



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CITY OF CLEVELAND PERFORMANCE AUDIT

MAY 30, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

To the Honorable Mayor, Members of City Council, and the Citizens of the City of Cleveland:

The State Auditor's Office is pleased to provide the completed City of Cleveland (the City) performance audit. At the request of Mayor Jane Campbell, this project followed the release of the fiscal 2000 financial audit that noted significant weaknesses in internal controls, especially in the areas of cash management, budgetary compliance, electronic fund transfers, and fully maximizing the capabilities of the City computer system. Concerns were also raised over the reliability of financial operations, including cash reconciliations, and key staff vacancies.

The performance audit focused on 13 departments within the City. These departments were identified after discussions with the Mayor and her transition team as the Information Systems Support, Financial Reporting and Control, Division of Treasury, Division of Accounts, Office of Budget and Management and the Sinking Fund, Risk Management, Division of Internal Audit, Division of Purchases and Supplies, Department of Utilities, Division of Cleveland Hopkins International and Burke Lakefront Airports, Division of Assessments and Licenses, Division of Parking Facilities, and the Central Collection Agency. We conducted an independent assessment of these operational areas with the objective of providing recommendations to the City to help achieve operational improvements and increased accountability.

An Executive Summary has been prepared which includes the project history, objectives and scope, methodology, overview of the City, and a summary of key findings and recommendations for the 13 departments which were analyzed. Also included is a current and proposed organizational restructuring, along with proposed City Charter and Codified Ordinance changes. The Mayor, the City Council, the Finance Director, and the Commissioners have been encouraged to utilize the results of the performance audit as a resource in improving the City's overall operations and service delivery.

The performance audit was previously provided to the City, and its contents were discussed with the Mayor, the Council President, the Finance Director, Commissioners, and key staff members. Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or the toll free number in Columbus, (800) 282-0370. In addition, this performance audit can be accessed on-line through the State Auditor's Office website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Petro", written over a large, stylized flourish.

JIM PETRO
Auditor of State

May 30, 2002

Executive Summary

Project History

This performance audit, hereafter referred to as the Project, was undertaken in an attempt to optimize operational efficiencies, improve accountability, and strengthen internal controls for the City of Cleveland's (City) financial operations. This Project, undertaken at the request of Mayor Jane Campbell, follows the release of the fiscal 2000 financial audit that noted significant weaknesses in internal controls especially in the areas of cash management, budgetary compliance, electronic fund transfers, and fully maximizing the capabilities of PeopleSoft. While these weaknesses were significant and have been reported in several past audits, corrective action has been slow to be completed.

Secondly, when Mayor Campbell took office, there were continuing concerns over the reliability of financial operations including cash not being properly reconciled, inaccurate records to support the encumbrances, accounting and reporting problems encountered with the PeopleSoft system due to lack of adequate training, and key staff vacancies were causing City staff to work on past errors instead of current daily operations.

With this framework as a background, a prioritization approach was selected where all departments presently reporting to the Finance Director, except printing and reproduction, received a detailed review of their operating procedures. In addition, the financial operations of the utilities, parking facilities, and airport operations that do not report to the Finance Director, were also reviewed.

Since the City's finance department had suffered a significant loss of management level staff and the available staff were trying to maintain normal fiscal operational procedures, the Auditor of State's Office assigned senior level staff in order to perform this project within a significantly reduced timetable and provide timely, proactive recommendations to the City.

The Auditor of State's Office began preliminary work on a performance audit of the City's operations in December 2001 per request of then Mayor-Elect Campbell. The actual performance audit was conducted from January through April 2002. Based on discussions with the Mayor and the transition team, the following areas of operation were selected for assessment:

- Information Systems Support;
- Financial Reporting and Control;
- Division of Treasury;
- Division of Accounts;
- Office of Budget and Management and the Sinking Fund;

- Risk Management;
- Division of Internal Audit;
- Division of Purchases and Supplies;
- Department of Utilities;
- Division of Cleveland Hopkins International and Burke Lakefront Airports;
- Division of Assessments and Licenses;
- Division of Parking Facilities; and
- The Central Collection Agency.

Objectives and Scope

A performance audit is defined as a systematic and objective assessment of the performance of an organization, program, function or activity to develop findings, recommendations and conclusions. Performance audits are usually classified as either “economy and efficiency audits” or “program audits”.

Economy and efficiency audits consider whether an entity is using its resources efficiently and effectively. They attempt to determine if management is maximizing output for a given amount of input. If the entity is efficient, it is assumed that it will accomplish its goals with a minimum of resources and with the fewest negative consequences.

Program audits, on the other hand, are normally designed to determine if the entity’s activities or programs are effective, if they are reaching their goals, and if the goals are proper, suitable or relevant. These audits attempt to determine if the actual outputs match, exceed or fall short of the intended outputs. The performance audit conducted on the City contains elements of both an economy and efficiency audit and a program performance audit.

While the objectives of performance audits may vary, the Auditor of State’s Office designed this performance audit with the express intention of providing suggestions which the City may use in developing their detailed plan to improve its financial operations, accountability, and efficiency.

It is important to note that this performance audit is not a financial audit. Therefore, it was not within the scope of this work to conduct a comprehensive and detailed examination of the City’s financial records and past financial transactions. Since the City has experienced problems in properly recording all of its financial transactions, certain information included in this report, which was derived from the City’s system, may not be completely accurate. Other information and data that would have been beneficial in performing this audit was not maintained by the City and consequentially, caused some analysis to be less thorough than it could have been.

To complete the performance audit, we gathered and assessed a significant amount of data pertaining to the City. Our commitment to this performance audit was significant as we spent more than 4,500 hours on the project. We conducted interviews with City officials and personnel; peer entity

officials and personnel; and we assessed and analyzed information from the City and selected peer entities.

The overall objectives of this project are to present findings based on data related to City operations and to develop recommendations concerning selected areas of operations. Additionally, the performance audit provides an independent assessment of the City's operations to identify potential areas for improvement and evaluate the City's compliance with the Ohio Revised Code, and the City's Charter and Codified Ordinances.

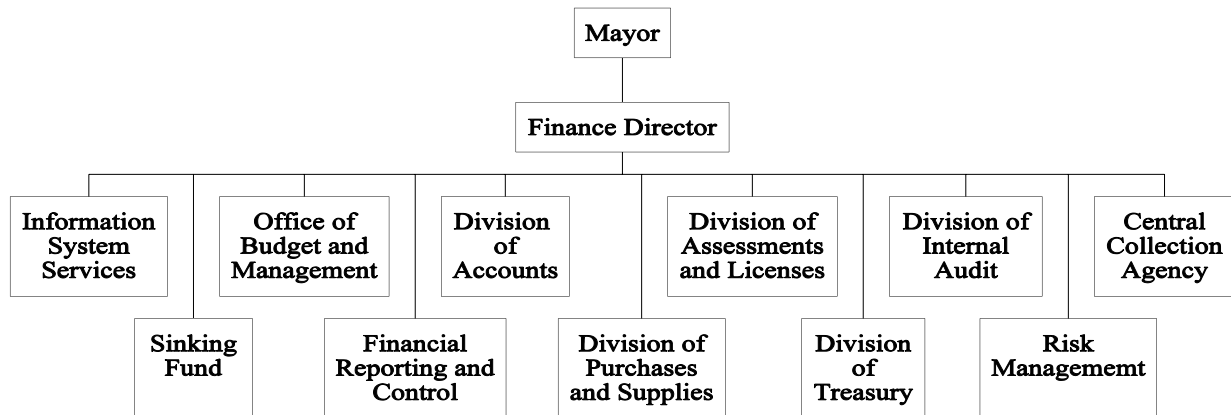
Methodology

To complete this report, the auditors gathered and assessed a significant amount of data pertaining to Cleveland's financial operations, conducted numerous discussions and interviews with various levels of management and employees associated with areas of operation which were selected for assessment, and assessed available information from selected peer entities which were used for benchmark comparison purposes. Best practices were obtained from a variety of sources, including the Government Finance Officers Association, to help develop recommendations to assist the City improve its operations. Finally, the performance audit team was largely comprised of individuals with extensive audit experience, many of which had worked on the prior Cleveland financial audit.

Overview of City

Chart 1-1 presents the current reporting structure for the City of Cleveland's Department of Finance which contains eleven of the areas selected for assessment as part of the performance audit. Although combined in our report, the Office of Budget and Management and the Sinking Fund have different managers who report individually to the Finance Director. The Divisions of Cleveland Hopkins International and Burke Lakefront Airports, the Division of Parking Facilities, and the Department of Public Utilities do not report to the Finance Director and only their financial accounting and reporting functions were assessed as part of the performance audit.

**Chart 1-1: City of Cleveland's Current Organizational Chart
for the Department of Finance**



The City's audit report for the fiscal year ending December 31, 2000 contained two findings concerning material budgetary non-compliance; one material weakness concerning the internal control over cash and investment accounts; and 10 reportable conditions regarding internal controls over areas including wire transfers, the PeopleSoft software applications, charges for services revenue cycles, fixed assets, pension payments, and implementation of GASB 34.

The management letter issued in conjunction with the audit report at December 31, 2000 contained eight non-compliance citations and 76 internal control recommendations. The non-compliance citations were mainly concerning budgetary non-compliance issues. The internal control comments covered a variety of issues with 23 of the comments related to information systems, including the PeopleSoft software applications.

