

FINAL AUDIT REPORT

Date: February 17, 2014
To: Ann M. Culp- Fiscal Officer
From: Mukesh K. Singh- Auditor
Subject: Final Audit Report

Attn:
Charles C. Lewis
Trustee
Andy Papanek
Trustee
Bob Matthews
Trustee
Gregory Rogers
Assistant Township
Administrator
Harry Steger
Finance Director

EXECUTIVE SUMMARY

This report presents the results of auditor Mukesh K. Singh's (hereinafter referred to as "Auditor") audit of Miami Township of Ohio. The objectives were to assess whether the contracts issued by township were in accordance with township's governing rules and regulations, whether financial statements were issued in accordance with the Generally Accepted Accounting Principles (GAAP), and whether key processes are within acceptable industry standards.

There were eight main focuses of the audit: (1) Segregation of duties; (2) Preparation of financial statements; (3) GAAP conversion; (4) Credit card expenses; (5) Township contracting and procurement; (6) Litigation risk; (7) Advance payment; and (8) Township investment. The report also contains a section on other findings and recommendations that were identified during the audit. The major findings are highlighted here to bring attention to key weaknesses and issues:

- The control design of township lacks a proper segregation of duties. The person who maintains General Ledger reconciles the accounting records and monthly financial reports, along with having sole custody of the checks, the ability to print checks, and the responsibility of receiving and depositing checks. This is not adequate to properly mitigate financial, operational, and compliance risks and a proper segregation of duties should be implemented.
- Due to off-the-book preparation of financial statements and the accessibility of the system by other employees, there is a material risk in the integrity of the financial statements. A system should be implemented based on the GAAP and Financial Accounting Standards Board Regulations.
- Township has not done a GAAP conversion in over ten years. As a result, there is no basis to recognize the actual financial status of its finances. The absence of GAAP conversion has a negative impact on bond ratings and interest ratings, which is crucial due to township's significant debt obligations.
- There is no policy and procedure in place to govern the proper use of township credit cards. This lack of oversight has allowed, among other findings, a 923% increase in business expense lunches in the past ten years.
- Township transacted contracts up to \$620K without completing any formal procurement process. Absence of a formalized procurement process could lead to risks including, but not limited to, vulnerability to internal and external fraud, no legal recourse in case of breach by the supplier, political embarrassment, and public scrutiny and investigation.
- Township has a high litigation risk as a result of an inadequate Employee Manual. Over the past five years, township has paid over \$238K to terminated employees and currently is involved in pending litigation. To make township less vulnerable to litigation, the Employee Manual should be revised to use clear and concise language and should

contain policies and procedures that meet industry standards and comply with applicable laws.

- There is currently no formal advance payment policy in place, which allowed an advance payment of \$6,760.00 to be made in April 2013 for police website design and development, with no performance as of the date of the report. Township did not follow a bidding process, did not complete a reasonable follow-up, and has since entered into another agreement with a different company for the same uncompleted work. Township is currently in the process of recouping payment.
- Over the past three years, all township investments have been made in accordance with laws and regulations and there appear to be no conflicts of interest in the investment decision. However, township lacks adequate policy and procedures and should implement a formal system for investment.

Based on the findings of the audit, township should implement formal policies and procedures in each of its departments. Recommendations have been stated for each of the eight main focuses of the audit along and have also been stated for the ten other findings that were identified over the course of the investigation. Additionally, oversight is needed in each of these areas to mitigate future financial, operational, and compliance risks for township.

BACKGROUND

Miami Township is located in Montgomery County, Ohio and has approximately 32,000 residents. Township is governed by a three-member board of trustees who are elected for a four-year term. The current Trustees are Charles C. Lewis, elected for his third term in 2012, and Robert H. Matthews and Andrew J. Papanek, each elected for his first term in 2014. There is also an elected fiscal officer who also serves a four-year term. The current fiscal officer is Ann M. Culp, who was elected for her first term in 2012. There are two Board of Trustee's meetings each month where public comment is welcome. Township has five departments: planning and zoning, public works, police, finance, and newly created compliance development. Township has an annual general fund budget of \$18.6 million, investment of \$ 14 million, debt services of \$53 million, and fixed assets of approximately \$12 million.

The Auditor was engaged to perform audit risk and aversions. The Auditor determined if contracts issued by township are in accordance with township's governing rules and regulations. Additionally, the Auditor ensured that the financial statements were issued in accordance with Generally Accepted Accounting Principles (GAAP). The Auditor examined key processes and used professional judgment and knowledge of those processes to ensure that such processes are within acceptable industry standards. The Auditor also examined financial statements and related documentation to identify any material misstatements that may or have caused significant loss to township. In addition, the Auditor devised a plan to ensure that township controls and reporting functions are adequate and help reduce the risk of future misstatements and / or loss.

