



Dave Yost • Auditor of State

**CITY OF STOW
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Honorable Mayor and City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Stow, Summit County, Ohio (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 19, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

June 19, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Honorable Mayor and City Council:

Report on Compliance for the Major Federal Program

We have audited the City of Stow's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the City of Stow's major federal program for the year ended December 31, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal program.

Management's Responsibility

The City's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for the City's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the City of Stow complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose

Report on Schedule of Federal Awards Expenditures Required by OMB Circular A-133

We have also audited the financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund and the aggregate remaining fund information of the City of Stow (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements. We issued our unmodified report thereon dated June 19, 2015. We conducted our audit to opine on the City's basic financial statements. The accompanying schedule of federal awards expenditures presents additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records management used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dave Yost
Auditor of State
Columbus, Ohio

June 19, 2015

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**CITY OF STOW
SUMMIT COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Expenditures |
|--|----------------------------------|---------------------------|-----------------------------------|
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u> | | | |
| <i>Passed Through Ohio Department of Transportation</i> | | | |
| <u>Highway Planning and Construction</u> | | | |
| Graham Road | PID 84977 | 20.205 | \$ 3,502,993 |
| Hudson Drive | PID 81785 | 20.205 | <u>21,106</u> |
| Total Highway Planning and Construction | | | 3,524,099 |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| <i>Passed through Summit County</i> | | | |
| Community Development Block Grant - Stow Road Waterline Project | n/a | 14.218 | 100,000 |
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | |
| <i>Direct</i> | | | |
| Bulletproof Vest Partnership Program (BVP) | N/A | 16.607 | 403 |
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | |
| <i>Passed Through Ohio Governor's Office of Criminal Justice Services</i> | | | |
| 2013-2014 Drug Use Prevention Grant Program (DARE Grant) | N/A | 16.001 | 21,785 |
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | |
| <i>Passed Through Ohio Department of Public Safety</i> | | | |
| Edward Byrne Memorial Justice Assistance Grant 2013 Radio Communications Safety Grant | 2013-JG-A02-6941 | 16.738 | <u>30,376</u> |
| Total U.S. Department of Justice | | | <u>52,564</u> |
| Grand Totals | | | <u><u>\$ 3,676,663</u></u> |

**CITY OF STOW
SUMMIT COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the City of Stow, Summit County, Ohio (the City's) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

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

**CITY OF STOW
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2014**

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|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
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| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unmodified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Highway Planning and Construction Grant (CFDA #20.205) |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

FINDING NUMBER 2014-001

Material Weakness – Capital Asset Trade-In

Sound financial reporting is the responsibility of the City's management and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

The City traded-in a storm water department street sweeper (asset #300V433) with a book value of \$87,500 and received a \$57,000 credit towards the new asset valued at \$188,000 and paid the remaining \$131,000 in cash. The City improperly recorded the new asset (#300V519) at \$131,000, which does not include the \$57,000 trade-in value. The City properly accounted for the asset disposed asset #300V433 and removed the related accumulated depreciation; however, improperly recorded a loss of \$87,500 for the remaining book value of the asset instead of the \$30,500 difference between the trade-in value and the book value. As a result, the asset was understated and the related loss was overstated by \$57,000.

In addition, the City traded-in a water department backhoe (asset #400V343) with a book value of \$13,540 for another backhoe (asset #400V429) and received a \$14,500 trade-in credit towards the new asset valued at \$102,613. The City improperly reported a loss of \$13,540 for the remaining book value on the asset as opposed to a gain of \$960. As a result, the asset was understated and the related loss was overstated by \$14,500, leaving a net gain of \$960.

The City's financial statements were adjusted to properly report these transactions.

The City should capitalize assets at historical cost, including any trade-in amount. Gains and losses on disposal of capital assets should be determined by the difference between the value received, including any trade-in value, and the book value of the disposed asset.

Official's Response:

The following is in response to the Auditor of State's Office classifying the City's recording of the value of the newly-acquired street sweeper in 2014 and the accompanying trade-in as a material weakness:

- 1) The City disagrees that the net result of the recorded transaction represents a reportable material weakness for the City in its financial statements or its CAFR. By the Auditor's own calculations, the margin by which the transaction meets the materiality threshold is less than \$6,000. In comparison, the City's total net fixed capital assets amounted to almost \$103 million for 2014. A reasonable alternate calculation submitted by the City to the Auditor reduces the margin to approximately \$1,400. Two additional calculations by the City, under fair interpretations, which we have shared with the Auditor, place the discrepancy well within the non-material margin.
- 2) At the very least, on an overall basis, the conclusion that the City shows a material weakness is overstated and can be seen as misleading, particularly since the finding applies only to a single City fund (stormwater) and, in the City's opinion, the calculation and conclusion of materiality is of questionable validity for any potential reader of the City's CAFR.

**FINDING NUMBER 2014-001
(Continued)**

- 3) We believe the material weakness standard used by the Auditor is a guideline only and not a rigid exact percentage that cannot take into account any other factor, including judgment. The amount of \$1,400 is not sufficient to label the matter a material weakness for the City. We believe a measure of infallible accuracy has been attributed by the Auditor to the materiality factor that does not exist.
- 4) The transaction in question was a cash basis expense. If judged from this viewpoint, it would not constitute a material weakness. All budgeting and operating by local governments throughout the year in Ohio are required to be completed on a cash basis by law. We do not have the luxury of analyzing transactions on an accrual basis while they are occurring in mid-year. This can only be done after the fact, which is a significant flaw in the Auditor's approach.
- 5) It should be noted that the recorded transaction had a net zero impact on the City's financial statements. As the City is a tax-exempt organization, there also are no tax consequences. Gains and losses are required to be reported for tax purposes, which do not apply to Stow.

As we have advised the Auditor, we do not contest the nature of the recommendation itself. We are simply concerned with the materiality. In any case, the City will adjust its capital asset policy to incorporate the finding and the accompanying recommendation. The appropriate adjustments for this issue have been made in the 2014 CAFR representation.

Auditor of State's Conclusion

Whether an omission or misstatement is material ultimately depends on its effect on financial statements users' judgments. Audit judgments about materiality reflect our consideration of users' needs as a group. The auditor does not consider the possible effect of misstatements on specific individual users, whose needs may vary widely. Materiality includes both quantitative and qualitative considerations. Qualitative considerations can cause otherwise immaterial matters to be judged material. For this reason it is inappropriate to base all materiality judgments solely on fixed, pre-established criteria such as a specific percentage of net "income" or equity. Materiality level determinations require a separate measurement for each statement of each opinion unit. For efficiency, since the opinion units' statements are interrelated (e.g. ending equity on the activity statement should agree to equity on the statement of net position), the auditor ordinarily considers materiality, when planning, as the smallest aggregated misstatements that could be material to any of the financial statements for the opinion unit.

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| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
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None