Additionally, the following major issues were also noted regarding the City's Financial and Administrative structure in the areas designated for assessment:

- High turnover in the Finance Director position due to lack of performance;
- Questions of integrity and competence;
- Continuing problems in maintaining accountability over City assets;
- Inability to process timely and accurate financial records;
- Many Director and Commissioner positions are held by individuals with limited experience at their current level. Currently, of the 11 Commissioners presently reporting to the Finance Director, five have been in their Commissioner roll for less than three years while the position of Risk Manager has not been filled for at least two years;

- Many of the financial departments demonstrated a large loss of talent and many positions were vacant or filled by individuals with minimal experience;
- The implementation of the PeopleSoft accounting system was completed in April 1999 and the system still does not operate properly, is not fully utilized, and the City lacks the staffing to effectively maintain it;
- Frequently, the Internal Audit Division addressed problems after they had arisen or were identified by outside sources, instead of pro-actively analyzing City operations; and
- There is no risk management function being performed by the Finance Director's office where the function was designated to be performed. The City is self insured for most liability, property, and casualty exposures and there is no evaluation and assessment of these risks currently being performed.

The following key findings and recommendations summarize some of the more significant results of this performance audit. Contained within the following thirteen sections of this report are additional issues regarding the City's financial and administrative structure. Each of these sections should be read in their entirety.

Key Findings

We have summarized, in the executive summary, the following key findings. These findings are presented by the divisions that were selected for assessment.

Information Systems Services

The assessment of the Information Systems Services (ISS) division resulted in 36 findings regarding their current operations. The following are considered to be the more significant issues:

The City does not have an individual responsible for coordination of citywide technology initiatives. The City's Information Systems Services division coordinates hardware purchases and recommends hardware strategies. However, each department director has ultimate responsibility for their data processing, creating decentralized technology management. Examples of decentralized technology management include security administration, technical training, hardware inventory, software licensing, and hardware warranties. The decentralization of the technology function limits the operational efficiency of the City and increases the City's technology costs.

Presently, the Commissioner of ISS reports to the Finance Director. As such, this reporting relationship does not allow key technology issues to receive the high level attention necessary to ensure that major City and departmental technology purchases will help achieve the City's broader goals. The current status of the PeopleSoft implementation, Citywide email, and Internet access have resulted largely from a lack of project sponsorship and leadership at the highest levels.

Email systems throughout the City are not coordinated. The City does not have a centralized, Citywide, email service. The City has two different types of email services which are referred to as City email and Internet email. City email is for internal use only. Users cannot communicate with any parties outside of the City of Cleveland. ISS estimates there are 2,550 PCs in use throughout the City. Of these, only 371 users have access to City email. Email accounts have primarily been provided to management level staff.

Internet email is for external use and is provided through the City's Internet Service Provider (ISP), e-Command. Only 168 users have the capability to use internet email to communicate with peers, constituents, suppliers and others who are outside of the City.

The City of Cleveland has many large departments which rely on technology to aid them in providing services. Currently, the City's information technology processing is decentralized. Larger departments have developed their own IT staff and have purchased various hardware platforms (minicomputers, client servers, personal computers, etc.). In the smaller departments and divisions, responsibility for information technology administrative functions has been assigned to non-technical staff.

Security administration is decentralized. The City has 110 NT servers and 36 other servers. ISS only has responsibility for security over the 20 servers which physically reside in the ISS building. Responsibility for network security on all other servers as well as the security of the applications residing on these servers, is the responsibility of the data owners in the departments.

The City does not centralize management of equipment warranties within the ISS Division. The City requires that all hardware purchase contracts include a three year on-site repair warranty. Equipment warranty periods are not centrally tracked. Departmental staff are responsible for tracking warranty periods for all their equipment as well as calling for service for any malfunctioning equipment. User departments may or may not be tracking this information. As a result, departmental IT staff may be performing maintenance on computers under warranty.

Financial Reporting and Control

The assessment of Financial Reporting and Control's (FRC) functions resulted in 28 findings regarding their current operations. The following are considered to be the more significant issues:

Financial Reporting and Control was originally established to provide controls over the maintenance of the City's accounting system and the integrity of accounting information; reconcile inter-fund activity; organize and maintain a property control system; monitor grant expenditures and cash draw downs; prepare monthly and annual financial reports; and perform cash reconciliations. Presently, FRC is operating more as a data input and computer system troubleshooting division.

The organizational structure of FRC has deteriorated from sections which paralleled the City's fund structure to a structure that currently does not have direct financial oversight over the City's departments and divisions. FRC has been unable to sustain its accounting function primarily due to high turnover within the Finance Department at all levels; reduction of senior/staff accountants overseeing the fund structure of the City; added clerical and accounting duties normally performed by outside divisions being assumed by FRC; and inexperienced personnel (FRC and users) leading to a lack of communication and coordination with outside City departments and divisions.

The matching portion of the City's pension cost for Public Employees Retirement System, Police Pension, and Fire Pension is not recorded as a liability within the operating departments at the time payroll is incurred. The pension expenditure is not recorded as a liability or expenditure until 90 to 120 days later within the operating departments. This procedure leads to an overstatement of unencumbered cash balances equal to at least six pay periods of employer matches at the end of each quarter. The amount of pension expenditures not recorded at December 31, 2001, within the General Fund, is over \$13 million.

Finally, prior to April 1999, FRC prepared daily reconciliations of unencumbered cash balances for all annually appropriated funds. This procedure ensured the propriety of budgetary revenue and expenditure transactions within the accounting system as well as a budgetary review and control measure. In addition, FRC performed a daily review of all general ledger balances and the related subsidiary files/modules to ensure appropriate relationships and financial integrity of the general ledger and the subsidiary files/modules. Over the last three years, FRC has not performed these daily reviews, leading to inadequate monitoring of the unencumbered cash balances.

Division of Treasury

The assessment of the Division of Treasury (Treasury) resulted in 17 findings regarding their current operations. The following are considered to be the more significant issues:

The Division of Treasury (Treasury) is responsible for investing City funds according to the City's codified ordinances and investment policy, receiving and depositing cash, and writing warrants for City disbursements. The Treasury is to provide safety and liquidity of all City funds based on applicable ordinances. The Treasury Department reports to the Finance Director and manages an average portfolio of over \$580 million and invests about \$9 million daily. The Treasury collects over \$2 million daily and disburses about \$1.2 billion annually.

The Treasury's rate of return on their investments for 2001 was an average of 22 basis points lower than the return of the selected peer entities for the same period. Had the City's rate of return equaled the average rate of return of the peer entities, an additional \$1.3 million in interest income would have been generated.

The Treasurer is responsible, pursuant to Codified Ordinance Section 178.10, for ensuring that eligible depositories pledge, as security for the repayment of all public monies deposited, eligible securities in the aggregate market value equal to one hundred and ten percent of the amount of public monies to be at the time so deposited. At December 31, 2001, City funds deposited at National City Bank and Key Bank were only collateralized at 34 percent and 96 percent respectively on balances exceeding \$24 million at each institution.

Division of Accounts

The assessment of the Division of Accounts (DOA) resulted in 26 findings regarding their current operations. The following are considered to be the more significant issues:

The DOA has an organizational structure whereby all employees report to one of two supervisors, either the Operations Manager or the Central Payroll Supervisor. While appearing to enhance accountability, this system impairs internal controls and does not allow for growth, as employees are not empowered to make daily decisions necessary to perform their jobs. One supervisor has total autonomy for all payroll expenditures, while another manager has total autonomy for all non-payroll expenditures.

The City has invested in PeopleSoft for their financial information system, but did not purchase the human resource and payroll modules. Ironically, PeopleSoft originated as a human resources application and other modules were subsequently developed. The City currently outsources their payroll to Ceridian. The payroll system, used for processing the City's payroll is approximately ten years old. In addition, procedures for establishing user-level access security is time-consuming. From 1999 through 2001, the City has spent over \$1.7 million on costs associated with the processing of payroll and the identification and resolution of difficulties encountered in customizing the Ceridian payroll application, yet for the last two years the City has had the PeopleSoft financial system. The current system requires the duplicate entry of information and is not coordinated with human resource reporting, grant management reporting, or financial report systems.

Finally, the City's current payroll system is heavily reliant on the departmental payroll clerks. Timekeeping, the tracking of leave hours, and the proof-reading of reports are performed at the departmental level. Record keeping is also performed at the departmental level, however, departments and divisions throughout the City do not consistently maintain the necessary records.

Office of Budget and Management and the Sinking Fund

The assessment of the Office of Budget and Management and the Sinking Fund functions resulted in 24 findings regarding their current operations. The following are considered to be the more significant issues:

The Office of Budget and Management (OBM) is responsible for coordinating the City's budgetary processes. The operating budget, also called the Mayor's Estimate, is the spending plan for the fiscal year. The operating budget process consists of activities that encompass the development, implementation and evaluation of a plan for the provision of services. The City does not have the next year's budget adopted and in place before year-end. Instead, the Mayor submits an appropriation budget, called the "Mayor's Estimate," to City Council by February 1st of each year. The original Mayor's "Budget Estimate" document along with any corrections, revisions, and changes are accumulated by OBM into a permanent appropriation document. City Council adopts a temporary appropriation measure for the first three months of the year and adopts a permanent appropriation measure for the fiscal year by April 1st. As a result, the City operates under a temporary budget for the first three months of the fiscal year until the budget has been formally adopted.

Secondly, the City purchased a budget preparation module for the PeopleSoft system, however, the module was not implemented. Currently, OBM compiles the City department's budget requests using spreadsheets, which is time consuming, increases difficulty in making changes, and hampers OBM ability to perform budgetary analysis.

The City no longer has a formal capital budget process in which the City's capital budget is coordinated with the City's capital improvement plan. Instead, OBM's capital budget analyst works in isolation from other City personnel who have capital improvement responsibilities.

Currently, OBM is not performing all the functions that should be performed by a division responsible for providing budgetary analysis and management consulting services to other City departments. In fact, they spend a significant amount of time performing clerical tasks: reviewing purchase requisitions for accuracy of account codes and availability of funds; and performing other clerical functions, such as document processing and filling public records request.

Currently, the Sinking Fund assistant secretary does not use an official checklist that documents the City's compliance with the key bond covenant's requirements. The Sinking Fund is responsible for directing the City's trustee to invest funds that are not required to be used for the payment of debt service. The City's Treasurer does not have any responsibilities in investing funds on behalf of the Sinking Fund.

