



Dave Yost • Auditor of State

**CITY OF STOW
SUMMIT COUNTY
DECEMBER 31, 2016**

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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 Stow
Summit County
3760 Darrow Road
Stow, Ohio 44224-4094

To the Honorable Mayor and 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 discretely presented component unit and remaining fund information of the City of Stow, Summit County, Ohio (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 29, 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 opinion 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*.

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 29, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City of Stow
Summit County
3760 Darrow Road
Stow, Ohio 44224-4094

To the Honorable Mayor and City Council:

Report on Compliance for the Major Federal Program

We have audited the City of Stow, Summit County, Ohio (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the City of Stow's major federal program for the year ended December 31, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal program.

Management's Responsibility

The City's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for the City's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Stow complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have also audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely-presented component unit and remaining fund information of City of Stow (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. We issued our unmodified report thereon dated June 29, 2017. We conducted our audit to opine on the City's' basic financial statements as a whole. The accompanying schedule of expenditures of federal awards presents additional analysis required by the Uniform Guidance and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records management used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dave Yost
Auditor of State
Columbus, Ohio

June 29, 2017

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**CITY OF STOW
SUMMIT COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction			
Norton and Rt. 91	PID 82956	20.205	\$88,757
Springdale Bike Lane	PID 97864	20.205	<u>2,847,730</u>
 <i>Passed Through City of Hudson Engineering</i>			
Highway Planning and Construction			
Norton and Rt. 91	PID 82956	20.205	<u>82,500</u>
Total U.S. Department of Transportation			<u>3,018,987</u>
 <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<i>Passed Through the Federal Emergency Management Agency</i>			
Assistance to Firefighters Grant (AFG)	EMW-2014-FO-03256	97.044	11,451
 <u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Direct</i>			
Bulletproof Vest Partnership Program (BVP)	N/A	16.607	11,391
 <i>Passed Through Ohio Governor's Office of Criminal Justice Services</i>			
Law Enforcement Assistance-Narcotics and Dangerous Drug_Laboratory			
2015-2016 Drug Use Prevention Grant Program (DARE Grant)	N/A	16.001	6,923
 <i>Passed Through Ohio Department of Public Safety</i>			
Edward Byrne Memorial Justice Assistance Grant			
EMS Training & Equipment Grant	EMS 17-0472	16.738	2,500
Body Worn Cameras	2015-JG-A02-6941	16.738	23,100
Radio Communications Safety Grant	2014-JG-A02-6941	16.738	<u>-</u>
Total Edward Byrne Memorial Justice Assistance Grant			<u>25,600</u>
Total U.S. Department of Justice			<u>43,914</u>
Total Federal Financial Assistance			<u><u>\$ 3,074,352</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF STOW
SUMMIT COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of City of Stow (the City's) under programs of the federal government for the year ended December 31, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The City has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

**CITY OF STOW
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR §200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction Grant (CFDA #20.205)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

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

Capital Contribution

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

The City's December 31, 2016 Statement of Activities for the Business Type Activities and the Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds for the Storm Water Utility opinion unit's 'Capital Grants and Contributions'/Capital Contributions and the Contract Services Expense were understated by \$564,699. The City took control of the donated infrastructure of \$564,699 for the Storm Water Utility opinion unit from a developer. Although properly recorded as a capital asset on the Capital Asset System and properly reported on the Statement of Net Position, the asset was not properly reported as Capital Contributions revenue on the Activities for the Business Type Activities or the Statement of Revenues, Expenses and Changes in Net Position-Proprietary Funds.

Lack of internal control procedures over the review of the Generally Accepted Accounting Principles Conversion working paper and report by the City caused the financial statement to be incorrectly reported for donated asset. The absence of properly reporting the corresponding entry of capital contribution does not provide the readers a complete understanding of the City's activity for the donated capital asset. Amounts were adjusted on the financial statements.

The City should implement control procedures requiring a detailed review of GAAP Conversion work papers and financial statement to ensure proper posting and reporting of all activities during the GAAP conversion.

Official's Response:

The following is in response to the Auditor of State's Office for the City of Stow not recording donated capital contributions, as a material weakness:

- 1) The City did recognize the receipt of the donated assets by developers in 2016 to the Stormwater and Water Funds when the year-end Infrastructure capital assets worksheets were prepared for any construction in process and capitalized assets. The total donated assets amounts were mistakenly omitted from the correspondence between the Director of Finance who prepares the City's internal worksheets and the preparation of the financial statements By Julian & Grube. All of the fixed asset infrastructure support reports reflected the correct amounts. The error in the amount was a clerical error in communicating the non-cash donated asset activity to the financial statement preparer.

- 2) The Director of Finance is currently amending the City's Asset procedures to reflect the process for reporting donated (non-cash) items to the City that are Capital Assets. The capital assets that will be included in this revision will include land, buildings, infrastructure, equipment and all other items that may be classified as Capital assets. The Director of Finance does not agree with the degree of this finding, but is updating the City's Capital Asset Policy to reflect the additional care that needs to be taken in the area of Donated Assets to avoid future human errors.

3. FINDINGS FOR FEDERAL AWARDS

None

**CITY OF STOW
SUMMIT COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
DECEMBER 31, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	<p>Capital Contributions - The City did not recognize the receipt of the donated assets by developers in 2016 to the Stormwater and Water Funds when the year-end Infrastructure capital assets worksheets were prepared for any construction in process and capitalized assets. The total donated assets amounts were mistakenly omitted from the correspondence between the Director of Finance who prepares the City's internal worksheets and the preparation of the financial statements by Julian & Grube. All of the fixed asset infrastructure support reports reflected the correct amounts. The error in the amount was a clerical error in communicating the non-cash donated asset activity to the financial statement preparer.</p> <p>The Director of Finance is currently amending the City's Asset procedures to reflect the process for reporting donated (non-cash) items to the City that are Capital Assets. The capital assets that will be included in this revision will include land, buildings, infrastructure, equipment and all other items that may be classified as Capital assets. The Director of Finance does not agree with the degree of this finding, but is updating the City's Capital Asset Policy to reflect the additional care that needs to be taken in the area of Donated Assets to avoid future human errors..</p>	Immediately	John Baranek, Finance Director