SCOPE OF WORK

1. Review contracts issued by township
2. Review financial statements
3. Review supporting documents from which the financial statements were prepared
4. Evaluate if there were any material omissions made during the contract bidding process
5. Evaluate if there were any misapplications of accounting principles
6. Examine records in order to determine if any employee of township misused their authority for either monetary or non-monetary gains
7. Conduct risk assessment in conjunction with financial internal controls
8. Develop templates and tools to support the engagement
9. Document all results
10. Issue a final report

SAMPLE PERIOD

1. All contracts issued by township from 01/01/2011 – 12/31/2013.
2. Purchase Orders issued from 01/01/2011 – 12/31/2012.
3. Auditor used a random sampling method from all contracts and purchase orders issued to engineering firms from 01/01/2009 – 12/31/2012

AUDIT METHODOLOGY

The Auditor used the following audit methodology. Additionally, the Auditor conducted interviews with the department heads and other staff on an as needed basis.

1. Planning
2. Control Evaluation
3. Substantive Testing
4. Completion

AUDIT FINDINGS

SEGREGATION OF DUTIES

Segregation of duties (SoD) controls are designed to ensure that staff do not have access to a potentially risky mix of functions. Ensuring that the positions involved in performing departmental financial processes do not have conflicting duties is critical to reduce the risk of errors, misappropriations, and fraud, and to maintaining a strong financial transaction control environment. Adequate separation of duties should be maintained at all times in a financial process.

The preferred number of individuals that should be involved in handling a financial process is three or more. In absence of an adequate level of staffing, segregation of duties can be maintained via compensating controls.

OBJECTIVES

The Auditor's involvement was intended to help ensure the proper consideration and integration of process controls, including (but not necessarily limited to) control design and effectiveness appraisal.

FINDINGS

During the audit review, a gap in internal control was noted. It was identified that the person who maintains General Ledger also reconciles the accounting records and monthly financial reports. Additionally, she also has the custody of checks and ability to print checks and is responsible for receiving checks, preparing deposit slips, and depositing checks in the bank.

The lack of SoD can provide the person with the ability to create unauthorized financial transactions by creating a fictitious vendor; this can lead to fraudulent activities and potential loss of funds.

RECOMMENDATIONS

Consider the following in assigning duties to each of the individuals involved in handling a financial transaction process:

- The person who maintains and reconciles the accounting records should not be able to obtain custody of checks.
- The person who opens mail and prepares a listing of checks received should not be the person who makes the deposit.
- The person who opens mail and prepares a listing of checks received should not be the person who maintains the accounts receivable records.
- The Person who makes General Ledger entries should not be the person who reconciles monthly bank statements.
- The check printing process should be reviewed and observed by at least two individuals.

CONCLUSION

Based on the results of Auditor's review, the control design is not adequate to properly mitigate financial, operational, and compliance risks. A proper segregation of duties (recommended above) should be implemented.

MANAGEMENT COMMENT: Agreed. Partially implemented in 2013.

IMPLEMENTATION DATE: December 2014

PREPARATION OF FINANCIAL STATEMENTS

The integrity of financial records is critical. Financial statements should be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board Regulations. In addition, the organization should maintain a system of internal controls to assure appropriate authorization, recording, and accountability of assets. All transactions should be supported in reasonable detail, in proper account(s), and in the proper accounting period. Cash or other assets should not be maintained in any unrecorded or "off-the-book" system for any purpose.

OBJECTIVES

The objectives of this review were to ensure:

1. Financial statements are fairly presented in all material respects in accordance with GAAP; and
2. Township has an internal control structure over financial reporting as related to the financial statements in place and provides reasonable assurance that:
 - Assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
 - Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements.

FINDINGS

During the audit review, a material weakness was noted with the process that township follows while preparing financial statements. Currently, financial statements are not prepared directly from township finance system. It was identified that the Finance Director obtains financial data from Software Solutions Inc. (SSI), the finance system used by township, and manually enters data into an Excel spreadsheet. Access to this spreadsheet is not restricted as it is located in a common folder. As such, other township employees, who do not need update access based on their job functions, have update access to this critical spreadsheet, which is used in preparing financial statements. Unauthorized or unintentional changes to the spreadsheet are not feasible to detect as township does not have version and change management controls for critical financial spreadsheets.

