



Dave Yost • Auditor of State

**CITY OF TROTWOOD
MONTGOMERY COUNTY**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Trotwood
Montgomery County
3035 Olive Road
Trotwood, Ohio 45426

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Trotwood, Montgomery County, (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 25, 2016, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

July 25, 2016

**CITY OF TROTWOOD
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2015-001

NONCOMPLIANCE AND MATERIAL WEAKNESS

The City prepared its annual financial statements in accordance with generally accepted accounting principles (GAAP). The City's Financial Report for 2015 contained the following errors:

The following differences are immaterial and were not adjusted on the financial statements:

The City reported Special Assessment Receivables at the net collection amount (net of related fees). The City should have reported these assessments at the gross amount to be received. This resulted in receivables and related revenues being understated in the Water Fund by \$3,220, in the Storm Water Fund by \$6,795, in the Refuse Fund by \$19,546, and Business Type Activities by \$29,561.

In the Other Governmental Funds, Intergovernmental Receivable was understated by \$37,187. Additionally, corresponding Intergovernmental revenue was understated by \$12,140 and corresponding deferred inflows was understated by \$25,047. This same error also related to Governmental Activities.

The City utilizes a service organization, Redflex, to collect fines related to traffic camera violations. The City receives direct deposits, net of related fees from Redflex into the general operating account. The City posts these amounts at net rather than gross to the general ledger. Therefore, the Other Governmental Funds Fines Licenses and Permits receipts and related expenditures were both understated by \$76,172.

Debt Service Principal Due Within One Year for Governmental Activities was understated by \$6,666 and over-stated for Business-Type Activities by \$6,666. Also, Debt Service Interest for the Water Fund was overstated by \$21,910.

The following differences were determined to be material and were adjusted on the financial statements:

The City has several fire operating levies. In 2009 voters also approved a fire capital levy. The City co-mingled these levy monies and posted them all to the Fire Levy Fund. **Ohio Rev. Code Section 5705.10(C)** states all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made. In 2015 the City established a separate Fire Capital Levy Fund in the accounting system to record the activity related to the fire capital levy. However, no activity was posted to the system. Therefore, a prior period adjustment was made and determined that the beginning balances for the Fire Levy Fund and Other Governmental Funds were understated by \$13,697 and overstated by \$13,697, respectively. During the current period, the Fire Levy Fund Property Tax Receipts were overstated by \$465,039, Intergovernmental Receipts were overstated by \$62,138, expenditures were overstated by \$491,281, Property Tax Receivable was overstated by \$581,378 and related Deferred Inflow was overstated by \$581,378. During the current period, Other Governmental Funds Property Tax Receipts were understated by \$465,039, Intergovernmental Receipts were understated by \$62,138, expenditures were understated by \$491,281, Property Tax Receivable was understated by \$581,378 and related Deferred Inflow was understated by \$581,378. The City also posted fund balance adjustments to the accounting system. Additionally this adjustment resulted in the City reporting a budgetary comparison schedule that reflected expenditures exceeding appropriations, which is contrary to **Ohio Rev. Code Section 5705.41(B)**.

**FINDING NUMBER 2015-001
(Continued)**

Ohio Revised Code Section 4504.172 provides, in part, any municipal corporation may levy an annual license tax upon the operation of motor vehicles on the public roads or highways. The tax shall be at the rate of five dollars per motor vehicle on all motor vehicles the district of registration of which is in the municipal corporation levying the tax. The City reported city levied motor vehicle license tax receipts in the amount of \$106,354 as Intergovernmental revenue rather than Property and Other Taxes in the Motor Vehicle License Tax Fund. As such, in the Other Governmental Funds, intergovernmental revenue was overstated by \$106,354 and property tax receipts were understated by \$106,354.

Final budgeted expenditures in the Salem Mall TIF Fund's Budgetary (Non-GAAP Basis) Statement were understated by \$1,910,089.

In the Salem Mall TIF Fund, Taxes Receivable was understated by \$359,019 and Intergovernmental Receivable was overstated by \$359,019.

In the Other Governmental Funds, Taxes Receivable was understated by \$402,268 and Intergovernmental Receivable was overstated by \$402,268.

In Governmental Activities, Taxes Receivable was understated by \$761,287 and Intergovernmental Receivable was overstated by \$761,287.

In Business Type Activities and the Storm Water Fund, Capital Assets, Net and Opening Net Position were overstated by \$457,517 related to errors in accumulated depreciation of infrastructure in prior periods.

Auditor of State Bulletin 97-003 provides, in part, to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established; the reimbursement from the debtor fund to the creditor fund must not violate any restrictions on the use of money to be used to make the reimbursement; and advances must be approved by a formal resolution of the taxing authority of the subdivision. The City made an advance of \$65,000 from the General Fund to the Salem Mall Tax Increment Fund. The City Council approved the advance as part of an amendment to the appropriations that was approved by City Council on December 7, 2015 (Ordinance 24-15). The amended appropriations showed this on a line item for "transfers/advances", with no distinction between the two types. Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Ohio Rev. Code §5705.14 to 5705.16. Advances, on the other hand, *temporarily* reallocate cash from one fund to another and involve an expectation of repayment. The City did not clearly approve the transaction as either an advance or a transfer. Also, per inquiry with City management the transaction was intended to be a transfer. Improperly classifying a transfer as an advance can lead to errors in the financial statements. The City posted adjustments to the accompanying financial statements. At the time of approving the advances or transfers City Council should distinguish which method they are approving.

To improve the accuracy and completeness of the City's basic financial statements and to provide for comparative financial statements from year to year, the City should implement procedures to review the basic financial statements for accuracy and completeness. Failure to do so could result in materially misstated financial statements.

Officials' Response:

In the future the City of Trotwood will diligently review the basic financial statements for accuracy and completeness to prevent materially misstated financial statements.

**CITY OF TROTWOOD
MONTGOMERY COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Revised Code Section 5705.41(B) - Expenditures exceeding appropriations	Corrective Action Taken and Finding is Fully Corrected	
2014-002	Ohio Revised Code Section 3929.86(A)/(C)/(D) Receipting insurance proceeds.	Corrective Action Taken and Finding is Fully Corrected	
2014-003	Material Weakness, reporting financial activity	Not Corrected	Repeated as Finding 2015-001