Risk Management

The assessment of the City's Risk Management function resulted in 12 findings regarding their current operations. The following are considered to be the more significant issues:

The Finance Department has a Risk Management function whose objective is to protect the fiscal integrity of the City by assuring the availability of financial resources in the event of a claim against

the City. However, the Risk Manager position has not been budgeted for and the duties have been left to the Law Department.

Other than commercial coverage on the Cleveland Browns Stadium, obtained by the Department of Parks, Recreation, and Properties and commercial coverages maintained by the Airports and Cleveland Public Power, obtained by the Utilities Divisions, requiring contractor coverages, and coverages maintained by parties which lease City property, the City considers itself to be self insured for all other risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Finance Department is currently not involved in obtaining or reviewing these coverages, yet the Risk Manager position reports to the Finance Director.

All liability claims, for self insured risks, are processed through the Law Department and the Law Director is the final authority for legal claims, and City Council has final authority for moral claims paid by the City. The Department of Personnel and Human Resources handles employee health coverages and workers' compensation. Currently, responsibility for employee bonding is divided between the Finance Department and the Division of Accounts with an unclear designation of responsibility.

The City does determine the total liability claims paid for the year and provides an estimate of the claims payable at fiscal year end. However, the City's Law Department does not track the total costs associated with their self insurance program nor do they calculate and report "Incurred But Not Reported" claims (IBNR) at year end. Additionally, the City does not maintain cash reserves to cover self insurance liabilities which overstates the City's unencumbered cash position.

Codified Ordinances 171.14 to 171.21 outline the bonding requirements for the City. Currently, there is no position or City Department responsible for monitoring applicable bonded positions and amounts. As of April 5, 2002, all but one of the required bonds had been obtained, but 10 were not executed prior to the designated official entering into the duties of their office.

Division of Internal Audit

The assessment of the Division of Internal Audit (DIA) resulted in 19 findings regarding their current operations. The following are considered to be the more significant issues:

The Division of Internal Audit was reorganized to its current expanded organizational structure in April 2000. DIA is responsible for executing audits of City divisions, departments, and other operations to promote efficient and effective operations, safeguarding of assets, compliance with laws, regulations, and contracts, and the reliability and integrity of financial and operational information. The DIA does not prepare a long-term audit plan and many of the audits performed have been in response to critical issues identified by sources outside the DIA rather than proactive audits to promote efficient and effective operations.

The DIA is organized under Section 127.27 of the City's Codified Ordinances. This ordinance calls for the establishment of a Division of Continuous Audit within the Department of Finance. This Division is to "consist of an Auditor, who shall be a certified accountant". The current Manager of Internal Audit possesses a Bachelor of Science degree in Business Administration with a minor in Computer Science and is not a Certified Public Accountant.

The DIA adopted Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing in January 2002, but has never had an external assessment (quality assurance review) by a qualified, independent reviewer of their operations.

The current organizational structure in the DIA consists of a Manager, ten Senior Internal Auditors, and two Internal Auditors. This manager heavy organizational structure does not allow for growth within the division and the structure does not promote an appropriate level of audit supervision as required by IIA Standards for the Professional Practice of Internal Auditing.

Finally, the DIA reports to the Finance Director. The independence of the internal audit function may be compromised when auditing another area that also reports to the Director of Finance. This reporting structure does not promote an appropriate level of independence as required by IIA Standards for the Professional Practice of Internal Auditing.

Division of Purchases and Supplies

The assessment of the Division of Purchases and Supplies (DPS) resulted in 34 findings regarding their current operations. The following are considered to be the more significant issues:

Presently, it takes the City almost one year from the time the request for legislation is initiated until a contract is executed. For a peer comparison, the NIGP 2001 Benchmark Survey shows that the average cycle time for formal bids (for the time of requisitioning to the contract award) not including RFP's or professional services, was 50.9 days for the Great Lakes Region.

An example of the extensive contract time delay is a consulting contract between the Auditor of State (AOS) and the City. This project involving more than 4,500 man hours is 99 percent complete. Although, this contract was previously discussed and initiated at City management's request, the AOS has still not received an approved contract and only one invoice has been paid at April 30, 2002.

There are many reasons why the City's purchasing process is so time consuming. These reasons include a bid limit of \$10,000, which is \$5,000 less than the current Ohio Revised Code requirement and \$15,000 less than the City of Cincinnati's bid limit. Also, DPS dollar approval levels do not exist for the professional buying staff. This requires the Commissioner to sign every purchase order.

Next, the City currently does not use a procurement card program. DPS processes many small dollar orders resulting in staff time being spent on non-value added transactions. The Division of Accounts also must spend staff time to process these transactions for payment. Time spent on these types of transactions does not allow DPS staff to participate in contract development and performing money-saving analyses.

Finally, the City's current use of the PeopleSoft purchasing module is inefficient and time-consuming because of the current manual requisition approval process. The electronic requisition feature and the associated approval features are not utilized by those departments that have access to the module. The continued use of the manual requisition process is not cost effective, impedes the procurement process, and causes redundant reviews. In addition, there are some departments that do not have the proper hardware to allow use of the purchasing module resulting in the continued use of the manual requisition form.

Department of Public Utilities

The assessment of the Department of Public Utilities involved only their accounting control and reporting level operations, the Division of Fiscal Controls for Public Utilities (UFC). The UFC serves as the division for financial reporting and control and the coordination of delinquencies for the Divisions of Water, Water Pollution Control (Sewer) and Cleveland Public Power (CPP). The review resulted in 28 findings regarding their current fiscal operations. The following are considered to be the more significant issues:

The billing and collection system is an in-house developed application that handles all customer water transactions for the Division of Water and Sewer. This application is 15 years old. Due to the age of the application and a lack of an interface, entries are created on an Excel spreadsheet and then entered into the PeopleSoft system.

Secondly, final notice procedures for water service are an elaborate process. Currently, a meter reader, from field operations, has to service the turn off procedures of an account within three to five days of the final notice being received. Failure to act in that time frame, overrides the final notice and the meter reader cannot immediately turn off the service. While procedures are meter reader dependent, over the last four years the UFC has reduced meter readers from 15 to 9.

Division of Cleveland Hopkins International and Burke Lakefront Airports

The assessment of the Division of Cleveland Hopkins International and Burke Lakefront Airports involved only their accounting control and reporting level operations and resulted in 16 findings regarding their current fiscal operations. The following are considered to be the more significant issues:

The Airport's fiscal operation is operated by Airports's Budget & Finance office. Presently, twelve of the fifteen dedicated fiscal operation positions are filled. Two staff positions which are vacant are the Assistant Director and the lead account.

In addition, the airport computer system interfaces slowly at the Airport's Budget & Finance office. This is due to a single T-1 line being the only connection pipe for that application to the server.

Division of Assessments and Licenses

The assessment of the Division of Assessments and Licenses (DAL) resulted in 15 findings regarding their current operations. The following are considered to be the more significant issues:

The DAL uses five dedicated cashiers to collect, receipt, and post information to the DataFlex accounting system. Based on a 240 day work year, five dedicated cashiers each average 16 transactions per day.

The Division operates three independent software packages to account for the collection of revenue approaching 44 million dollars annually. Of these three packages, one is the present City system, PeopleSoft. The other two do not interface with PeopleSoft and require all revenue entries to be manually entered into PeopleSoft. None of these systems allow the DAL to offer electronic license registration, billing, and payment opportunities, a current industry standard.

Division of Parking Facilities

The assessment of the Division of Parking Facilities resulted in 36 findings regarding their current operations. The following are considered to be the more significant issues:

This Division operates eight facilities in the City. These facilities have over 4,700 spaces and operate at an average capacity of 93 percent. In 2001, these facilities earned over three million dollars in charge for services. The Division also collects almost 2 million dollars from a leased parking agreement and over 1.7 million dollars in metered parking revenue.

While this Division collects over 7 million dollars in revenue, their financial operations personnel have no access to the City's PeopleSoft system. The City has installed fiber optic cable, but has never made the proper connection to the City's network for Parking's financial operations.

The revenues generated by the Metered Parking Section are comprised entirely of money collected from City owned parking meters. These revenues are included as part of the financial activity of the Division's Enterprise Fund. However, the salaries and employee benefits are charged to the General Fund as part of the Department of Parks, Recreation and Proprieties. Salaries and benefits totaled over \$600,000.

Finally, for a City facing difficult times, the Parking Commissioner has estimated that approximately three hundred (300) to six hundred (600) parking spots are utilized, on a daily basis, by City of Cleveland employees on a free basis.

Central Collection Agency

The City of Cleveland's Division of Taxation operates a centralized collection facility known as the Central Collection Agency for the purpose of collecting municipal income tax for the City of Cleveland (Cleveland) and any other municipality that wishes to outsource this process. The assessment of CCA resulted in 22 findings regarding their current operations. The following are considered to be the more significant issues:

The Cleveland Collection Agency (CCA) processes taxes for 43 clients. Although this division grossed over \$430 million in 2000 and regularly distributes over \$300 million back to the City, CCA currently uses a manual system to post revenue to PeopleSoft, the City's primary accounting system. CCA's current system, MITIS™, does not have an electronic interface with PeopleSoft.

