



City of Pataskala Finance Department
James M. Nicholson, Finance Director
Finance Director's Report to Council

Current Projects & Issues

- **September 2020** – The financial results through September 30th have been compiled and summarized in the monthly Financial Condition Report, which was previously distributed and is currently available on the city's website. We have not yet received the 2nd October settlement from RITA, so I'm unable to provide an update on October's income tax collections at this time
- **2022 Budget** – Several revisions needing to be made to the proposed budget (as presented at the budget workshop) were made. These modifications were identified in my legislative report. The resulting budget was used to draft the appropriation ordinance. In addition, the annual income tax allocation legislation has been prepared. Both pieces of legislation will be presented to Council at the October 19th Council meeting. I am beginning work on creating the formal, comprehensive budget document and plan to have it to Council in advance of the November 2nd Council meeting.
- **Internal Control Audit** – I recently received a proposal from Schneider Downs & Co., Inc. to perform the internal control audit called for every six (6) years in Section 6.02(E) of the city's charter. A copy of the proposal accompanies this report. The professional services proposal contains their Statement of Work (SOW) and Master Service Agreement (MSA). The SOW describes the general business processes and specific areas that would be evaluated. The MSA details the firm's general contractual terms and conditions. We requested that the firm split the proposal into two options in order to better manage the cost. Option #1 would be a test of the internal controls design. The test of design is intended to provide management with assurance that the controls are in place and appropriately designed to detect or prevent risks over the specific area under review. The cost for Option #1 is \$16,500. Option #2 (and which would be in addition to Option #1) would be a test of the operating effectiveness of the internal controls identified in Phase I. The test of operating effectiveness is intended to provide management with an additional level of assurance by selecting a random sample of transactions to determine if the controls as designed are operating on a consistent basis. The cost for Option #2 is \$11,500 and would result in a total project cost of \$28,000.
- **Accounting Clerk** – The previous Accounting Clerk resigned in mid-May and, due to revenue collection concerns at the time, was left unfilled. Now that the revenue situation has stabilized, we are beginning the recruiting process to fill the vacancy. The Finance Manager has announced her intention to retire in the 2nd-half of 2021, which would require another recruiting process next year (most likely commencing sometime during Q2-21). It would be preferable to not have two brand-new employees at the same time, and instead hiring the Accounting Clerk sometime during either Q4-20 or Q1-21. Taking that approach would provide me with an opportunity to bring the clerk up to speed prior to recruiting Janice's replacement.
- **Coronavirus Relief Fund (CRF)** – The city has already received two distributions of CRF from Licking County totaling \$91,715.14. These early distributions were allocated to the communities in Licking County based upon the current Local Government Fund (LGF) allocations. Unfortunately, that resulted in Newark getting the lion's share of the distributions and the other

smaller communities with much smaller distributions. SB 357 called for the next round of CRF funds to be distributed based upon population. As a result, Pataskala received a much larger share of the funds distributed. In early-October, the city received an additional \$572,355.73. A supplemental appropriation (with an emergency clause) has been prepared and presented to Council for their consideration at the October 19th Council meeting. This would enable us to use these funds immediately. This is important, as later this year the County will redistribute all unspent funds to those entities who have spent their entire allocation.

- **Employee Insurance Program** – We received proposals from our dental (Delta), vision (VSP) and life insurance (The Standard) providers for their 2021 renewals. I am pleased to inform Council that all three programs had no increases in rates from the rates in 2020. There are corresponding resolutions on the October 19th Council agenda to authorize the administration to renew these programs for another year. Please note that there isn't a similar piece of legislation for the medical insurance program with the COHCC, as our agreement with them was reauthorized for another 3-year term in 2018.
- **Human Resources**: Working on the recruiting process for the replacement of a part-time Police Clerk and Equipment Operator due to pending retirements later this year. Currently waiting on responses from the USW and Police in order to proceed with placing advertisements in the Newark Advocate. In addition, we were directed to hold off on posting the Police Clerk position until the Police Administration can propose to Council a change in the pay structure for the Police Clerk.
- **Copier Replacements**: All city copiers are on 4-year rotating operating leases. The next two copiers to be replaced are in the Administration and Planning & Zoning offices. These leases with Konica Minolta Business Systems expire in February 2021 (but have 'evergreen' annual automatic renewals), and I worked with the Law Director to draft correspondence notifying Konica Minolta that we would not be renewing the leases. We are currently working with the Gordon Flesch Company on proposals for the machine replacements. Based upon the company's proposal, both Canon copiers will cost the city less than the current Konica Minolta machines – both on the monthly lease cost and the per copy maintenance expense. I plan to present the authorizing legislation for Council's consideration at the November 2nd Council meeting. By starting the process at that time, it should provide ample time for the machines to be ordered, configured and installed in early-February prior to Konica Minolta recovering the old machines.

