OHIO AUDITOR OF STATE
KEITH FABER

65 East State Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
800-282-0370

MANAGEMENT LETTER

City of Hudson
Summit County
1140 Terex Road
Hudson, OH 44236

To City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements defined in our Independent Auditor's Report of the City of Hudson, Summit, Ohio (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements and have issued our report thereon dated September 24, 2025.

Government Auditing Standards require us to communicate deficiencies in internal control, as well as, report on compliance with certain provisions of laws, regulations, contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated September 24, 2025, for the year ended December 31, 2024.

2 CFR Part 200 subpart F requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated September 24, 2025, for the year ended December 31, 2024.

We are also submitting the following comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. The comments reflect matters that do not require inclusion in the *Government Auditing Standards* or Single Audit report. Nevertheless, the comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations. The comments reflect our continuing desire to assist your City but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding the comments please contact your regional Auditor of State office.

Noncompliance Findings

1. Uniform Guidance (UG) Policies

2 CFR § 1201.1 and 2 CRF § 1000.10 gives regulatory effect to the Department of Transportation and the Department of Treasury, respectively, for the following:

2 CFR § 200.302(b)(6) requires written procedures to implement the requirements of 2 CFR § 200.305 Payment.

2 CFR § 200.302(b)(7) requires written procedures for determining the allowability of costs in accordance with Subpart E-Cost Principles of this part and the terms and conditions of the Federal award.

2 CFR § 200.430 states costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities; (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

The City was awarded grant monies under the Uniform Guidance (UG); however, the City did not establish formal written policies required by the UG for the sections listed above.

To help ensure compliance with the Uniform Guidance requirements, the City should establish and maintain required polices and, more importantly, implement procedure as specified by UG requirements for all grant monies received. Any changes to the City's policies should also be formally approved by City Council and documented within the minutes.

2. Ohio Rev. Code § 9.38 Timeliness of Deposits

Ohio Rev. Code § 9.38 provides in part, all public monies received shall be deposited with the treasurer of the public office or designated depository on the business day next following the day of receipt, if the total amount of such monies received exceeds $1,000. If the total amount of public moneys so received does not exceed $1,000, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public monies until they are deposited. To date the City has not approved a policy to extend the time between collection and deposit beyond one business day.

Two of three Ellsworth Meadows Golf Course receipts (cash and check transactions) tested, totaling $4,733.06 were not deposited with the Assistant City Manager - Finance Director or designated depository for a period of two business days or greater after initial receipt of the monies. Delays of this nature resulting from deficiencies in internal control procedures could cause receipts to be lost, misplaced, or stolen without being detected in a timely manner.

The City should establish, implement and monitor the implementation of policies and procedures to help ensure timely depositing of public monies in accordance with Ohio Rev. Code § 9.38.

Recommendations

1. Implementation of SOC 1 CUECs

Sound accounting practices require public officials to design and operate a system of internal control that is adequate to provide reasonable assurance over the reliability of financial reporting, effectiveness, and efficiency of operations, compliance with applicable laws and regulations, and safeguarding of assets against unauthorized acquisition, use, or disposition.

The City outsources Emergency Medical Services (EMS) claims processing, which is a significant accounting function, to a third-party administrator. While the third-party administrator, has a SOC-1 Type 2 report, with an unmodified opinion, the City has not implemented the following Complementary User Entity Controls (CUEC's) identified within the report:

- Controls to ensure that payments are received for ambulance services that are submitted.
- Controls to ensure that specific software system reports from Life Force are reviewed by appropriate users for completeness and accuracy.
- Controls to ensure that specific software system reports from Life Force are routinely reconciled to relevant control totals.
- Controls to ensure that erroneous input data is corrected and resubmitted.
- Controls to ensure timely deposits of funds and accurate communication of the amounts via email, fax, or mail.

The City does not have controls in place to address these CUEC's. Failure to ensure adequate controls are in place and operating effectively could result in errors occurring without detection.

The City should develop internal control practices which address each relevant CUEC, including reviews and reconciliation of monthly Life Force reports to amounts receipted in the accounting system.

2. Ambulance Fees

The City contracts with Life Force, Inc. for ambulance billing services. The contract for these services states, in part:

- Client shall forward to Life Force weekly all correspondence, documents, and records of any payments relating to Ambulance Services received directly by Client that week,
- Client shall review all reports provided by Life Force for accuracy.

In 2024 the City did not forward to Life Force, Inc. records of ambulance service payments received directly by the City totaling $701. This was not detected because the monthly Life Force reports were not reviewed by the City for accuracy. Additionally, because the payments received directly by the City were not communicated to Life Force, Inc., the related patient accounts reflected inaccurate outstanding balances.