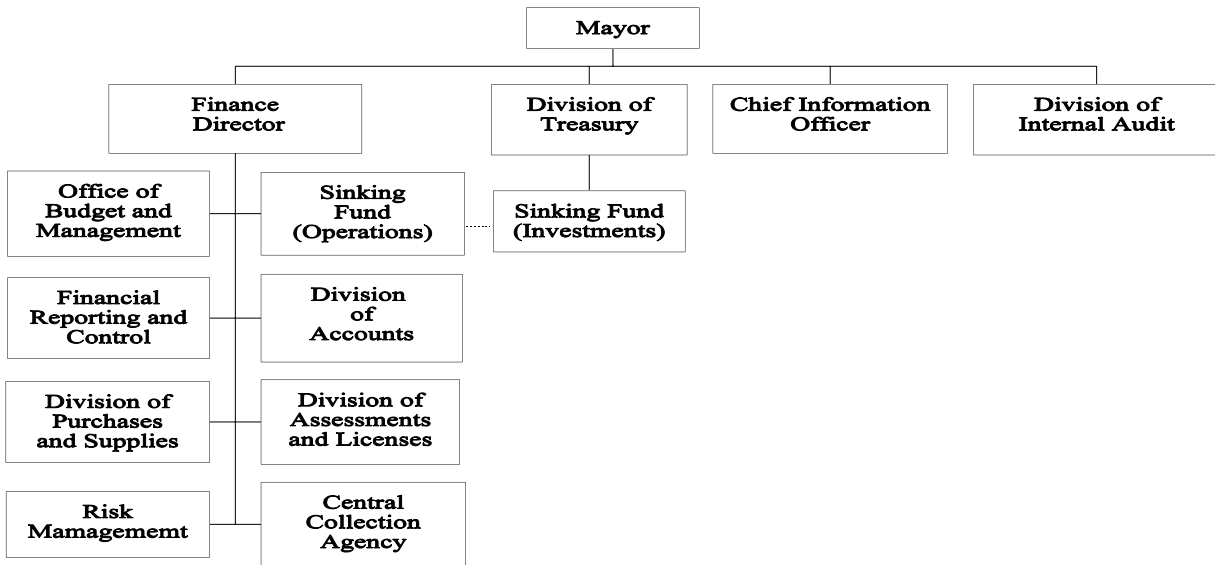
Secondly, CCA does not have a delinquency management department. Delinquencies of individual taxpayers are managed on an agency-wide basis.

Recommended Organizational Changes

This report analyzed key areas for improvement and selected policies and procedures that are not enhancing the City's fiscal operations. The following recommendations are proposed to offer concrete improvements to fiscal operations and to offer suggestions for improvements to technology, staffing, internal controls, training, and client service.

Chart 1-2 presents the proposed reporting structure for the City of Cleveland's Financial Operations. In order to make many of the proposed changes, sections of both the City Charter and the Codified Ordinances will need to be repealed or have modifications made. These modifications are proposed directly after **Chart 1-2** and then key recommendations follow, broken down by report area.

**Chart 1-2: City of Cleveland’s Proposed Organizational Chart
for the Mayor’s Office and the Department of Finance**



Recommended Charter Changes

Treasurer Reporting

The first change should be to repeal the requirement that the Division of the Treasury be within the Department of Finance. Presently, Charter Chapter 17, Section 99, provides as follows:

“There shall be in the Department of Finance a Division of the Treasury which shall be in charge of the City Treasurer, who shall be the custodian of all public money coming into his hands as City Treasurer. The City Treasurer shall keep and preserve such moneys in the place or places determined by ordinance or by any law applicable thereto”.

A change to this Charter Section would allow the Treasurer to report directly to the Mayor rather than the Finance Director. In searching for a Treasurer to fill this reporting need, the City should consider that the individual that holds this position be an individual who will maximize the revenue generating potential of the City’s cash and investments, ensure the safeguarding of collections, and manage the cash flow operation.

This individual should have at least ten years experience in the investment of public funds and in addition, be a Certified Financial Analyst, a Certified Cash Manager, or have a Masters Degree in Business Administration. The salary range to retain the services of such a person should be in the range of \$120,000 to \$150,000. This salary is in-line with a position where a conservative increase of one half of a percent on the rate of return could generate \$3 million in revenue for the City. This change in reporting would require an affirmative vote of the citizens of Cleveland to amend Chapter 17, Section 99 of the Charter.

Bidding Requirement

The next major Charter change must be to repeal the requirement that the Department of Finance bid all contracts involving any expenditure in excess of \$10,000. Presently, Charter Chapter 17, Section 108, provides as follows:

“All contracts involving any expenditure in excess of ten thousand dollars (\$10,000) shall first be authorized and directed by ordinance of Council. When so authorized and directed, the director of the department involved shall make a written contract with the lowest and best bidder, after advertisement once a week for two consecutive weeks in the City Record and after competitive bidding...”.

The City’s Administration should submit a legislative request to City Council to enact an ordinance authorizing the placement on an upcoming ballot of a request to change Title 108 of the City Charter from \$10,000 to \$20,000. This will allow the City to reduce the number of competitive bids that

have to be authorized by City Council, reduce the associated costs and speed up the process of obtaining goods and services. This change in reporting would require an affirmative vote of the citizens of Cleveland to amend Chapter 17, Section 108 of the Charter.

Mayor's Estimate

Presently, Charter Chapter 5, Section 38, provides as follows:

“The fiscal year of the City shall begin on the first day of January. On or before the fifteenth day of November in each year the Mayor shall prepare an estimate of the expense of conducting the affairs of the City for the following year and shall submit such estimate to Council no later than February 1 of said following year”.

As this section is worded, the Mayor and City Council have the flexibility of implementing a more desirable budgetary timeline without amending the Charter. The Mayor should submit her budget to Council no later than November 15th and have City Council approval by January 1st. The City should also consider changing the City Charter to clarify that the City's operating budget should be finalized before the beginning of a new fiscal year.

Recommended Codified Ordinance Changes

Internal Audit Reporting

The Division of Internal Audit should report directly to the Mayor rather than the Director of Finance. This recommendation was offered by the Auditor of State in their 2000 financial audit. This reporting structure change will offer a major improvement in the area of independence.

Unlike the changes to the Charter as described previously, any mention of the Division of Internal Audit was erroneously omitted from the Codified Ordinance update on April 6, 1992. Therefore, this change is to modify the original Codified Ordinance 127.27 which will redefine the reporting and the responsibilities of the Division of Internal Audit.

Creation of a Chief Information Officer

The City needs to develop a structure to better support the current technology systems and move the City toward greater accessibility and system integration for residents, employees and business partners. The cornerstone of this structure should be the establishment of a Chief Information Officer (CIO) position. The CIO should report directly to the Mayor and be provided with far reaching authority over the City's information technology investments. The CIO should provide management with all information processing and communication systems and operations and should be responsible for the definition of the strategic direction; the information processing equipment; the acquisition of new software; data storage and retrieval; and data security.

The CIO should also be responsible for all Information Service functions of the City, including all data centers, technical service centers, help desks, communication networks (voice and data), computer program development, and computer system operations.

The CIO position may not be easy to fill. However, because of the complexity of on-going PeopleSoft Implementation issues as well as future e-government initiatives, it is critical that the City select the right person for this position. The City should create a search committee which includes CIO's from government and/or the private sector who have had success with similar large scale IT projects.

In order to change this reporting structure, the City would need to make a change to Codified Ordinance 127.44. This change would also redefine the reporting and clarify the responsibilities of the newly created CIO.

Report Recommendations

The following are key recommendations which are broken down by the divisions that were assessed. These recommendations are not inclusive of all the suggestions offered for each section.

Information Systems Services

Based on the findings developed from the assessment of the Information Systems Services Division's (ISS) current operations, 10 recommendations were developed. The following are considered to be the more significant recommendations:

Though the reporting structure change has already been defined in the section titled Codified Ordinance Changes, this is not the only way the ISS needs to be improved. The following are key computer system recommendations, not only for the department, but for the City as a whole.

A main concern is the use of PeopleSoft, the City's financial software. The City has two alternatives: they can either perform a "re-implementation" of the PeopleSoft module, or they can perform an entire Systems Development Process and select an entirely new software package. We recommend that the City should re-implement People Soft. Re-implementation would be less costly and the City would still need to use PeopleSoft for three to five years if it decided to select and install a new ERP based software package. These reasons, along with the fact that many cities across the country are utilizing PeopleSoft, suggests re-implementation is the best solution for the City.

The re-implementation would not require the software to be uninstalled and then reinstalled. It would require the City to revisit the need requirements for each department and identify how each departments' procedures should be modified to incorporate the enhancements the PeopleSoft software provides. This assessment should be performed by the functional advisors and any affiliated user departments. Technical support staff should be included as needed to ensure efficient processing.

Also, improvements to the following functional areas should be made:

Security Administration - Security administration should be centralized and a Security Administrator position should be established within ISS. The Security Administration function should be responsible for citywide security policies and procedures and establish an on-going computer security education program. It should also be responsible for technical security controls and for administering and monitoring the City's network, Internet and Intranet access.

Hardware Purchasing and Support - To ensure compatibility and provide support efficiencies, standard hardware configurations should be established and coordinated through ISS. All hardware

and software purchase orders should be approved by ISS. Any deviations from the standards should be evaluated by ISS before being approved. This should reduce equipment cost because it will allow the City to purchase equipment in large blocks.

Software Support - All software purchases should be made by ISS to ensure compatibility and support efficiencies. ISS should only install software determined to be “standard” by the City. Any deviations from the standard should be approved by ISS. ISS should also maintain an inventory of the software loaded onto individual equipment. Thus, ISS can provide the proper software support and maintain licenses and support agreements centrally.

Communications Support - With the advent of connecting all departments to the Wide Area Network, ISS should develop and maintain a Citywide email system. The Citywide email system will enhance division and department communications. In addition, ISS should develop standards to determine individual user Internet needs. User request for Internet access should be approved by the employee’s supervisor, but should be established by ISS.

Help Desk - ISS should establish a help desk function to provide support for all hardware and software issues. Establishing hardware and software standards will allow for efficiencies in training help desk staff and enhance their effectiveness.

Finally, the establishment of the new support structure, training and the re-implementation should be given a high priority and be one of the first responsibilities of the new CIO and the new Finance Director to collaborate on. This collaboration will give the project the high-level support it needs to be effectively completed on a timely basis. The completion of the project should be coordinated by the Functional Project Manager and the Technical Support Manager. This project will not only deal with information technology and PeopleSoft, but will involve future projects such as allowing the Department of Licenses to have on-line licensing applications, billing, and transmittal. The ISS should also be involved with integration of the accounting interface between all departments and the PeopleSoft system. It will allow the City to have a fully automated payroll system and not rely on a third-party processor. Other projects involve having a paperless electronic purchasing system and helping to modernize the City by offering internet access to all appropriate employees.