October 12, 2020

Mr. James M. Nicholson
Finance Director
City of Pataskala
621 West Broad Street
Suite 1D
Pataskala, OH 43062

Dear Mr. Nicholson:

Schneider Downs & Co., Inc. (“Schneider Downs” or “we” or “us”) is pleased to confirm our acceptance and understanding of the services we are to provide for the City of Pataskala (“Company” or “Client” or “you”). This Statement of Work (SOW), including our Master Service Agreement (MSA), as dated October 12, 2020 (collectively, “Agreement”), outlines the terms and objectives of our engagement along with the nature and limitations of the services to be rendered.

Consulting Services

This letter agreement confirms that the City of Pataskala has retained Schneider Downs & Co., Inc. to provide consulting services regarding an assessment of internal controls.

We will perform inquiries and analyses based on the information made available to us. Our assistance will be directed to those business activities, operational areas, and financial information that you have identified as being of interest to you. In performing our services, we will be relying on the sufficiency, accuracy, and reliability of information provided by you. Also, our ability to complete our work will depend on the cooperation of the management.

The consulting services that we provide will be performed in accordance with the Standards for Consulting Services of the American Institute of Certified Public Accountants. The sufficiency of our consulting services, as outlined in Exhibit I, is solely your responsibility. Our consulting services are limited to those which you have determined will best meet your informational needs and may not necessarily disclose all significant errors, fraud, or illegal acts that may exist.

Management Responsibilities

You are responsible for assuming all management responsibilities, making all management decisions and performing all management functions; for designating an individual, preferably within senior management, who possesses the suitable skill, knowledge or experience to oversee the consulting services and any other non-attest services we provide. In addition, you are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results of such services.

Reporting and Scope

At the conclusion of our engagement, we will present our findings to you in an oral report. We will also report to you our comments and observations in written form based on the results of our consulting services. Furthermore, it will state that we will not independently verify the information gathered or contained in our report, and accordingly, that our report will include a statement that the information presented is based on discussions with and information provided by you. Our consulting services will not constitute an audit, review, or compilation of the information provided and, accordingly, we will not express a conclusion or provide any other form of assurance on the completeness or accuracy of the information.

This engagement is limited to the consulting services presented in Exhibit I. Schneider Downs, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or performing management functions. Schneider Downs will advise you with regard to results of services performed, but management must make all decisions with regard to those matters.

Our report is suitable for use only by those who have participated in determining the scope of the consulting services. Consequently, our report will be restricted to your internal use only. We have no responsibility to update our report for events and circumstances that occur after the date of its issuance. If for any reason we are unable to complete the engagement, we will not issue a report as a result of the engagement.

Fees and Billing

1. Test of Design	\$16,500
2. Test of Operating Effectiveness	\$11,500
Total	\$28,000

We will schedule the engagement based in part on deadlines, working conditions and the availability of the Company's personnel and information. We will plan the engagement based on the assumption that personnel will cooperate and provide assistance by timely responding to our requests and inquiries. If, for whatever reason, personnel are unavailable to provide the necessary assistance in a timely and accurate manner, it may substantially increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate.

If the fees required to complete the services described above will exceed the above as a result of unanticipated circumstances beyond our control and/or an expansion in engagement scope, we will provide you with an updated estimate of fees to complete the engagement before incurring additional time.

You will also be billed for travel and other out-of-pocket expenses such as report production, copies, telephone, postage, etc. The fee estimate is based on anticipated cooperation from your

personnel and the assumption that unexpected circumstances will not be encountered during the engagement. Failure to receive information in a timely manner or receive cooperation from your personnel may impact delivery timelines. Our invoices for our engagement fees will be rendered each month as work progresses and are payable on presentation.

You may request that we perform additional services not outlined in this Agreement. If this occurs, we will communicate with you concerning the scope of the additional services and the estimated fees will be based on a mutually agreed-upon fee or the amount of time required at various levels of responsibility calculated at our hourly rates. We also may issue an amendment to this Agreement covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this Agreement.