The City should develop controls to ensure timely review of Life Force reports and reporting to Life Force all relevant information on payments received directly by the City.

3. Outstanding Advances

Advances are intended to temporarily reallocate cash from one fund to another and involve an expectation of repayment.

As of December 31, 2024, the City had the following advances from the General Fund which have been outstanding for several years with no schedule for repayment:

- Hudson Cable 25 Fund 206 in the amount of $35,000;
- Emergency Medical Service Fund 224 in the amount of $41,000;
- Wastewater Fund 502 in the amount of $100,000;
- Electric Fund 503 in the amount of $43,820;
- Storm Water Utility Fund 504 in the amount of $80,350;
- Street Sidewalk Construction Fund 430 in the amount of $155,000;
- Downtown Phase II Fund 441 in the amount of $615,000.

Failure to evaluate and schedule repayment, or convert the Advances to Transfers could result in a Finding For Adjustment.

The City should evaluate outstanding advances and determine schedules to repay each, or convert advances that will not be repaid to transfers. Additionally, the City should design and implement control procedures to ensure all future advances are approved by a formal resolution including a specific statement that the transaction is an advance of cash, and indication how and when it will be repaid.

4. IT - Logical Access

Logical access controls are critical to help ensure computer resources are appropriately protected. Passwords are typically used to authenticate a user before access is granted to the computer system. Multifactor (MFA) authentication, in which a user is required to provide two or more verification factors to gain access to critical data, is a key control in preventing unauthorized user access. In addition, password parameters governing password expiration intervals, minimum length and complexity provide additional user access restrictions.

The following was noted during the review:

- Multifactor Authentication is needed when logging into the network when on premises.
- Multifactor Authentication is not required for significant applications
- Not all password policies were up to industry standards, including minimum length, lockout, expiration, or lockout

When strong password and lockout policies and MFA are not implemented or enforced, there is an increased risk of unauthorized access to data.

The city should consider implementing multi-factor authentication to the application and on premise access, to help ensure data is protected and accessed only by authorized individuals.

In addition, the city should implement and enforce strong password and account lockout policies over all user accounts on their critical systems.

5. IT - Lack of SOC 1 Audit

Sound accounting practices require public officials to design and operate a system of internal control that is adequate to provide reasonable assurance over the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and safeguarding of assets against unauthorized acquisition, use or disposition.

The City uses the Timesheet, Sonar, and TeeSnap vendor hosted applications as a point of sales application and timesheet application respectively. The software is completely hosted and the vendor is responsible for maintaining controls over the server level (e.g. physical security, direct user access to servers and the database, firewall restrictions to restrict outside access to the database, etc.) and data backup controls. When using a service organization, it is critical the appropriate controls are designed and implemented to help ensure the service organization has adequate controls to achieve management's goals and objectives. Additionally, when using a software as a service, built-in application controls may not be readily accessible to be changed to meet the security needs of the City.

Attestation standard (AT-C 320) Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting, prescribes standards for reporting on service organizations. Service Organization Controls reports, known as SOC reports, help user organizations monitor their outsourced relationships and manage the associated risks. SOC-1,Type 2 examinations, conducted in accordance with the American Institute of Certified Public Accountants' Attestation Standards, are performed to provide management, and auditors who rely on the SOC-1, Type 2 report, with critical information over the service organization's internal control environment. Type 2 reports include a description of the service organization's internal controls and conclusions about whether controls are suitably designed to achieve the control objectives and are operating effectively. An unmodified Type 2 Report on Management's Description of a Service Organization's System and a Service Auditor's Report on that Description and on the Suitability of the Design and Operating Effectiveness of Controls in accordance with AT-C 320 should provide GCRTA with assurances that certain general IT controls have been placed in operation and are operating effectively over the cloud based software, such as security management, system level access, and data backup controls, can only be achieved through an audited SOC-1 Type 2 report.

For the audit period, a SOC-1 Type 2 report over the Timesheet, Sonar, and TeeSnap software was not performed by the service organization. As a result, the City did not have sufficient information to evaluate whether controls were designed properly, in place, and operating effectively to help ensure the integrity of the IT infrastructure and services used to run the significant applications at the city.

The City should require a SOC 1 Type 2 report in its contracts with the significant hosted application vendors and should review the SOC 1 report timely. The report should follow the American Institute of Certified Public Accountants' Attestation Standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the Government with a Type 2 SOC 1 report, the Government should contract with a vendor that will provide this report.

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

KEITH FABER
Ohio Auditor of State

Tiffany L Ridenbaugh

Tiffany L Ridenbaugh, CPA, CFE, CGFM
Chief Deputy Auditor

September 24, 2025