

**CITY OF WARRENSVILLE HEIGHTS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

James G. Zupka, CPA, Inc.
Certified Public Accountants

**CITY OF WARRENSVILLE HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of City Council
City of Warrensville Heights
Warrensville Heights, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Warrensville Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified certain deficiencies in internal control that we considered to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in the accompanying Schedule of Findings and Questioned Costs that we considered a material weakness as item **2017-001**.

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. We identified certain deficiencies in the accompanying Schedule of Findings and Questioned Costs that we considered significant deficiencies as items **2017-002, 2017-003**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

August 6, 2018

**CITY OF WARRENSVILLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017**

Finding 2017-001 – Material Weakness – Credit Cards

Statement of Condition

Credit cards were made available to the Mayor, each council member, and key employees of the City for use of performing City business. Per the City's credit card policy, the credit card holder can only use the card to benefit the City or individual City ward/district. In addition, the policy states that credit cards cannot be used to circumvent the purchasing policy.

A sound internal control structure is one capable of providing management with assurance that transactions are processed accurately and completely. To achieve this desired assurance, the internal control structure must promote the timely and consistent application of internal control procedures and require that said procedures be adequately documented to evidence their application.

During our review of credit card transactions, we noted the following control deficiencies:

1. Documentation for some transactions relating to travel and operational expenses did not meet the City's credit card expense policy and IRS guidelines for deductibility of those expenses. At a minimum, documentation should include the date, time, and business purposes of the expense.
2. Some of the expenses did not have receipts attached.
3. In a few instances, the credit cards were used for personal use.

Cause/Effect

The transactions incurred and charged to the City lacked proper documentation and were not in compliance with the City's credit card and travel policy.

Recommendation

We recommend that the City review the current credit card policy with each individual holding a credit card. We also recommend that the City require each employee to submit all reimbursable expenses with proper documentation as outlined in the credit card policy, and that expenses be reviewed for accuracy and proper support prior to reimbursement. It is our understanding that the City has currently limited the number of City credit cards and the Finance Director has control over the usage of these active cards, and that Council and City staff are reimbursing expenses that do not meet the City's credit card expenditure policy.

City's Response

In an effort to ensure that the City complies with the City's credit card policy and the ORC, the City took immediate action by canceling all credit cards with the exception of two. The two credit cards retained can only be accessed by signing them out from the Finance Department and being returned same day. Before the card is signed out, the employee must complete a preauthorization form that requires a written detailed explanation of the purpose of the credit card charge, amount charged, employee name and department they work in, transaction date, and budget account number. Furthermore, as required, a purchase order must be approved prior to any credit card purchase and the purchase order and approval must be written on the preauthorization form as well. Upon return of the credit card-- an itemized receipt must be submitted to the Finance Department on the same day the charge was incurred.

The City will take measures to review the travel and credit card policies with the elected officials, administration and employees to ensure compliance. After review, the City will require that everyone sign an updated document indicating that the policies have been reviewed and that the employee understands the policies.

Finally, the credit cards shall be routinely monitored to ensure that no unusual or fraudulent activities occur.

**CITY OF WARRENSVILLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017
(CONTINUED)**

Finding 2017-002 – Significant Deficiency – Compensated Absences

Statement of Condition

Our testing in the areas of compensated absences and retirement payouts identified several areas where controls were not effective. The City had been tracking compensated absence balances through a manual spreadsheet that was updated by the prior Director of Finance. The Director of Finance was the only person who would update the spreadsheet and understood how it operated. During 2017, the City implemented the Kronos attendance tracking system to eliminate the need for the manual system. The City performed a confirmation of balances at December 31, 2015 by sending out letters with their respective balances and asking employees to sign off approving those balances. The purpose was to create a starting point for the Kronos system and use Kronos going forward. However, the City used the manual system to determine the value of its compensated absences that are reported on its fiscal year-end 2017 financial statements.

The review of compensated absences revealed that some employees had the incorrect vacation accruals entered into the manual system. The City had several employees who were carrying balances greater than what is allowable per their respective union contract agreements. There was one instance where a transfer of sick time was made to vacation time to alleviate a negative vacation balance, which is not permitted in the contract. A couple instances were noted where former employees were paid out for their severance payouts more than what was allowable per their contracts. Overpayment is estimated at \$8,028.

