

CITY OF VERMILION

ERIE COUNTY, OHIO

REGULAR AUDIT

For the Year Ended December 31, 2019



**CITY OF VERMILION
 ERIE COUNTY
 REGULAR AUDIT
 For the Year Ending December 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

City of Vermilion
Erie County
5511 Liberty Avenue
Vermilion, Ohio 44089

To the Members of the City Council:

Report on the Financial Statements

We have audited the accompanying 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 Vermilion, Erie County, Ohio (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
Discretely Presented Component Unit	Qualified
General Fund	Unmodified
Road Improvement Levy	Unmodified
Fire Station No.1 Project	Unmodified
Fire Apparatus	Unmodified
General Obligation Bond Retirement	Unmodified
Water Fund	Qualified
Sewer Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit

Because of the inadequacy of the accounting records, we were unable to obtain sufficient evidence regarding the amounts at which Non-depreciable Capital Assets and Depreciable Capital Assets, Net, are recorded in the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit at December 31, 2019, (stated at \$3,680,167, \$10,142,437, \$532,147, \$9,280,822, \$416,597, \$3,844,423, \$115,550, \$5,436,399, \$1,059,388 and \$773,036, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit for the year ended (stated at \$16,063,014, \$0, \$8,884,136, \$0, \$5,006,090, \$0, \$3,878,046, \$0, \$690,893 and \$31,547, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as Net Investment in Capital Assets for the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit (stated at \$4,148,356, \$333,813, \$2,188,837, (\$1,855,024) and \$909,795 respectively). We cannot reasonably determine the amount by which this departure would affect the assets, expenses and net position of the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit.

Qualified Opinions

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinions on Governmental Activities, Business-Type Activities, Water Fund, Sewer Fund and Discretely Presented Component Unit* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit of the City of Vermilion, Erie County, Ohio, as of December 31, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Road Improvement Levy Fund, Fire Apparatus Fund, General Obligation Bond Retirement Fund, Fire Station No. 1 Project Fund and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio, as of December 31, 2019, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund and Road Improvement Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, the financial impact of COVID-19 and ensuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension and OPEB liabilities and pension and OPEB contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance.



Charles E. Harris & Associates, Inc.
November 19, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City of Vermilion
Erie County
5511 Liberty Avenue
Vermilion, Ohio 44089

To the Members of the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Vermilion, Erie County, Ohio (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 19, 2020, wherein we qualified our opinion on the governmental activities, business-type activities, water fund, sewer fund and discretely presented component unit because of the inadequacy of the capital asset records. We also noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in the report that we reported to the City's management in a separate letter dated November 19, 2020.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
November 19, 2020

**CITY OF VERMILION
ERIE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019**

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

Finding Number 2019-001 – Material Weakness

A capital assets management system ensures that policies and procedures are in place to safeguard assets and maintains the integrity of financial statement information. These procedures should include: authorizing and recording disposals and transfers of assets; recording purchases as additions at the time items are received; tagging assets to ensure that each asset is in the appropriate location and described accurately in the City's inventory list.

The City's capital asset system's additions and deletions have not been updated in several years. The beginning and ending balances cannot be relied on for accurate figures. The utility department has not provided the finance department with information on the length of water and sewer pipes, the record of years of operation and distribution, and costs. We also noted the engineer's office has not provided a description, history and location of the roads and bridges within the City limit and costs. The financial statements have not been adjusted to reflect the proper balances of capital assets.

We recommend that management follow their formulated capital asset procedure to properly capture all capital assets as purchased and disposed and include them in their sub-ledger. These procedures include inventory of capital assets throughout the City through the implementation of policies and procedures which address: 1) reporting to the Finance Director (for updating City-wide records); 2) inputting tagged items into the City's computer system; 3) calculating and recording depreciation; 4) performing a physical count of capital assets to obtain an accurate balance and then performing periodic physical counts regularly; and 5) maintaining a detailed master capital asset list appropriately sorted and readily sorted which readily supports financial statement preparation.

Management's Response:

See Corrective Action Plan.

CITY OF VERMILION
ERIE COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
December 31, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Material Weakness – Capital Asset Records	Not corrected	Management intends to complete for 2020.

**CITY OF VERMILION
ERIE COUNTY**

**CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2019**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	Material Weakness – Capital Asset Records The Finance Department will increase focus on the established asset management procedures to assure appropriate tracking.	December 31, 2020	Amy L. Hendricks, Finance Director