

OHIO AUDITOR OF STATE KEITH FABER



Corporate Centre of Blue Ash
11117 Kenwood Road
Blue Ash, Ohio 45242-1817
(513) 361-8550 or (800) 368-7419
SouthwestRegion@ohioauditor.gov

MANAGEMENT LETTER

City of Cincinnati
Hamilton County
801 Plum Street
Cincinnati, Ohio 45202

To the Honorable Mayor and Members of 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 defined in our Independent Auditor's Report of the City of Cincinnati, Hamilton County, Ohio (the City) as of and for the year ended June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated March 8, 2021.

Government Auditing Standards require us to communicate deficiencies in internal control, as well as, report on compliance with certain provisions of laws, regulations, contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated March 8, 2021, for the year ended June 30, 2020.

2 CFR Part 200 subpart F requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated March 8, 2021, for the year ended June 30, 2020.

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 *Government Auditing Standards* or Single Audit reports. 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. These comments reflect our continuing desire to assist your government but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Findings

1. Fraud Reporting System

Ohio Rev. Code § 117.103 (B)(1) states that a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. Furthermore, **Ohio Rev. Code § 117.103 (B)(2)** states that on the effective date of this section (May 4, 2012), each public office shall make all its employees aware of the fraud-reporting system.

**Noncompliance Findings
(Continued)**

For fiscal year 2020, the City hired two new employees but did not obtain a signed acknowledgement form from the new employees until September 2020. Failure to notify employees of the fraud reporting system could lead to instances of unreported fraud.

In order to prevent unreported instances of fraud, the City should communicate the fraud reporting system to its current employees and implement a process for informing new employees.

2. Conflict of Interest – Tamaya Dennard

Ohio Rev. Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority of influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

Ohio Rev. Code § 2921.42(H) provides that any public contract in which a public official, a member of the public official's family, or any of the public official's business associates has an interest in violation of this section is void and unenforceable.

Ohio Rev. Code §102.03(D) and (E) apply to public officials or employees when their family members are seeking employment with, or are employed by, the same public agency they serve.

1980 Ohio Ethics Commission Op. No. 80-001, has defined a family member as including, but not limited to: (a) grandparents; (b) parents; (c) spouse; (d) children, whether dependent or not; (e) grandchildren; (f) brothers and sisters; and (g) any person related by blood or marriage and residing in the same household.

Furthermore, **Ohio Rev. Code § 102.02(A)(2)(e)** states elected officials must file an annual financial statement disclosure with the Ohio Ethics Commission listing debts more than \$1,000.

On February 25, 2020, former Council Member Tamaya Dennard was arrested on federal charges of one count each of honest services wire fraud, bribery concerning programs receiving federal funds, and attempted extortion under color of right. Ms. Dennard resigned from Council on March 2, 2020.

On June 29, 2020, Ms. Dennard entered a plea of guilty on a charge of wire fraud before the Honorable Susan Dlott having previously signed a plea agreement requiring her to pay back \$15,000 received for votes on a development project in the City. Judge Dlott entered a finding of guilty against Ms. Dennard as a result of her guilty plea. On November 24, 2020, at sentencing for conviction, Judge Dlott announced a sentence of 18 months in prison.

Additionally, while a Council member, Ms. Dennard failed to list debts exceeding \$1,000 on her financial disclosure form and is facing an Ohio Elections complaint based on taking consulting fees from her campaign finance account.

Failure to ensure all Council members are free from potential conflicts of interest coming before them could cause result in unallowable activity. The City should consult with their legal counsel to review the requirements of Ohio Rev. Code § 2921.42 to ensure that all public officials are conducting City business in accordance with Ohio Ethics laws.

**Noncompliance Findings
(Continued)**

3. Conflict of Interest – Two Council Members

Ohio Rev. Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority of influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

Ohio Rev. Code § 2921.42(H) provides that any public contract in which a public official, a member of the public official's family, or any of the public official's business associates has an interest in violation of this section is void and unenforceable.

Ohio Rev. Code §102.03(D) and (E) apply to public officials or employees when their family members are seeking employment with, or are employed by, the same public agency they serve.

1980 Ohio Ethics Commission Op. No. 80-001, has defined a family member as including, but not limited to: (a) grandparents; (b) parents; (c) spouse; (d) children, whether dependent or not; (e) grandchildren; (f) brothers and sisters; and (g) any person related by blood or marriage and residing in the same household.

Two City Council members were arrested on various federal charges regarding activity during their time on Council, and have been voluntarily suspended from Council while their cases proceed through the federal court. The outcome of these cases have not been determined at this time.

