



Dave Yost • Auditor of State



CITY OF BEDFORD  
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....	1
Schedule of Findings.....	3

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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 Bedford  
Cuyahoga County  
165 Center Road  
Bedford, Ohio 44146

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 Bedford, Cuyahoga County, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2017.

### ***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 2016-001 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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***City'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

June 26, 2017

CITY OF BEDFORD  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2016

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**1. Utilities Department Controls**

<i>Finding Number</i>	2016-001
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MATERIAL WEAKNESS

The City of Bedford purchases water in bulk from the City of Cleveland through Master mains and then distributes the water to City residents through the City's mains. All water users are billed for the consumption of water on a monthly basis. Additionally, users are billed for sanitary sewer service based on consumption as well. The City receives payment through the municipal center parking lot lock box, through the mail, over the counter at the Municipal Center, via checking or savings account EFT, or credit card / electronic check payments received through the City's website. As part of this process, the City receives a significant amount of cash on a daily basis. Significant cash collection points require strong internal controls to prevent the loss of assets through misappropriation.

During 2016, the City discovered irregularities between deposits of utility department receipts that indicated cash received by the City was not being deposited to the bank. During the year, the Utilities Department performed daily reconciliations, but they were not adequate and not available for daily Finance review and did not summarize daily activities, reconciled cash on hand or reflected cash overages or shortages and the reasons for them. Adjustment reports were not reviewed by someone independent of the cash collection process. Since the discovery, the City has overhauled their control procedures over water and sewer receipts. Daily reconciliations are performed and are presented with daily reports to the Finance Department for review. Additionally, cash and check payments are separated and only cash deposits are included on the register. The Service Director oversees the department and approves adjustment reports and voided transactions in the system are deactivated to not allow unauthorized reversals.

Failure to fully implement adequate controls over cash collection points can allow errors or theft to go undetected and could allow a misstatement of financial statement amounts.

We recommend the City continue to review their control procedures over the utilities department and other departments where cash transactions are involved to ensure proper separation of duties, cash reconciliations and management review and oversight. The City should ensure their Utility system is adequate for the needs of the City, and any built-in controls and safeguards are fully utilized. Additionally, the City should consider a system of in-house processing of checks, which would decrease the risk associated with an employee being responsible for taking checks to the bank. There is an ongoing investigation at the City regarding the receipting process.

**Official's Response:**

After the AOS recommendation in the prior year regarding daily reconciliations, the City immediately responded and implemented procedures to better oversee this activity, which helped lead to the discovery of the theft. The City has been working to change their overall control procedures in this area. Changes have included prohibiting voided transactions in the system, the separation of the cash and check transactions in the register, and review of reconciliations provided with daily receipt documentation. The City is already working to implement an in-house check processing system for utility and income tax payments. The City is also working with the utilities system provider to help better secure access to the system.