Additionally, there is no formal process in place to ensure that all the transactions are incorporated in the financial statements prepared via the Excel spreadsheet. In the past, material omissions were noted in the audit report, however, no formal internal controls are in place to mitigate such risk.

RECOMMENDATIONS

Consider the following in preparation of financial statements process:

- Financial statements should be generated directly from township’s finance system;
- A checklist should be developed to ensure that all sources of revenue and expenses are incorporated in the financial statements;
- A formal review and oversight system should be in place, which describes the extent and results of the review;
- Access to changes in financial data should be limited to employees who are directly engaged in the financial process;
- If township chooses to continue using an Excel Spreadsheet (current process) in the preparation of financial statements, a proper version and change management control should be implemented to ensure the integrity of the data in the spreadsheet.

CONCLUSION

Based on the results of the Auditor’s review, the preparation of financial statements from off-the-book system and ability of other employees to access and update financial statements spreadsheet possess a material risk in the integrity of financial statements.

MANAGEMENT COMMENT: Agreed. Software will be upgraded.

IMPLEMENTATION DATE: December 2014

GAAP CONVERSION

Miami Township uses modified cash basis to develop its budget, which generally involves reflecting revenues when they are actually received and expenditures on the date payment is made. The exception is the state portion of tax revenues, which currently are recorded using accrual basis. The cash basis has the virtue of simplicity, in that the actual receipt date of revenues and disbursements is objectively measurable. However, simplicity is also a weakness since the cash basis of accounting can be manipulated or is not fully reflective of activity occurring in the fiscal period being accounted for.

Under the modified accrual basis of accounting utilized under Generally Accepted Accounting Principles (GAAP), revenues are recognized when they are measurable and available to finance the expenditures of the fiscal period. On the expenditure side, under the modified accrual basis of accounting utilized under GAAP, the expenditures are recognized in the period in which a transaction creates a demand on current financial resources. For example, if township received a computer in December of 2012, but paid for it in January of 2013, the expenditure, under GAAP, would be assigned to the fiscal year in which the computer was received. In other words, GAAP reporting provides a more complete picture of an entity’s true financial position by capturing expenses that township owes but has not yet paid, as well as revenue, which it is owed but has not yet received.

Standard & Poor’s criteria states “GAAP reporting is considered a credit strength, and the ability to meet the Government Finance Officers Association’s (GFOA) Certificate of Conformance reporting requirements also is viewed favorably.” It goes on to state “Lack of an audited

financial report prepared according to GAAP could have a negative impact on an issuer's rating, since questions about reporting will be raised." Furthermore, Moody's state rating methodology notes that it looks at a number of balance sheet measures, but cash position and fund balances as presented in the Comprehensive Annual Financial Report (CAFR) provide a critical point of comparison. In an effort to make apples-to-apples comparisons among states, Moody's relies heavily on audited GAAP financial statements. Moody's also uses a quantitative analytical tool called the U.S. States Credit Scorecard to compare the states. The Scorecard contains four fundamental categories: finances, economy, debt, and governance.

It should be noted that currently financial statements of township are prepared manually using information obtained from System Software Solution (financial system used by township), which is a ten years old software system. Under this system all transactions are strictly reported under cash basis.

OBJECTIVES

The objectives of this review were to determine:

1. If township conducts a periodic GAAP conversion in order to improve township's accountability for its use of public funds. The periodic GAAP conversion provides basis to recognize increases and decreases in financial resources and provides actual financial position of township;
2. If differences in budgeted funds, assets, and liabilities exist when converted to GAAP basis and if township has accumulated GAAP deficit and its impact on the reserve funds.
3. Impact of GAAP conversion in township's credit and bond rating thus impacting interest rate in debt service.

FINDINGS

Township has not done GAAP conversion over past ten years. As a result, township has no basis to recognize the actual financial status of its finances. Additionally, township has no record of the reconciliation performed between budgeted funds and GAAP converted financial statements. Therefore, there is no way to identify if township has any actual deficit or surplus.

During the audit review, it was noted that township's current debt obligations are 53.6 million dollars as of March 1, 2013, which is backed by general revenue fund (approximately 10 mil requirement). Township's annual general revenue fund is 18.6 million dollars. With such a significant debt obligation, absence of GAAP conversion has negative impact on bond rating as well as interest rate.

RECOMMENDATIONS

Consider the following in preparation of financial statements process:

- In order to improve township's accountability for its use of public funds, consider conducting GAAP conversion every five years;

- If there is an accumulated GAAP fund balance deficit, consider amortizing or reserve the fund over five years, unless economic circumstances allow for a more rapid amortization;
- Use GAAP converted financial statements during the negotiation of debt service with any financial institutions.

