City of Dublin

Office of the City Manager
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Memo

To: Members of Dublin City Council

From: Marsha I. Grigsby, City Manager MIG

Date: September 18, 2014

Initiated By: Angel L. Mumma, Director of Finance
Jerry O'Brien, Chief Accountant

Re: December 31, 2013 CAFR and Related Audit Reports

Summary

Enclosed for your review are the following documents:

1) City of Dublin's published *Comprehensive Annual Financial Report for the fiscal year ended December 31, 2013* ("CAFR"), including the Independent Auditors' Opinion thereon;

    - *Independent Auditors' Report on Compliance and Internal Controls* for the audit period January 1, 2013 through December 31, 2013, which is the *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* ("Internal Control Report")

2) Related *Management Letter* issued by the Independent Auditors; and

3) Additional communications made by the Independent Auditors to City Council, as required by Statement of Auditing Standards Number 114 ("SAS 114 Letter").

Staff submitted the 2013 CAFR to the Government Finance Officers Association ("GFOA") to determine its eligibility to receive a "Certificate of Achievement for Excellence in Financial Reporting," an award the City has received for 24 consecutive years. Staff anticipates that the 2013 CAFR will also be so certified when the City is notified by the GFOA in late December.

Included on page 19 of the CAFR is the Independent Auditors' Report, issued by Clark, Schaefer, Hackett & Co., which indicates that the financial statements are presented fairly in conformity with generally accepted accounting standards - an "unmodified opinion". Dave Yost, Auditor of State, notified the City that the audit was reviewed by his staff, and accepted it with no modifications.

The Internal Control Report indicates that the audit did not reveal any significant deficiencies or material weaknesses in the City's internal accounting procedures or controls. Additionally, no significant instances of noncompliance with provisions of any laws, regulations, contracts, or grant agreements were found.

The auditors did note two minor internal control related issues, which are described in the related *Management Letter*, along with their recommendations as to how to mitigate them. The first comment was that the Finance Department does not maintain a formal internal control policy and

procedures manual documenting the day-to-day processing and controls. The second comment was concerning internal control issues over the cash handling activities at the City's pools. These comments will be more fully discussed at the meeting with the Finance Committee.

The SAS 114 Letter provides the auditors with the opportunity to highlight other matters they deem important, outside of the strictures of the formal audit opinion letter and internal control reports. The auditors emphasize that City management is responsible for the selection and use of appropriate accounting policies. They point out that City management used estimates for certain significant income tax receivable account balances; and that the City depended on third parties for certain investment risk disclosure information. The auditors also mentioned they "encountered no significant difficulties in dealing with management in performing and completing our audit" and that "we are pleased to report that no disagreements [with management] arose during the course of our audit."

If Council desires a post-audit meeting with Clark, Schaefer, Hackett and Co. to discuss the audit, staff will arrange for them to meet with Council. If no post-audit meeting is desired, staff will inform the auditors that Council did not request a meeting.

As soon as the Auditor of State releases the City's 2013 audit report on its website, www.ohioauditor.gov, staff will follow suit, posting the 2013 CAFR at www.dublinohiousa.gov

Recommendation

Information for review purposes only. Staff will be present at the October 13 Finance Committee meeting for any additional discussion regarding the audit.

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

July 31, 2014

To the Members of the City Council
City of Dublin, Ohio
Attn: Michael Keenan, Mayor
5200 Emerald Parkway
Dublin, Ohio 43017-1006

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Dublin, Ohio (the City) for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 21, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Dublin are described in Note A to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of income taxes earned during 2013 but not yet collected as of the end of the year is based on prior year collection trends. We evaluated these amounts by comparing the calculation to the amounts recognized in prior years as well as comparing the actual amounts received in prior years to the estimates established in those years.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of the risks associated with the City's deposits and investments in Note B to the financial statements were developed in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and are based on information provided by the investment managers.