Financial Reporting and Control

Based on the findings developed from the assessment of Financial Reporting and Control’s (FRC) current operations, 23 recommendations were developed. The following are considered to be the more significant recommendations:

Organizational and staffing needs must be addressed. FRC should consider a staffing reduction from twenty-four to sixteen employees and a redistribution of financial and accounting responsibilities. In order to meet the required work load, FRC should be divided into four accounting sections with a respective supervisor heading each section and the appropriate number of staff assigned to the

following four sections: Cash; General Fund/Debt Service/Trust & Agency; Special Revenue; and Capital Projects/Proprietary Funds. With this organizational structure, the staff's attention to the accuracy and timeliness of fund information will increase significantly.

While there will be a reduction in staff, the defined workload in FRC can be maintained if not increased. In order for this to happen, several significant conditions should be implemented. First, FRC should be adequately staffed with experienced (preferably governmental) and professional accountants with proper levels of compensation. Secondly, the financial accounting system should be fully implemented and produce basic fundamental reports (trial balance) for the FRC staff to utilize and make available to the outside departments and divisions. Also each department and/or division that deals with FRC must have at least one financial person who can interact with FRC and serve as a liaison for daily reconciliations and/or problem solving. Finally, proper and continuous training should be implemented, including PeopleSoft and GASB 34, to help ensure their knowledge, skills, and other competencies.

For accounting issues, FRC should immediately take the necessary steps to ensure and reestablish the reconciliation of unencumbered cash with a daily monitoring of the general ledger and its relationship to the subsidiary files/modules. This should include reviewing 1999 through 2001 activity and identifying all incorrect transactions. Accurate reports with proper support, generated from the accounting system, are an integral part in the monitoring of daily and monthly activity.

Finally, the City should record a liability for the employer's portion of the pension cost each time payroll is posted. The proper recording of the City's pension liability for each payroll will provide the City with a correct unencumbered cash balance.

Division of Treasury

Based on the findings developed from the assessment of the Division of Treasury's (Treasury) current operations, 12 recommendations were developed. The following are considered to be the more significant recommendations:

Besides the change in reporting, the City should establish an Investment Control Board (ICB) consisting of the City Council Finance Committee Chair, Mayor, Finance Director, Law Director, and Treasurer. The ICB should, on a monthly basis, review compliance with City Ordinances, review the rate of return on investments made by the Treasurer, review cash flow analysis performed by the Treasurer, monitor maturity dates, and make necessary adjustments to the Treasurer's investment limits.

Secondly, the Treasurer manages an average portfolio of over \$580 million and invests about \$9 million daily. Therefore, the rate of return is a key element to the Treasurer's performance. Striving to invest at a rate of return of peer entities could increase investment income by \$1.3 million annually.

Finally, the Treasurer should develop procedures to monitor the percentage and types of securities pledged against deposits to verify that the depositories are fully collateralizing the City's deposits with allowable securities. This monitoring procedure should be performed weekly and the report prepared has to have the physical sign-off of the Fiscal Manager - Banking. Once formed, the ICB should receive these reports monthly, for their review.

Division of Accounts

Based on the findings developed from the assessment of the Division of Account's (DOA) current operations, 6 recommendations were developed. The following are considered to be the more significant recommendations:

The City should consider implementing a system where they process all aspects of payroll. As such, the City should develop a fully automated payroll system, i.e. purchase the PeopleSoft payroll module which is the hub of the PeopleSoft system. When implemented, all functions currently being performed by an outsourced vendor, except the printing of the checks, would be performed by the Division of Accounts (DOA), with one major enhancement. Presently, the payroll information is manually entered into the vendor's system. With an automated system, the departments would electronically submit their payroll to DOA and all manual entries would be eliminated. This procedure would increase efficiency and eliminate the man hours presently being used.

Secondly, the DOA should consider an organizational structure whereby lower level employees within the DOA report to other employees directly above them in the hierarchy, rather than having all employees within the job function report to the overall supervisor of that function. In addition, if the proper hierarchy of employees, based on their job responsibilities, is developed and established, the routine supervisory responsibilities of the Operations Supervisor and the Central Payroll Supervisor would be delegated to the appropriate level. This would enable the supervisors to more effectively dedicate their time to the overall supervision of their departmental function, to address issues as they arise, to assist the Commissioner with any projects or assignments as deemed necessary, and to make "spot checks" of procedural operations and document their internal control observation.

Office of Budget and Management and the Sinking Fund

Based on the findings developed from the assessment of the Office of Budget and Sinking Fund's current operations, 19 recommendations were developed. The following are considered to be the more significant recommendations:

The City should consider implementing the PeopleSoft budget preparation module to help OBM convert the City department's budget requests into the City's operating budget in a more efficient manner. A budget preparation module would reduce the amount of time spent preparing excel spreadsheets for City departments' budget requests. In addition, the module would automatically

perform the necessary calculations thereby reducing the number of errors, unlike spreadsheets where the budget analysts have to prepare the formulas and calculations.

Secondly, OBM should be responsible for preparing the City's capital budget in conjunction with the City's capital improvement plan. The capital budget should include all capital projects that the City plans on implementing and not just projects funded by the General Fund. The financial staff within the Enterprise Funds should work with OBM to create a Citywide capital budget that coincides with the Citywide capital improvement plan. In addition, OBM's budget analysts should provide assistance to the capital budget process by providing information regarding the capital projects that their responsible departments are planning.

The budget administrator should ensure OBM performs budgetary analysis and management consulting services to other City departments. For example, the budget administrator should ensure that the budget analysts are consistently preparing revenue and expenditure forecasts, conducting quarterly meetings with department managers about spending levels, and conducting management studies that provide useful recommendation to other City departments for areas of improvement. Furthermore, the budget administrator should ensure OBM has adequate time to provide budget analysis and management consulting services to all City departments by eliminating clerical functions, such as reviewing purchase requisitions from the department's responsibilities. The budget administrator should also ensure OBM is providing sufficient budgetary and management information to City departments in a timely manner.

The Sinking Fund should create a formal compliance checklist that can be used to monitor the City's compliance with the bond covenants. Although the City has not been cited for noncompliance during the financial audit process, the Sinking Fund should formally document its activities on a compliance checklist. The compliance checklist should be reviewed monthly by the Finance Director.

Finally, the City's Treasurer should be responsible for working with the assistant secretary to ensure funds not required for immediate debt service payments are being invested appropriately. The Treasurer, with the assistance of the assistant secretary, should strive to match investments with anticipated cash flow requirements to ensure the City can meet ongoing financial obligations.

Risk Management

Based on the findings developed from the assessment of the City's Risk Management function, 6 recommendations were developed. The following are considered to be the more significant recommendations:

The City needs to hire a qualified Risk Manager. At a minimum, this person should maintain adequate loss records and utilize those records in the development of adequate cash reserves. Secondly, the Risk Manager should perform a cost analysis and if prudent, purchase adequate

property and casualty insurance to protect the City's assets in the event of a loss. Finally, the Risk Manager should manage contracts with insurance consultants hired to assist in the selection of insurance carriers and provide advice regarding specific insurance related questions.

Also, a Risk Management Committee (RMC) consisting, at minimum, of the Mayor, Finance Director, Law Director, and Risk Manager should be established. The RMC should, on quarterly basis, review the Risk Manager's compliance with City Ordinances regarding bonding and insurance and analysis of City risk exposures; maintain records of claims paid, claims under evaluation, potential claims not asserted, and insurance costs; review Risk Manager's cost analysis of risk costs; review City's cash position to insure there are adequate resources available where the City maintains self insurance; and review programs developed and implemented by Risk Manager to reduce the City's risk costs.

The City should track all of their liability insurance costs, including the legal and investigative costs associated with the claims' payments. Also, the City should maintain adequate cash reserves to cover, at a minimum, their claims' payable and average incurred but not reported claims.

Finally, the City should assign the responsibility for securing employee bonds and monitoring the bonding activity to the Finance Director. Once the Risk Management department is fully operational, the Risk Manager should be entrusted to insure full compliance with all applicable City Codified Ordinances.

Division of Internal Audit

Based on the findings developed from the assessment of the Division of Internal Audit's (DIA) current operations, 12 recommendations were developed. The following are considered to be the more significant recommendations:

The DIA should fully implement Institute of Internal Auditors (IIA) Standards for all internal audits performed and should seek an external assessment (quality assurance review) by a qualified, independent reviewer by January 2003. The DIA should obtain an external assessment every three years thereafter.

The DIA should be restructured to provide an appropriate level of audit supervision as required by IIA Standards for the Professional Practice of Internal Auditing and to allow for growth within the division to help in retaining experienced personnel. This would require the creation of two Deputy Manager of Internal Audit positions, reducing the number of Senior Internal Auditor positions from ten to three, and increasing the number of Internal Auditor positions from two to eight. The DIA should report directly to the Mayor rather than the Director of Finance to insure that the independence of the internal audit function is not compromised when auditing another area that reports directly to the Director of Finance. The scope and activities of the DIA should be approved by the Audit Committee.

The City should adequately amend the Codified Ordinances to define the DIA's function, the requirement to adhere to IIA Standards, reporting and staffing structure, and the qualifications and required certifications of the Manager of Internal Audit and all other internal audit personnel. The Manager of Internal Audit, should be a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) or be required to obtain one of these certifications within a reasonable and agreed upon time frame.

Finally, the Manager of Internal Audit should prepare both a current and a five year long range audit plan to include proactive audits to promote efficient and effective operations. The current audit plan should be prepared for the entire upcoming fiscal period and the plan should be completed prior to the beginning of that fiscal period.