Failure to ensure all Council members are free from potential conflicts of interest coming before them could cause result in unallowable activity. The City should consult with their legal counsel to review the requirements of Ohio Rev. Code § 2921.42 to ensure that all public officials are conducting City business in accordance with Ohio Ethics laws.

4. Annual Financial Reporting

Ohio Rev. Code § 117.38 states public offices reporting pursuant to generally accepted accounting principles shall file their annual financial reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may prescribe by rule or guidelines the forms for these reports. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension.

The City obtained a filing extension of December 30, 2020 but did not file its 2020 annual report until January 28, 2021. The City did not have procedures in place for effective monitoring of the timeliness of the City's annual report.

Failure to file an annual report in a timely manner could result in a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. The Auditor of State may waive these penalties, upon the filing of the past due financial report. Additionally, the lack of an annual report could result in auditing difficulties.

The City should file its annual report within the required time frame at the end of each fiscal year with the Auditor of State's Office.

Recommendations

1. Budgetary Posting

Sound accounting practices require accurately posting appropriations to the ledgers to provide information for budget versus actual comparison and to allow the Council to make informed decisions regarding budgetary matters.

The Appropriation resolution and subsequent amendments establish the legal spending authority of the City and the appropriation ledger provides the process by which the City controls spending, it is therefore necessary the amounts appropriated by the Council are precisely stated and accurately posted to the appropriation ledger.

The City did not have procedures in place to accurately post authorized budgetary measures to the accounting system. The appropriations (and/or amendments thereof) approved by Council were not properly posted to the accounting system.

At June 30, 2020, the budgeted amounts posted to the City's accounting ledgers varied from the appropriations approved by Council as follows:

Fund	Per Appropriation Resolutions	Amount Posted to System	Variance
General Fund (50)	\$421,322,285	\$431,977,707	(\$10,655,422)

In addition, the General Fund Final Budget Expenditures in the 2020 financial statement supplementary information were overstated by \$10,812,000 from the appropriation resolutions adopted by City Council.

Failure to accurately post the appropriations to the system could result in overspending and negative cash balances.

To effectively control the budgetary cycle and to maintain accountability over expenditures, the City should post to the ledgers, on a timely basis, appropriations approved by the Council. The City should then monitor budget versus actual reports to help ensure appropriations have been properly posted to the ledgers.

2. Park Board Comprehensive Budget

The City of Cincinnati initiated a contract with the accounting firm of Crowe Horwath LLP wherein the firm would provide financial analysis and advisory services relative to the Park Board, Parks Department and Parks Foundation. Crowe Horwath issued a July 26, 2016 report that included the following recommendations: the Park Board obtain a Memorandum of Understanding between the Board, City and Foundation; and the Park Board prepare a comprehensive budget of all sources of anticipated revenues and expenditures.

For 2020 the Park Board did not maintain a comprehensive budget of all sources of anticipated revenues and expenditures. The Park Board prepared, approved, and monitored a budget for the Park Board and the City of Cincinnati prepared a separate budget for certain Park activity accounted for in the City funds.

Recommendations (Continued)

Failure to prepare a combined budget leaves the Park Board and City of Cincinnati without a complete picture of Cincinnati Park activity and could result in inefficiencies, increased costs, and lack of proper monitoring by the Park Board and Cincinnati City Council.

The Park Board, Parks Department and Parks Foundation should review and implement the recommendations in the July 26, 2016 Crowe Horwath report.

3. ODOT Accounting/Failure to Record Pass-Through Monies

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Ohio Department of Transportation (ODOT) monies in the form of grants for one project were paid to contractors by ODOT on behalf of the City totaling \$5,310,441. The City did not record this money in the accounting system, and the financial statements have not been adjusted to reflect the receipt and disbursement of this money.

The City did not have procedures in place for effective monitoring of the City's financial activity, and the accuracy of accounting and financial reporting. Failure to accurately post and monitor financial activity increases the risk that errors, theft, and fraud could occur and not be detected in a timely manner.

Due care should be exercised when posting entries to the financial records and financial statement preparation. The City officials should update control procedures for review of financial activity so that errors can be detected and corrected in a timely manner.

4. IT Password Parameters

Effective controls require security settings configured to require an authentication process that limit password history, applies password length, set complexity rules and limits the number attempts users are permitted to try to login.

The systems default parameters do not enforce password complexity. Lack of appropriate authentication settings weakens security and exposes user accounts to greater potential for unauthorized access.

The default authentication setting should be updated to include more complex password requirements and the minimum length of the passwords should be raised.

We intend this report for the information and use of the Mayor, City Council, and management.

A handwritten signature in black ink, reading "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio
March 8, 2021