CONCLUSION

To provide for greater transparency, accountability, and fiscal discipline, it is necessary that township prepares CAFR in a periodic basis complying with all the GAAP requirements. The intent is to mirror all of the reporting and presentation requirements that GAAP requires for the CAFR. The Township may continue to have two different set of books at the end—one done on a budgetary basis and the other based on GAAP.

While not specifically required in statute, township CAFR presents a thorough and detailed view of township's financial condition. The day-to-day accounting records can be maintained on the budgetary or cash basis of accounting. The process to prepare CAFR requires a conversion to GAAP basis.

MANAGEMENT COMMENT: Agreed, however due to the budget constraint township will consider implementing recommendations in the future.

IMPLEMENTATION DATE: Unknown due to budget constraints

CREDIT CARD EXPENSE

Miami Township meets the business costs they incur by reimbursing out-of-pocket expenses, settling corporate purchasing card statements, and paying invoices generated through their activities. These costs are significant, for example, township charged \$110,764.75 (2009); \$93,273.09 (2010); \$111,955.69 (2011); and \$117,240.50 (2012) to township purchasing cards. Township currently has 15 credit cards assigned to each department and Board of Trustees, of which 5 credit cards are available for use by administrative employees. Township cards are used during travel by the employees and elected official, however, currently township has no Travel Policy in place.

OBJECTIVES

1. **Expense Type Validation:** A review of accompanying receipts to ensure that the expense type matches the type of purchase listed on the receipts.
2. **Receipt Substantiation:** A receipt verification review to ensure that receipts for the expenses match the expenses listed in expense report.
3. **Travel Expenses:** A review to ensure that travel reimbursement is consistent with travel policy and reasonable.
4. **Cash Expensive Review:** A review of the expense report to ensure that supporting documentation for cash expenses is included with report.

5. **Taxable Item Identification:** A review to identify taxable items to the submitter per applicable tax law.

FINDINGS

1. Meal expenses were reimbursed even when there was no overnight travel and employees did not travel over 45 miles.
2. Currently there is no limitation on meal expenses and detail receipt for meal reimbursement is not required.
3. There is no limitation or policy related to business expense lunch. Expense under this category has risen from \$714.36 to \$6,591.98 in the last ten years, which is an increase of 923% (nine-hundred twenty-three percent).
4. Township credit cards were used to purchase an excessive amount of subscriptions for publications and membership dues to various organizations.
5. Books and training materials were charged on credit cards unrelated to township's business.

RECOMMENDATIONS

Consider the following recommendations:

- Develop and enforce a policy to ensure that spousal and personal expenses are not charged in township credit cards.
- Develop meal reimbursement guidelines consistent with IRS rules and regulations. Additionally, consider a per day limit in meal expense reimbursement.
- At the same time, implement guidelines for the percentage amount on meal expense to be allotted for gratuities.
- Develop a policy related to business expense lunch. The policy should include, but not be limited to, maximum annual increase in this area of expense.
- State of Ohio employees are reimbursed for the same day meal expenses only if the employees travel more than 45 miles from their principle place of business. Township should consider following similar guidelines.
- Conduct comprehensive analysis and review of credit card purchases in a periodic basis.
- Communicate purchasing rules, regulation, and changes to employees and elected officials frequently.
- Build a personal expense review of credit card within the internal compliance programs.
- Eliminate the purchase of all gift cards.
- Implement a review process regarding the necessity of memberships to various associations.
- Recommend that a reasonable limit be established for each department/individual regarding the purchase of personal development and training software/books.
- Review the necessity of attending out of town seminars and the number of employees attending each seminar.
- Place reasonable limits on travel expenses: food, lodging, air travel, ground transportation, luggage costs, etc.

CONCLUSION

Based on the results of Auditor's review, currently there are not adequate policy and procedure in place to address proper use of township credit cards including, but not limited to, in the area of travel and meal expense reimbursement. Additionally, oversight in this area is inadequate.

MANAGEMENT COMMENT: Agreed. Township has contracted with policy writer to develop policies to implement recommendations.

IMPLEMENTATION DATE: December 2014

TOWNSHIP CONTRACTING AND PROCUREMENT

Miami Township has an annual budget of approximately \$18.6 million of which it spends approximately \$6.5 million in purchasing non-personnel items such as goods and services. In order to ensure appropriate stewardship of township resources, a determination has to be made to show that a proposed price for an aggregate purchase of \$50,000 or more is fair and reasonable. Considering quality, delivery, and other factors, competitive bidding is the formal process that allows a requestor and/or Purchasing Services to properly survey the marketplace. Competitive bidding is the process that allows Procurement Services to properly survey the marketplace.