Division of Purchases and Supplies

Based on the findings developed from the assessment of the Division of Purchases and Supplies' (DPS) current operations, 21 recommendations were developed. The following are considered to be the more significant recommendations:

As previously presented in *City Charter Changes*, the City should pursue increasing the bid limit. Also, the City should investigate installing a payment card program. The City could either use the State of Ohio's Payment Card Program adapted to its needs or develop a request for proposal (RFP) and send it to companies that offer a payment card program. Presently, the State of Ohio has a program that contains guidance on how to develop a detailed plan to ensure that the implementation is properly handled.

Next, and most importantly, the City should implement use of the electronic requisition feature of the purchasing module along with the associated electronic approvals. This should be done on a Citywide basis, but it will have to be done using a phased approach. The first phase involves the City departments that already have the proper computer hardware that allows use of all the features of the PeopleSoft system. The second phase includes all other City departments and will require completion of a departmental hardware/software needs assessment and the establishment of a timetable to install everything identified in the needs assessment.

Finally, as part of the organizational review and in line with the proposed organizational structure change, the data entry personnel responsible for entering purchase requisitions in FRC should be transferred to DPS. This move should reduce the time it takes to process purchase orders by at least one day, and put the overall requisition responsibility in the proper function. As the PeopleSoft electronic requisition and approval features are implemented Citywide, the need for requisition data entry will decrease and the data entry positions can be absorbed into the clerical functions that already exist. This should result in at least two clerical positions being phased out. Also, by transferring the data entry personnel, the system body of knowledge in DPS should increase and the ability of staff to utilize all purchase module features should expand.

Department of Public Utilities

Based on the findings developed from the assessment of the Department of Public Utilities' current fiscal operations, 14 recommendations were developed. The following are considered to be the more significant recommendations:

The Division of Water should inquire as to whether the Division of Public Power's (CPP) billing system could meet the Water Division's needs and efficiently manage both the billings for water and sewer as well as the CPP billing it presently services. A determination should then be made as to whether the CPP system can be interfaced with the PeopleSoft system to reduce the amount of manual entries being made.

Secondly, the Division of Water must re-write their procedures to discontinue service. The Division of Water should be able to discontinue service, regardless of whether or not it was over five days after the final notice was issued. If the Division of Water enforces stricter rules upon its customers, the customers, in turn, will be more inclined to pay their water bills.

Division of Cleveland Hopkins International and Burke Lakefront Airports

Based on the findings developed from the assessment of the Division of Cleveland Hopkins International and Burke Lakefront Airports' current fiscal operations, 6 recommendations were developed. The following are considered to be the more significant recommendations:

First, the Comptroller is acting as the Assistant Director of Budget & Finance until a replacement is named. Since the job descriptions parallel each other in many ways, the Airport should consider the elimination of the Assistant Director of Budget & Finance. In line with the elimination of that position, the Comptroller position duties should be updated and the salary band evaluated. The Airport's fiscal operation should eliminate all positions on the organizational charts that have been determined to be adequately performed by other personnel.

Secondly, the City and the Airport need to determine the appropriate number of connections to the applications and the need for a fully dedicated server. Also, if any problems are encountered with the PeopleSoft report processing, they need to be addressed with the City's information systems analysts.

Division of Assessments and Licenses

Based on the findings developed from the assessment of the Division of Assessments and Licenses' (DAL) current operations, 8 recommendations were developed. The following are considered to be the more significant recommendations:

The DAL uses five dedicated cashiers to collect, receipt, and post information to the Data Flex system. The DAL should reduce the number of cashiers in this section. The DAL must address the comparison of the number of cashiers to productivity in light of the following conditions. The first is the amount of time needed to process a transaction. The average time for an over-the-counter or mail collection and corresponding permit processing is about ten minutes.

Secondly, DAL should be looking for an on-line licensing application and renewal software which will reduce the need for both mail and over-the-counter collections.

Finally, the City has to become more user friendly to both the public and other City department and divisions. For the public users, the DAL has to address the need to be fully accessible to on-line license registration, billing and payment opportunity. Before committing to development of the license and assessment application, the City should research technology system suppliers who are able to upgrade the license section to fully automate on-line license applications and renewals. Selected software should also contain the ability to perform all functions that are now performed concerning all over-the-counter and mail collections, and be fully interfaced with the PeopleSoft accounting system. For the City department users, the system must be easily readable to expedite information processing presently done with hard copy transfers.

Division of Parking Facilities

Based on the findings developed from the assessment of the Division of Internal Parking Facilities current operations, 12 recommendations were developed. The following are considered to be the more significant recommendations:

To improve system operations, the City should provide the Division with access to PeopleSoft. The Parking Commissioner, Parking Manager and Administrative Staff should receive additional PeopleSoft computer training. This would permit the Division Staff to utilize the PeopleSoft system to track daily revenues and expenditures and correct errors in a timely manner.

Next, by charging City employees a nominal daily and/or monthly rate, to park at the Northcoast Municipal Lot, the City could realize additional annual revenues of between \$75,000 and \$300,000. The rates range from one dollar to two dollars per day, depending on employee usage. The actual revenue generation would depend on the rate charged and the annual volume of parking lot usage.

Finally, the City should investigate and analyze the current practice of reporting salaries and employee benefits, of the Metered Parking Section, in the General Fund while reporting the associated revenues in the Division Enterprise Fund. The self-sufficiency of the Division and the effect, if any, of the bond covenant(s) should be considered and analyzed prior to changing this reporting practice.

Central Collection Agency

Based on the findings developed from the assessment of the City's Central Collection Agency (CCA) current operations, 8 recommendations were developed. The following are considered to be the more significant recommendations:

CCA should create an electronic interface between MITIS™ and PeopleSoft, the primary computer system of Cleveland. Instead of manually writing receiving warrants and having a courier take the amounts to the Division of Accounts and Treasury for them to input into PeopleSoft, entries could be electronically entered into PeopleSoft. Online entries would eliminate the time expended to manually write up the warrants and physically transport them to City Hall. This would also reduce the amount of paper that is produced and stored. Currently, PeopleSoft system software has been provided to only one terminal at CCA.

The electronic interface would also increase efficiency if PeopleSoft was also used for all other journal entries and procedures. Journal entry forms, manually recorded for advancing amounts to Cleveland, or refund and administrative/payroll transfers would be eliminated. Current refund procedures, include producing a tape of the refund and payment information from MITIS™ and sending it by courier to City Hall to upload into PeopleSoft, would be more efficient if set up an electronic interface between MITIS™ and PeopleSoft.

CCA should consider creating a specific department to handle all delinquency projects, individual and corporate throughout the year. In this department, CCA should also consider increasing the size of the legal staff to handle the influx of lawsuits.

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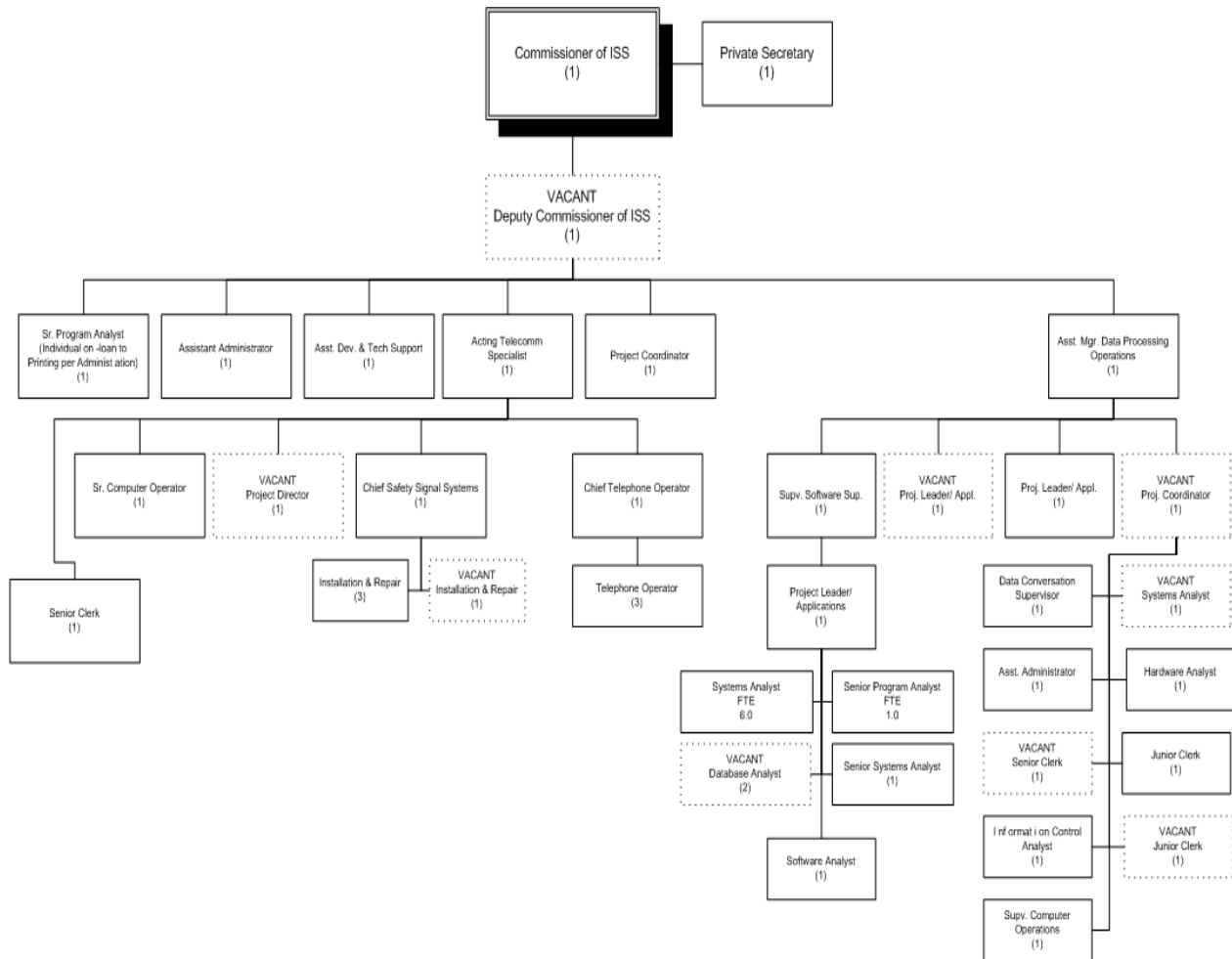
Information Systems Services

Background

Organizational Structure

The City of Cleveland has many large departments which rely on technology to aid them in providing efficient and effective services. Even though some City departments have their own Information Technology (IT) staff, the Information Systems Services (ISS) division was established as a central support group for technology. **Chart 2-1** depicts the ISS structure.