Cause/Effect

The City had been using a manual system to keep track of all the employee's compensated balances. Only one individual at the City had knowledge and an understanding of the compensated absences manual report. The City decided to make the switch to the Kronos time reporting system, which records employee's time automatically in 2017. The system has the capability of generating reports for employee's compensated balances. For the 2017 financial statements, however, the City was using the manual system to calculate and report such time and their values. This created the discrepancies in our testing causing the misstatement of values. Also, a couple of employees were overpaid in their severance payouts.

Recommendation:

We recommend that the City confirm all compensated balances at a given point and make a full transition over to the Kronos tracking system. Employees should be cross-trained with the knowledge of how to operate the compensated absences system. There should be an independent review of compensated balances to confirm balances on a periodic basis. Also, the Finance Department should have an understanding of contract leave limitations in order to properly calculate retirement payouts. The severance payout overpayments are under review by the City's Law Department.

City's Response

The City will seek advice from the City's labor attorney on the interpretation of union contracts to ensure that overpayments do not occur. The Finance Department will review all union contracts with the City's labor attorney to ensure that contract language applicable to economics (expenditures) are interpreted correctly.

Going forward, the City will discontinue entering compensating balance manually and will rely solely on the time and attendance KRONOS system to accurately track time.

**CITY OF WARRENSVILLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017
(CONTINUED)**

Finding 2017-003 – Significant Deficiency – Capital Assets

Statement of Condition

A capital asset management system establishes methods, policies, and procedures to address the acquisition, use, control, protection, maintenance, and disposal of assets. Accurate accounting for assets is required for the correct and complete presentation of capital asset financial information.

The City has a formal policy related to capital assets. However, during our review of capital assets, we noted that the following items were not identified on the City's capital assets policy or listing:

1. Salvage value for applicable capital assets rather than being netted against original cost;
2. A listing of assets no longer in use that have been fully depreciated but not yet removed from the listing.
3. No physical documentation for the disposition of capital assets
4. Assets falling below the capitalization threshold are not properly accounted for by the Service Department. Also, there is no formal policy on how to track these assets.

The City performed an internal physical observation of capital assets during 2017. As a result, the City determined that roughly \$3.5 million in capital assets were not in the City's possession, but were being shown on its financial statements. The majority of these assets were fully depreciated causing an immaterial difference of \$39,811 to net capital assets. This issue occurred as a result of a lack of communication between the Finance Department and the other departments within the City regarding disposition of capital assets.

We also noted the capitalization threshold for capital assets is \$1,000, and several assets with a historical cost under the threshold were capitalized, resulting in an insignificant overstatement. We noted an instance where a newly purchased asset was misclassified in the City's capital asset system.

Failure to maintain proper documentation of capital asset records may result in capital asset misstatements on the City's financial statements. Capital assets that are not properly accounted for creates a greater risk for potential inappropriate usage of an asset.

Recommendation

We recommend that the City review its Capital Asset Policy to include all the above bullet-pointed items. We also recommend that the City consider increasing its capital asset threshold to avoid having a cumbersome capital asset listing report. We also recommend the City use a tagging system for its capital assets with a unique identification number. This would allow the City to reconcile its capital assets from the system report to physical assets throughout the City, including the Service Department.

City's Response

The City will review its Capital Asset Policy and adhere to the established policy put in place. When the opportunity permits, the City will increase the threshold from \$1,000 to \$5,000. The City will work to improve proper documentation of capital assets through the City's financial software and revert back to utilizing a tagging system for the City's capital assets to keep better track of assets that are purchased as well as removed.

**CITY OF WARRENSVILLE HEIGHTS
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF PRIOR FINDINGS AND RESPONSES
 FOR THE YEAR ENDED DECEMBER 31, 2017**

The prior issued audit report, as of December 31, 2016, included a material weakness citation.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2016-001	Financial Reporting	Corrective action taken and Finding is corrected.	None

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.