It is important that township provides fair and equal opportunity to all the bidders and offers. It is equally important to design a competitive process, which does not make township business unattractive to competing firms.

When requesting formal quotes from potential suppliers, the requestor should ask for terms and conditions that are favorable to township rather than accept what is in the best interest of the supplier. Whenever possible, the request for quotes should be submitted in writing to potential suppliers. Supplier responses should also be submitted in writing or electronically. When submitting the bidding with quoted prices, the terms and conditions should be clearly documented in the response. All formal quotes should detail the requirements both parties, township and the supplier, have agreed upon.

Township should show that prices are fair and reasonable in the marketplace, but there are many other considerations in addition to the purchase price.

OBJECTIVES

The objectives of this review were to determine:

1. If economic efficiency process is being utilized in township procurement process
2. If township procurement process is fair and equitable and provides equal treatment to all the bidders.
3. If non-relevant considerations are enshrined in township procurement policy.
4. If township has followed its policy while awarding contracts to different vendors.

5. If township's procurement policy exposes township to litigation risk.

FINDINGS

Township does not have a formalized procurement policy. During the audit review of 1099, it was noted that township transacted contracts up to \$602K without completing any formal procurement process. Discussion with township officials indicated that some additional bids were requested in some cases, however, documentation of the bids were not readily available for the review. Absence of a formalized procurement process could lead to several risks including, but not limited to:

1. If a supplier breaches its obligation, township would have no legal recourse.
2. Political embarrassment or damage to township image and reputation.
3. Township is vulnerable to internal and external fraud.
4. Township could be penalized for non-compliance with regulatory requirements.
5. Township's activities could be subject of public scrutiny and investigation.

RECOMMENDATIONS

Consider the following in preparation of financial statements process:

- Develop a procurement process based on substantive equality principle.
- Any bids over \$50K, except for professional services rendered by Attorneys, Accountants, Consultants, Engineers, Auditors, etc. should follow a formal procurement process.
- Regular contract reviews should be performed.

CONCLUSION

To provide for greater transparency, accountability, and fiscal discipline, it is necessary that the Township establishes a formal and professional procurement process, which will save time and money and reduce risks mentioned above. No goods or services should be ordered or delivered until the contract is signed.

The procurement function plays an important role in achieving and ensuring good governance. It is an integral component of a government's capacity to provide the required goods and services. A well-functioning procurement system ensures better value for the money, increased efficiency and effectiveness of delivery, reduces the potential for corruption, a positive impact on township's investment climate, non-discriminatory practices, transparency, and accountability. Good governance encompasses a functioning regulatory system, as well as institutional set-up, well designed processes, and proven capacity. Strategic approaches to procurement, as well as the knowledge transfer of good procurement practice and capacity building within procurement functions toward township's procurement entities, assist in the development of good governance practices.

MANAGEMENT COMMENT: Agreed.

IMPLEMENTATION DATE: December 2014

LITIGATION RISK

Miami Township has paid approximately \$238k in the last five years to terminated employees for settlements resulting from wrongful termination or the termination of employees without following proper industry standards and human resources policies. Additionally, there is pending litigation where a former employee is alleging that her termination was unlawful.

While organizational risk of employment litigation cannot be eliminated entirely, it can be greatly reduced through the adoption and implementation of several key proactive human resources strategies (PHRS). The most cost-effective problem solving technique is prevention. Employment litigation prevention comes from an understanding of the legal parameters pertinent to the employment relationship and an application of that knowledge to everyday workplace practices. The most fundamental PHRS involves a comprehensive document review. Personnel policies, procedures, and other human resources documents (such as offer and termination letters, handbooks, employment contracts etc.) are the backbone of any organization's management program.

It is true that despite an employer's efforts, some employees are just inclined to be more litigious than others. However, an organization needs to act as if every decision that adversely affects an employee could lead to litigation, seek counsel from an HR professional and/or a lawyer, and plan accordingly. Engaging in the risk management process and having proper policies in place before finalizing a decision can significantly reduce the risk of litigations. This approach may be slow and expensive, but it can help the organization to avoid significantly higher costs, time, and other resources and potentially even large judgments.