Chart 2-1: ISS Organization

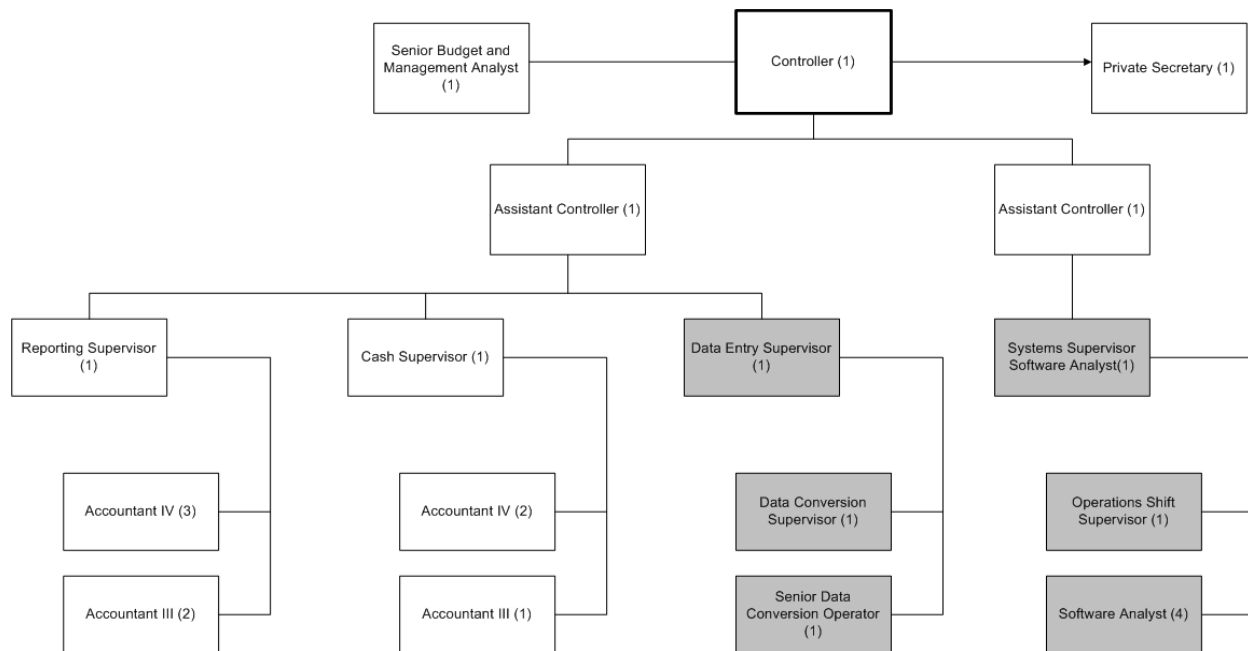


Source: Information Systems Services

The Acting Telecomm Specialist, Chief Safety Signal Systems, and the Installation & Repair positions report to the Commissioner of ISS, but are paid by the City Safety department. Currently the positions of Acting Telecom Manager and Chief Safety Signal Systems are being held by one individual.

Since this report focuses on the City’s accounting and reporting structure, it is important to also understand the technology support supplied by the Financial Reporting and Control (FRC) technology group. **Chart 2-2** displays the current FRC structure.

Chart 2-2: FRC Organization



Source: Controller

Highlighted boxes represent staff considered to be part of the FRC technology group for purposes of this report.

Organization Function

The Division of Information Systems Services mission is to provide information that is stored, transmitted and/or processed by technology to all areas of the executive, legislative and judicial branches of city government. The services include information technical planning, applications development, hardware and software acquisition, management of telecommunications and technical

support. ISS also manages the City's server-farm operation, data/voice communication network, and the information center.

The Division of Financial Reporting and Control is the centralized accounting department for the City of Cleveland. Refer to the Financial Reporting and Control section of this report to obtain an understanding of FRC's overall responsibilities. The FRC technology groups only responsibility is to support the PeopleSoft software and associated hardware.

Summary of Operations

The ISS division provides varying degrees of technical, administrative, and training support for the City's inventory of computer related equipment, and its inventory of telecommunication equipment. It also provides services related to the acquisition, delivery, and inventory of this equipment. Departmental segregation of telecom service billings also falls under the responsibility of the ISS division.

The division performs maintenance functions for the City's inventory of personal computers, printers, servers and the City's internal network equipment. Hardware support has been divided into two hardware service tiers. Tier 1 support is provided to City Departments or Divisions which have no technical staff members to support the hardware used within the department. In Tier 1 support, ISS is called directly to assist in hardware repairs (unless the hardware is still under warranty), network configuration problems, and software support of the Microsoft Office suite and the Windows family of operating system platforms. Tier 2 support is provided to departments or divisions which have hired technical staff members to support and administer computer systems located within the department or division. In Tier 2 support, ISS is only contacted if the department's or division's technical staff members request the assistance of ISS.

Hardware and general software support is also provided to the users of the system via a user help desk. The ISS help desk is an oversight function to ensure all problems are properly corrected. ISS provides limited maintenance service since the City has hardware and software maintenance agreements with vendors.

Another division responsibility is the direct administration for a number of systems. ISS performs backup (system and data) services, system administration services and update services for equipment associated with the City's INET, and the equipment located in the ISS division itself.

The division is also responsible for reviewing and approving all computer hardware and software purchases, as well as, receiving, delivering and inventorying this equipment. Purchases are reviewed by the division to help ensure compatibility, to aid in developing system requirements and to coordinate citywide purchasing agreements.

ISS also provides application training on the Microsoft office suite of products and has provided training on other special project software. The training has to be requested by the departments.

Telecom acquisition, maintenance and billing services are provided by ISS. Most City phones including, cellular phones and pagers, are supplied and maintained by the division. Billings for the various phone service vendors are received at ISS. The bills are then segregated by ISS staff for distribution to the other departments and divisions.

The City of Cleveland Financial Reporting and Control technology group provides computer services to city departments using the PeopleSoft software package. Data entry functions are generally not performed by the staff members of the FRC technology group. Data from some city department applications are uploaded to the PeopleSoft application by FRC technology personnel. Reconciliation procedures are supposed to be performed by the individual user department. General user support of the PeopleSoft application is also a responsibility of the FRC technology group. FRC staff develop, execute and distribute reports.

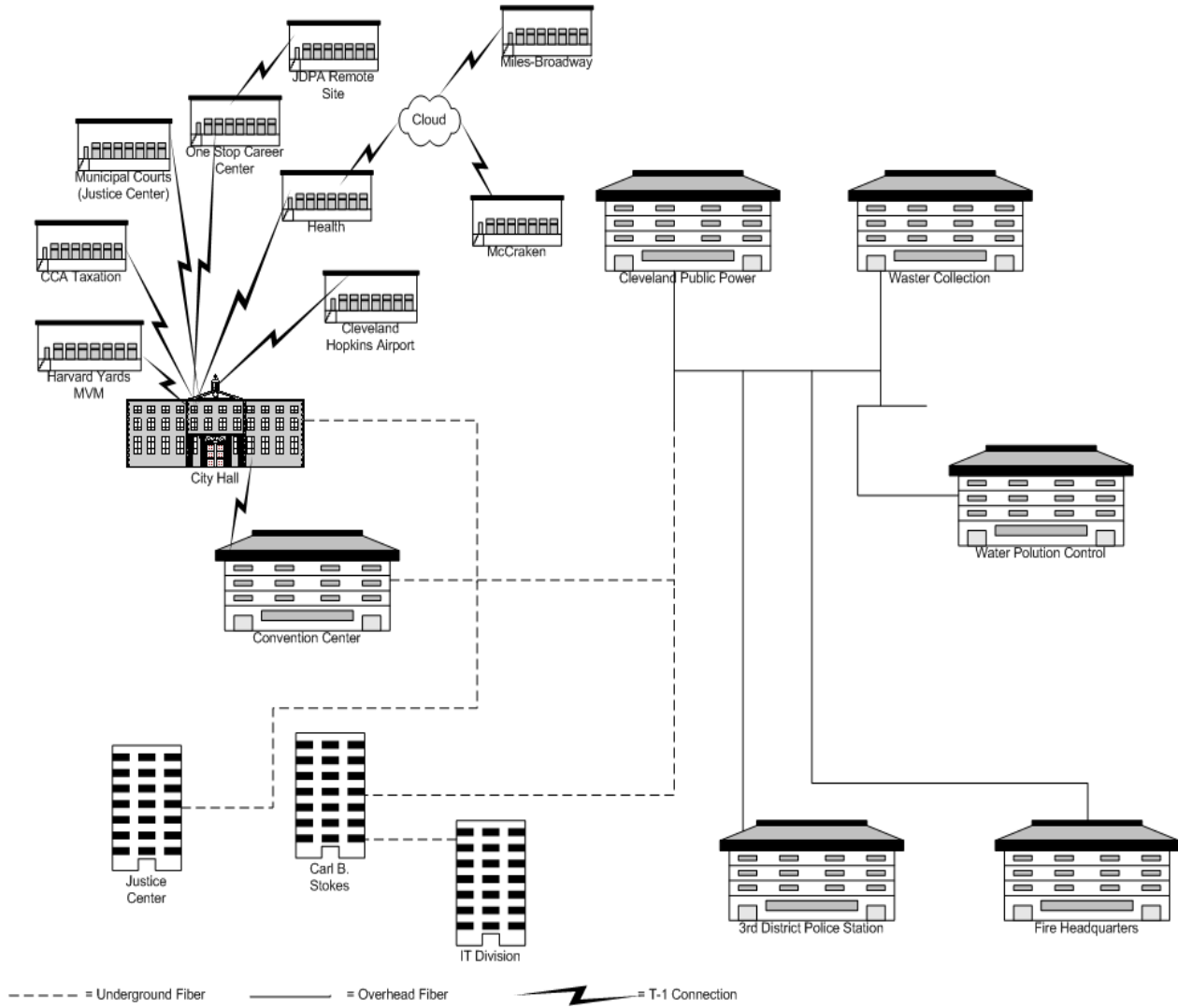
Technical Configuration

The City has a Wide Area Network (WAN). The WAN connects 19 buildings and approximately 35 departments. See **Chart 2-3** for an overview of the City's wide area network.