The financial statement disclosures are neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated July 30, 2014.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of members of the audit committee and management of City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Clark, Schaefer, Hackett & Co.

Clark, Schaefer, Hackett & Co.
Springfield, Ohio

City of Dublin
Summary of PAJE's
For the Year Ended December 31, 2013

Note: This worksheet is used to evaluate the audit adjustments not posted to the financial statements.

Opinion Unit: Governmental Activities

KK	Other Taxes	150,596	
	Due From Other Governments		150,596
<To adjust amount of homestead and rollback recorded as receivable at year end>			

Opinion Unit: Capital Improvements Tax Fund

KK	Deferred Inflow of Resources - Miscellaneous Revenue (401)	107,904	
	Due From Other Governments (401)		107,904
<To adjust amount of homestead and rollback recorded as receivable at year end>			

Opinion Unit: Safety Fund

KK	Deferred Inflow of Resources - Miscellaneous Revenue (214)	15,716	
	Due From Other Governments (214)		15,716
<To adjust amount of homestead and rollback recorded as receivable at year end>			

Opinion Unit: Other Non-Major Governmental Funds

C.2.4	Service Payment Receivable (Fund 416)	270,240	
	Deferred Inflow of Resources - Service Payments (416)		270,240
	Deferred Inflow of Resources - Service Payments (419)	270,240	
	Service Payment Receivable (Fund 419)		270,240
< To correct posting error of year end TIF Receivable>			
KK	Deferred Inflow of Resources -Miscellaneous Revenue (402)	26,976	
	Due From Other Governments (402)		26,976
<To adjust amount of homestead and rollback recorded as receivable at year end>			

MANAGEMENT LETTER

Honorable Mayor, City Council
and City Manager
City of Dublin, Ohio

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the City of Dublin, (the City), as of and for the year ended December 31, 2013, and have issued our report thereon dated July 30, 2014.

Government Auditing Standards also require that we describe the scope of our testing of compliance with laws and regulations and internal control over financial reporting and report any irregularities, illegal acts, other material noncompliance and significant internal control deficiencies. We have issued the required report dated July 30, 2014, for the year ended December 31, 2013.

We are also submitting for your consideration the following comments on the City's compliance with applicable laws and regulations and on its internal controls. These comments reflect matters that, while in our opinion do not represent a material instances of noncompliance or significant internal control deficiencies, we believe represent matters for which 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 the recommendations suggested below. However, these comments reflect our continuing desire to assist the City. If you have any questions or concerns regarding these comments please do not hesitate to contact us.

Internal Control Policies and Procedures Manual
We noted that the Finance Department does not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. The City is at risk if critical tasks cannot be completed due to an extended or unforeseen absence. A formal internal control policy and procedures manual will assist the department in the training of new departmental employees thereby reducing the amount of time required away from the daily departmental operations. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location.

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Segregation of Duties – City Community Pools
Our review of the cash collection procedures at the City's community pools indicated that there is a lack segregation of duties in the receiving, reconciling and depositing of cash receipts. To provide effective control environment, it would be necessary to separate each of these duties. Currently, the cashier's duties include all of these functions to some degree. Separating these duties will improve internal controls over cash and reduce the possibility of errors and irregularities and help the City identify any discrepancies on a timely basis. This may be done without hiring additional personnel. We recommend that the City make the following analysis for each facility through the internal audit procedures:

- Make a list of pool personnel and the accounting duties that they perform.
- Isolate any incompatible accounting functions that are the responsibility of one employee.
- Reassign responsibility for these duties, if practical, or create a supervisory review of these functions.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and our suggestions with the Director of Finance, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This report is intended solely for the information and use of the City Council, management, others within the City, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
July 30, 2014

INDEPENDENT AUDITORS' 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*

Honorable Mayor, City Council
and City Manager
City of Dublin, 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, the business-type activities, each major fund, and aggregate remaining fund information of the City of Dublin, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon July 30, 2014.

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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
July 30, 2014