OBJECTIVES

The objectives of this review were to determine:

1. If the Miami Township Employee Manual meets the current industry standard.
2. If township provides training regarding basic understanding of employment laws to its department heads and managers.
3. If township has a routine training for sexual harassment related matters.
4. If township has a process to train or has trained its employees regarding Confidential Personal Information (CPI).
5. If township has an effective internal process to handle employee complaints without fear of retaliation.
6. If township is using quantifiable and objective job-related factors when selecting employees for layoff or discontinuance of position.
7. If employee policies are communicated to employees by township on a regular basis.
8. If risk of litigation is routinely reviewed by township.

9. If township has an effective fleet policy and if the policy is properly followed by the employees.
10. If township conducts routine reviews to ensure if employees are properly classified in their job duties.
11. If township employees are trained to handle public record requests.

FINDINGS

The Miami Township Employee Manual appears to be inadequate and vulnerable to litigation risks. Several inconsistencies were noted between the way the employees' issues were handled and township's written policies and procedures. The Auditor found no evidence of routine or periodic communication of Employee Manual or stand-alone memos to clarify or highlight particular policies.

The elimination of sexual harassment in the workforce is extremely important for each and every employer. There is a financial imperative to eliminate improper conduct as well as a moral one; as such conduct can result in extensive monetary liability imposed by juries that determine sexual harassment has occurred. An employer's obligations with regard to sexual harassment arise before any act of sexual harassment occurs. EEOC requires that all employers take reasonable steps to prevent harassment before it occurs. The Auditor saw no posting in common employee areas specific to sexual harassment prevention advising employees of their right to a sexual harassment-free workplace. Furthermore, during discussion with some employees, they indicated that this policy has not been communicated with them in years.

Township has not established a procedure to access CPI. The notification requirement, which is required by Ohio law, such as "...Upon discovery or notification that confidential personal information of a person has been accessed by an employee for an invalid reason, the agency shall notify the person whose information was invalidly accessed as soon as practical and to the extent known at the time...." is not embedded in township's policy manual.

No employee should be discharged, demoted, suspended, threatened, harassed, intimidated, coerced, or retaliated against in any manner as a result of his or her making a good faith complaint or assisting in the handling or investigation of a good faith complaint, that a township policy, the Code of Conduct, or an applicable law, rule or regulation has been violated. Employees who in good faith make a complaint or participate in an investigation or proceeding under this policy, however, remain subject to the same standards of performance and conduct as other employees. Township does not have an established internal policy to ensure that employees are not retaliated against even if their complaints are proven unfounded by an investigation, unless the employee knowingly made a false allegation, provided false or misleading information in the course of an investigation, or otherwise acted in bad faith. Employees have an obligation to participate in good faith in any internal investigation of retaliation.

Township does not have a formal policy, which indicates that township will use quantifiable and objective job-related factors when hiring, selecting employees for layoff or discontinuance of position. However, it should be noted that the Auditor participated in one of the interview

committees, which clearly indicated that for the said position, quantifiable objective job-related factors were used to make the hiring decision.

There are no monitoring procedures established to ensure that prevailing policy and procedures are enforced, including but not limited to, periodic review of litigation risk within township policies and procedure. For example, currently township is not following its own fleet policy. Employees, as well as elected officials, are being paid for mileage reimbursement even though township fleets are available for travel. There is no formal sign-off procedure that exists to indicate if such travel time is job related. Therefore, a lack of formal process to enforce the policy may put township in litigation risk.

In any organization of any size, the organization structure, work assignments, job duties and responsibilities are subject to change. Therefore, it is important to have a formal policy that in such cases, new duties are analyzed, revised, and their proper classifications are assured. During the discussion with employees they indicated that in the past ten years, no job duties review has taken place. Furthermore, township does not have any documented policy to conduct job duties review on a regular basis. Proper classification and appropriate pay can substantially reduce the risk of employee litigation.

RECOMMENDATIONS

Consider the following recommendations:

- A thorough revision of the Employee Manual to meet industry standard and comply with all the applicable laws. Ensure that there are no outdated or legally problematic provisions in the Employee Manual.
- Develop a routine training program to ensure that the managers understand the basic employment related laws and their ramifications during the course of employment. Because laws are constantly changing, training needs to be frequent, ongoing, and effective.
- Require all employees, including temps and independent contractors, to receive at the least two hours of sexual harassment prevention training every two years. Additionally, develop an internal process for employees to report sexual harassment related and other employee issues without a fear of retaliation.
- Develop criteria for determining who in township may access and who may authorize those employees to access CPI.
- Develop a formal policy and procedure which clearly indicates minimum qualification for all the positions. This policy should also include objective criteria when employees are being laid-off or discontinued from their positions.
- Distribute the personnel policies and employee handbooks to all employees.
- Develop policies requiring employees to acknowledge their receipt of a revised policy. A signed acknowledgment is important proof that employees have received and are aware of the current policies.
- Perform periodic audits/reviews of policy and procedures to mitigate litigation risk.
- Monitor procedure to ensure that township's fleet policies are being followed.

