institutions conducting investment business with the Council to sign the investment policy.

2. Certification of Expenditures*

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the finance director is attached thereto. The finance director must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a finance director's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the finance director can certify that both at the time that the contract or order was made ("then"), and at the time that the finance director is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the finance director without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

**NONCOMPLIANCE FINDINGS
(Continued)**

2. Certification of Expenditures* (Continued)

2. Blanket Certificate – Finance director's may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the finance director for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Sixty-two percent of the transactions tested (five out of eight) were not certified at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Finance Director certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, “then and now” certification should be used.

3. Certification of Tax Levies

Ohio Rev. Code § 5705.34 states that when the Budget Commission has completed its work with respect to a tax budget or other information required to be provided under section 5705.281 of the Revised Code, it shall certify its action to the taxing authority, together with an estimate by the County Auditor of the rate of each tax necessary to be levied by the taxing authority within its subdivision or taxing unit, and what part thereof is in excess of, and what part within, the ten-mill tax limitation. The certification shall also indicate the date on which each tax levied by the taxing authority will expire.

Furthermore, each city, by ordinance or resolution, shall authorize the necessary tax levies and certify them to the County Auditor before the first day of October in each year.

For calendar year 2010, the Council did not authorize the necessary tax levies nor certify them to the County Auditor until December 22, 2009.

We recommend that the Council authorize, by ordinance or resolution, the necessary tax levies and certify them to the County Auditor before the first day of October each year.

**NONCOMPLIANCE FINDINGS
(Continued)**

4. Establishment of Funds (CDBG/CHIP)*

Ohio Rev. Code § 5705.09(F) states that each subdivision shall establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

In 2010, the City received and expended Small Cities Community Development Block Grant (CDBG) Program grant monies for the purposes outlined in the grant agreement between the City and the Ohio Department of Development. Section 6 of the Small City Community Development Block Grant Program grant agreement states that grant funds shall be deposited and maintained in a separate fund account upon the books and records of the Grantee.

Although the City did establish an account separate from their Community Housing Improvement Program (CHIP) fund to account for the disbursements related to the CDBG Program grant monies, they did not establish a separate account for the revenues. The activity from the CDBG Program grant monies in 2010 included \$16,980 in both receipts and disbursements.

We recommend the City establish a separate fund or account to account for the CDBG grant revenue and expenditure activity, segregated from the CHIP financial activity of the City. By establishing this fund or account, the City can gain assurance that revenues derived from the CDBG grant monies restricted for specific purposes are segregated from CHIP funds, and that the expenditures being paid with these restricted funds are earmarked for that purpose.

5. Establishment of Funds (WPCLF)

Ohio Rev. Code § 5705.09(F) states that each subdivision shall establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

In 2010, the City received and expended Capitalization Grants for Clean Water State Revolving Funds monies for the purposes outlined in the grant agreement between the City and the Ohio Water Development Authority. Section 4.2(c) of the agreement states that the Borrower (the City) will segregate the revenues, funds, and properties of the Project Facilities from all other funds and properties of the Borrower.

The City did not establish a fund separate from their Sewer and Storm Water funds to account for the revenues and disbursements related to the Capitalization Grants for Clean Water State Revolving Funds program. The activity from the program in 2010 included \$120,696 in both receipts and disbursements in the Sewer Fund and \$214,513 in both receipts and disbursements in the Storm Water Fund.

We recommend the City establish a separate fund to account for the Capitalization Grants for Clean Water State Revolving Funds program revenue and expenditure activity, segregated from the Sewer and Storm Water funds' financial activity of the City. By establishing this fund, the City can gain assurance that revenues derived from the Capitalization Grants for Clean Water State Revolving Funds program monies restricted for specific purposes are segregated from Sewer and Storm Water fund monies, and that the expenditures being paid with these restricted funds are earmarked for that purpose.

RECOMMENDATIONS

1. Capital Asset Policy*

The City should develop and implement written policies and procedures for identifying and recording capital assets. This policy should, at a minimum: define capital assets; establish capitalization thresholds, useful lives, method of depreciation, and methods to be used in tracking capital asset additions and disposals; outline procedures for assigning assets to programs, and identifying the information which must be maintained for each asset for reporting in the City's financial statements.

The City has no formal written policies and procedures over capital assets. Failure to develop and implement such policies could result in the theft or loss of property without management's detection and could also result in inaccurate financial reporting of the City's capital assets.

We recommend the City develop and implement written capital asset policies and procedures. This will ensure that similar transactions are treated consistently, accounting principles used are proper, records are produced in the form desired by management, and that amounts recorded on the City's financial statements are complete and accurate.

2. Windows Password Administration*

Standard security controls require the confirmation of a user ID through the use of a password. To ensure the integrity of the passwords, they should be a minimum of six characters in length, changed periodically (i.e. quarterly) and provide only the access necessary to perform job related duties.

We noted the following issue:

- Windows 2003 accounts existed with no password lifetime. (network)

Passwords provide the first line of defense into the system. Weak password administration controls could result in unauthorized access to sensitive data files and resources.

We recommend Windows password administration controls be strengthened to ensure the periodic changing of passwords. Password lifetimes should be set at 30 days or less for users with sensitive system privileges and 90 days or less for other users.

3. 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 written disaster recovery plan does not exist.

Without 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)**

3. Disaster Recovery Plan* (Continued)

A disaster recovery plan should be developed. An elaborate plan is not necessary; however, additional tasks should be performed to help ensure efficient recovery if a disaster occurs. We recommend, at a minimum, the following be developed:

- recovery terms and definitions
- technical (hardware/software) recovery procedures
- end user recovery procedures
- readiness plan
- emergency contact list
- reciprocal agreement with compatible site(s)

Once completed, the plan should be periodically reviewed and tested to ensure its continued applicability. 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. Additionally, an updated copy of the plan should be kept off-site.

4. Backup Testing

Sound backup control procedures require that backup computer files be readily available, but properly secured to ensure their usefulness. This requires that computer files are backed up regularly, rotated to a secure readily accessible off-site storage location, and tested routinely.

Backups were completed regularly and rotated to a secure off-site location. However, backups were not tested routinely during the audit period.

Not testing backups periodically could result in loss, inaccessibility, or destruction of the data in the event of a local disaster, accident, or theft. Such a data loss may cause untimely delays in the reconstruction of data prior to bringing the system back on-line.

Backups testing should be routinely scheduled and documented.

An asterisk (*) denotes a comment repeated from the prior audit. We intend this report for the information and use of the City Council, audit committee, and management.



Dave Yost
Auditor of State

October 20, 2011