Client acknowledges having read this Agreement in its entirety, has had ample opportunity to consider its terms, has had full and satisfactory explanation of its terms, and fully understands and agrees to be legally bound by the terms of this Agreement.

We appreciate the opportunity to be of service to you and believe this Agreement accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this Agreement, please sign, date and return the original Agreement to us.

Very truly yours,

Schneider Downs & Co., Inc.

Certified Public Accountants

JBW/jle
Enclosures
Ref: 18500-01500-20 DM #

RESPONSE:

This Agreement, including the General Business Terms outlined in our Master Service Agreement, correctly sets forth the understanding of the Client.

Signature: _____

Title: _____

Date: _____

Exhibit I

The following consulting services are to be performed in assisting you with the internal controls assessment.

Overview

You have asked us to walk through and assess risks and internal controls over certain processes to identify unaddressed risks, potential efficiencies, and leading practice recommendations to improve controls and business processes. Schneider Downs will conduct interviews of personnel, assess risk and related mitigating controls, assess the authorities and responsibilities assigned to each staff member, review documentation and observe accounting practices. The business processes in scope for this review include:

- Purchasing and Payables
 - Vendor master file
 - Delegation of authority
 - Purchase requisitions
 - Purchase orders
 - Invoice approval and payments
 - Adjustments and liabilities

- Revenue and receivables
 - Income taxes
 - Inter-governmental
 - Service charges (water, sewage)
 - Fines
 - Transfers and advances
 - Property taxes
 - Special assessments

- Treasury
 - Bank reconciliations
 - Banking relationships
 - Checks, wires, ACH
 - Investments

- Payroll
 - Payroll Masterfile
 - Time cards
 - Disbursements
 - Payroll accruals
 - Bonuses
 - Payroll system oversight

We have provided two options outlined below (1) Test of design and (2) Test of operating effectiveness.

- (1) Test of design - The test of design is intended to provide management with assurance that the controls are in place and appropriately designed to detect or prevent risks over the specific area under review. Procedures would include:
 - a. Perform a walkthrough of the in scope processes to understand the end to end business activities, roles and responsibilities and information systems utilized.
 - b. Identify key risks and controls based on your existing business activities as well as general leading practices.
 - c. Assess the design effectiveness by reviewing existing process and control documentation, segregation of duties, policies and procedures, staffing and effective use of technology and automation. Our design assessment will be based on your specific business practices as well as general leading practices.
 - d. Identify any control gaps and provide observations and recommendations to close any gaps to an acceptable risk level.

- (2) Test of operating effectiveness - The test of operating effectiveness is intended to provide management with an additional level of assurance by selecting a random sample of transactions to determine if the controls as designed are operating on a consistent basis. Procedures would include:
 - a. Based on the controls identified in (1) test of design above, perform detailed testing of transactions and select samples for testing based on the frequency of the control (multi- daily, daily, weekly, and monthly, quarterly, annually).
 - b. The objective of the detailed testing is to evaluate if the control attributes are being performed for each transaction selected for evaluation.
 - c. For each control tested, provide a controls effectiveness conclusion and discuss any exceptions with management.
 - d. Identify any control gaps and provide observations and recommendations to close any gaps to an acceptable risk level.

DELIVERABLES

Our final deliverable will be a report outlining our procedures performed and any observations and recommendations to address any control/process gaps identified.

The deliverable of the review (i.e., consultant's report) is for the internal use of the City of Pataskala and is not to be distributed externally to third parties, in whole or in part, without the prior written consent of Schneider Downs. The report will include a description of the procedures performed, observations noted and any recommendations resulting from the review that Schneider Downs' believes will strengthen the internal control environment at The City of Pataskala. The cumulative results of our review will be presented to you and reviewed with the appropriate members of management or process owners in an exit conference.

SCHNEIDER DOWNS TEAM

- Tony Ielase, Director – Internal Audit and Risk Advisory Services, will serve as the lead director for the engagement. Tony is the Director for our Internal Audit and Risk Advisory Services group. Tony has provided consulting assistance to numerous clients relating to enhancing the efficiency of processes and controls.
- Jeremy Hall, Manager - Internal Audit and Risk Advisory Services, will be responsible for the execution of this engagement. Jeremy has over 7 years of internal auditing experience that includes process and control reviews.

In addition, Tony and Jeremy will be supported by the necessary risk advisory staff to complete the work.