- Perform job analysis to ensure proper classification for all employees, which will provide a basis for including, but not limited to, recruiting, placing, compensating, training, reassigning, promoting, and separating employees.
- Train related employees in public record laws.

CONCLUSION

It is utterly important for public sector institutions to ensure that the policies are clear and concise, applied consistently, and updated continuously so that employees have a solid foundation for ethical behavior. They address internal values and external laws, form the basis of training programs, and play an integral role in incident investigations.

It is through improved governance that the benefits of development most directly impact the lives of citizens. Conversely, the inability of public sector institutions to function effectively and consistent with its policy and procedures undermines the sustainability institutions.

MANAGEMENT COMMENT: Agreed

IMPLEMENTATION DATE: December 2014

ADVANCE PAYMENT

Miami Township meets some of its business costs via advance payments to the vendor. The Auditor selected a sample of purchase orders over \$5,000.00 to ensure that invoices are properly supported. During the review, an invoice was identified, which was paid to the vendor in advance to build and design a website for the Police Department. After a follow-up discussion with the related township staff, including the current Police Chief, it was identified that the advance payment work has not been done as of today. It should be noted that the payment was made for a total of \$6,760.00 on 4/23/2013 via check number 060133.

OBJECTIVES

1. **Advance Payment Validation:** To ensure that the work has been performed for the advance payment invoices.
2. **Receipt Substantiation:** A receipt verification review to ensure that receipts for the expenses match the expenses listed in expense report.
3. **Advance Payment Policy:** A review to ensure that advance payment is consistent with advance payment policy and reasonable.

FINDINGS

1. Township paid \$6,760.00 to THE OHLMAN GROUP for Website design and development on 4/23/2013. As of today work has not been performed.
2. There is no evidence of a bidding process. Additionally, no other quotes were obtained from any other vendors. There is no justification document in the file as to why this vendor was chosen.

3. The Police Department did not conduct a reasonable follow-up with the vendor to complete the work in a timely manner.
4. The Police Department has recently entered into an agreement with the Montgomery County Sherriff's office to perform Information Technology work, including the website design and development. Therefore, it appears that the advance paid work is not needed from THE OHLMAN GROUP.
5. Township currently does not have a formal advance payment policy in place.
6. Township has issued a recovery letter.

RECOMMENDATIONS

Consider the following recommendations:

- Issue a recovery letter to THE OHLMAN GROUP for the entire advance paid amount of \$6,760.00.
- Develop and enforce an advance payment policy. The policy should include the option of partial advance payment.
- Obtain additional quotes or bids for any service jobs in future services.
- The Police Department should conduct an internal review of advance payments from January of 2011 to present. Finding of such review should be reported to the Auditor within 30 days.

CONCLUSION

Based on the results of the Auditor's review, currently there are not adequate policies and procedures in place to address advance payment process. Additionally, oversight in this area is inadequate to ensure that work is completed in a timely manner.

MANAGEMENT COMMENT: Agreed.

IMPLEMENTATION DATE: December 2014

TOWNSHIP INVESTMENT

A written investment policy is the single most important element in a public funds investment program. An investment policy should describe the most prudent primary objectives for a sound policy: safety, liquidity, and yield. It should also indicate the type of instruments eligible for purchase by a government entity, the investment process, and the management of a portfolio. Such a policy improves the quality of decisions and demonstrates a commitment to the fiduciary care of public funds, with emphasis on balancing safety of principal and liquidity with yield. Adherence to the investment policy signals to rating agencies, the capital markets, and the public that a government entity is well managed and is earning interest income suitable to its situation and economic environment.

OBJECTIVES

1. **Investment Policy:** Ensure that township investment policy is consistent with federal, state, and other legal requirements.
2. **Prohibited Investment:** Review investment portfolios to validate that township has not engaged in prohibited investments.
3. **Reporting and Performance Standards:** Ensure that reporting and performance standard is consistent with the investment policy.
4. **Ethics and Conflicts of Interest:** Ensure that the Officers and employees involved in the investment process are refrained from personal activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial investment decisions.

FINDINGS

1. Township does not have a formally approved investment policy. However, the investment portfolio has been managed in accordance with the parameters specified within the legal requirements.
2. Based on the review performed, there is no evidence that township has engaged in any prohibited investments.
3. Currently, township does not have a formal requirement to report to the Board the investment results, including the rate of return. However, township does have detailed supporting information from which the rate of return information can be obtained.
4. Based on the review of past three years of investment portfolios, it appears that investment decisions are not in conflict of interest.

RECOMMENDATIONS

Consider the following recommendations:

1. Develop investment policy, which will provide guidance to township to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of township and conforming to all federal, state, and local statutes governing the investment of public funds. The investment policy should include, but not be limited to:
 - Who are the authorized investment officers?
 - What standard of care will be established?
 - What instruments will be eligible for investment?
 - How will diversification be ensured?
 - How will safekeeping be handled?
 - What is the maximum term for any given investment?
 - What type of internal controls should be in place?
 - Who will comprise the investment committee (internal/external members), if any?
 - What type of investment reports/performance reports will be produced?
 - What type of benchmarks will be used?
 - Will an investment advisor be used (and to what capacity)?
 - What are the criteria for beginning or ending an investment relationship?

2. Review the investment policy on an annual basis. The written investment policy should be a living document that is reviewed each year by the Fiscal Officer and modified as needed. The policy should be presented each year to the Board of Trustees for formal review and approval.
3. Develop an investment portfolio with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Securities shall not be sold prior to maturity with the following exceptions:
 - A security with declining credit may be sold early to minimize loss of principal.
 - A security trade will improve the quality, yield, or target duration in the portfolio.
 - Liquidity needs of the portfolio require that the security be sold.
4. Develop an internal investment committee to provide guidance and advice to the Fiscal Officer.

CONCLUSION

Based on the results of Auditor's review, currently there are no adequate policy and procedures in place to address Township's investments. However, the review of past three years indicates all Township investments have been made in accordance with prevailing laws and regulations.

MANAGEMENT COMMENT: Agreed.

IMPLEMENTATION DATE: December 2014

OTHER FINDINGS AND RECOMMENDATIONS

1. **Finding:** Township does not have a land purchase and sale policy in place. As a result, there is no guidance while the Township makes a decision to purchase or sale land.

Recommendation: Develop land purchase and sale policy and procedure.

2. **Finding:** Nuisance abatements are not reconciled against any specific parcel. Therefore, uncollected parcel amount cannot be identified.

Recommendation: Develop reconciliation process to ensure all the nuisance abatements are recovered. Furthermore, there should be a process in place to have lien on the property for unrecovered abatements.

3. **Finding:** In Lightning District, there is no reconciliation process against settlement checks received from the districts. As such, revenue received cannot be allocated to proper district.

Recommendation: Develop unique identifier (code) for each district.

4. **Finding:** Township fixed assets inventories are not comprehensive. Therefore, actual financial status of the Township is unknown.

Recommendation: Account for all fixed asset inventories, which are valued over \$5,000.00. Additionally, develop a depreciation method to depreciate assets.

5. **Finding:** Fixed assets insured amount is not evaluated with current fair market value. As a result, the insured amount may not be adequate.

Recommendation: Perform a thorough review to ensure that township assets are adequately insured.

6. **Finding:** Majority of the contracts issued by township or on behalf of township do not have Right to Audit clause. Therefore, financial or operational audit cannot take place. Additionally, during the audit one of the vendors did not provide requested additional invoice details.

Recommendation: Issue a circular to the department heads not to issue any contract without Right to Audit provision.

7. **Finding:** Several invoices were paid without department head approval. As a result, it appears there were duplicate payments made against some of the invoices. However, in absence of line item details, findings are inconclusive.

Recommendation: Develop a financial policy to ensure that no invoices are paid without department head approval.

8. **Finding:** Township network is not backed up against iCloud or against any internet based system. Therefore, there is a potential risk that township could be out of compliance with Ohio Public Record Laws.

Recommendation: Implement an internet based backup network.

9. **Finding:** Township's IT section does not have an allocated budget. Therefore, scheduled maintenance is not taking place in a timely manner. As a result, several upgrades and maintenance requirements may arise that are unbudgeted.

Recommendation: Township should evaluate system upgrade needs and maintenance requirements routinely and allocate funds accordingly.

10. **Finding:** Township does not have a Disaster Recovery plan.

Recommendation: Develop a Disaster Recovery plan at the earliest possible time.

MANAGEMENT COMMENT: Agreed.

IMPLEMENTATION DATE: December 2014