The City utilizes 146 servers and has over 2,500 personal computers throughout 22 departments. Of these ISS provides tier 1 hardware support for 73 servers and 865 personal computers. The other servers and personal computers are the responsibility of the individual departments, though ISS is available to assist when requested (tier 2 service).

Most of the City's financial application are processed on servers which are connected to the WAN. The PeopleSoft financial application modules utilized by the City reside on servers at the FRC department which are connected to the WAN.

Chart 2-3: Wide Area Network



Source: Information Systems Services

Applications

Table 2-1 lists the PeopleSoft modules the City purchased to account for financial data. The table also depicts whether the application is in use and lists the implementation date and last update date.

Table 2-1: PeopleSoft Modules

<i>Software Product and Version</i>	<i>In Use</i>	<i>Implementation date</i>	<i>Update date</i>
<i>PeopleSoft General Ledger 7.5</i> Ownership – FRC Ownership – OBM – Budget Ledger only	Yes	April 24, 1999	September 2001
<i>PeopleSoft Payables 7.5</i> Ownership – Division of Accounts (DOA)	Yes	April 24, 1999	September 2001
<i>PeopleSoft Asset Management 7.5</i> Ownership – Utilities Ownership – Airport	Yes	July or August 2001	September 2001
<i>PeopleSoft Billing 7.5</i> Ownership – Licenses & Assessments; Airport	Yes	April 24, 1999	September 2001
<i>PeopleSoft Receivables 7.5</i> Ownership – Licenses & Assessments; Airport	Yes	April 24, 1999	September 2001
<i>PeopleSoft Budget Planning</i>	No *	N/A	N/A
<i>PeopleSoft Purchasing 7.5</i> Ownership – Purchasing; DOA; FRC; OBM	Yes	April 24, 1999	September 2001
<i>PeopleSoft Projects 7.5</i> Ownership – Utilities	Yes	July/August 2001	September 2001

Source: FRC Technology Group

* The City has purchased the Budget Module, but it is not being utilized.

Performance Measures

- Assess the City's Information Technology organization;
- Evaluate the Information Systems Services functions;
- Analyze the Financial Reporting and Control department's technology group structure and responsibilities;
- Analyze how the City should structure internal PeopleSoft support and complete the PeopleSoft implementation;
- Evaluate the need for a centralized Personnel/Payroll system; and
- Assess PeopleSoft and technical training requirements.

Processes and Recommendations

Information Technology Organization and Staffing

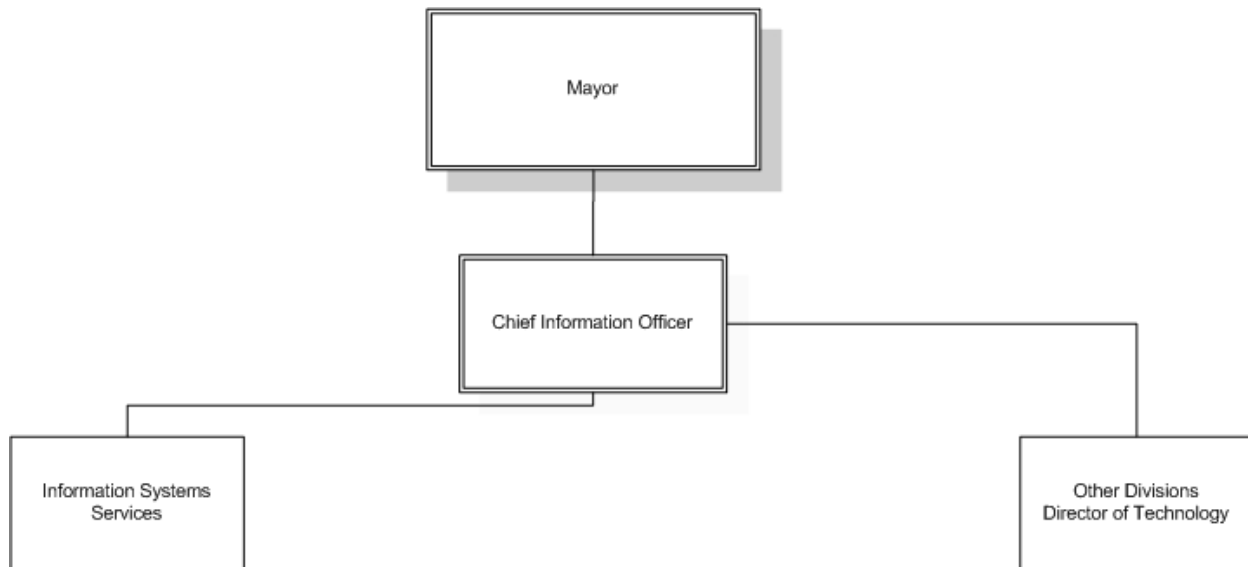
F2.1 The City does not have a Chief Information Officer (CIO) responsible for coordination of citywide technology initiatives. The City's Information Systems Service Division coordinates hardware purchases and will recommend hardware strategies. However, each department director has ultimate responsibility for his/her data processing.

In the current structure, the Commissioner of ISS reports to the Finance Director. This reporting relationship does not allow key technology issues to receive the high level attention necessary to ensure that major City and departmental technology purchases will help achieve the City's broader goals. The current status of the PeopleSoft implementation (See F2.12), citywide email, and Internet access (See F2.6) have resulted largely from a lack of project sponsorship and leadership at the highest levels.

Additional examples of decentralized technology management activities include security administration, technical training, hardware inventory, software licensing and hardware warranties. The decentralization of the preceding technology functions limits the operational efficiency of the City and increases the technology costs incurred.

R2.1 Throughout this section, we identify issues which reflect a lack of coordination of information technology and a management structure without authority to implement change. The findings also reflect a city which has not regarded technology as a high priority function.

The City needs to develop a structure to better support the current systems and move the City toward greater accessibility and system integration for residents, employees and business partners. The cornerstone of this structure should be the establishment of a CIO position. The CIO should report directly to the Mayor and be provided with far reaching authority over the City's information technology investments. ISS should report directly to the CIO as depicted **Chart 2-4**:

Chart 2-4: Proposed CIO Reporting Structure

Source: Developed by AOS

The CIO should provide overall management of all information processing and communication systems and operations. The CIO should be responsible for the definition of the strategic direction; the information processing equipment; the acquisition of new software; data storage and retrieval; and data security. The CIO should be responsible for all Information Service functions of the City, including all data centers, technical service centers, help desks, communication networks (voice and data), computer program development, and computer system operations.

Because of the complexity of on-going PeopleSoft Implementation issues as well as future e-government initiatives, it is critical that the City select the right person for this position. The City should create a search committee which includes CIO's from government and/or the private sector who have had success with similar large scale IT projects.

- F2.2 The responsibilities and membership of the steering committee are not clearly defined. In March 2000, the former Commissioner of ISS established the Cleveland Roundtable Information Systems Services (CRISS) committee to coordinate IT initiatives. During the period that the committee was active, the City did not have a long range strategic plan. The CRISS committee's efforts have been spread over a wide range of technology issues. CRISS has no authority to ensure adherence to any standards they develop.

Meetings have not been held on a consistent basis. The most recent meeting was held in August 2001. Attendance has been sporadic. As an example, the Commissioner of Purchases and Supplies was involved with the CRISS committee for a short time, however, she dropped out of the committee as the content of the meetings did not involve issues that she felt related to her department. Other IT staff, such as the FRC Technology group which maintains the PeopleSoft financial software, do not participate in the CRISS committee.

Meeting minutes are not complete. Minutes were not prepared for the meetings prior to June 2000. Minutes do not include the names of the attendees, nor are they formally approved by the committee. Subcommittee reports were infrequent, either because the subcommittee did not meet, or the subcommittee chair was absent from the meeting.

R2.2 Technology initiatives will require increased cooperation between and among city departments and ISS. City IT planning is challenging because of the many diverse services provided, including utilities, public safety, community development, recreational activities and many others. This partnership between operational management and IT must be forged to ensure that responsibility for success or failure of technology is not separated from the success of the government enterprise.

The steering committee should have broad representation to ensure technology activities are coordinated and consistent with the overall goals and objectives. The City should also consider inviting, community, business, and technology leaders to participate in the committee to bring in additional technical knowledge and experience. The functions of the steering committee should include the following:

- Evaluate the justification for new initiatives to determine if the project is consistent with the City's master technology plan and priorities;
- Provide recommendations to executive management and the Council;
- Assist in resolving organizational issues impeding project progress;
- Establish and approve technology standards and policies; and
- Evaluate the effectiveness of technology implementations and provide broad solutions.

The technology steering committee should meet on a periodic basis. Minutes should be maintained and approved by the committee. The City should make a concerted effort to ensure that this committee remains actively involved in the implementation of the City's strategic technology plan.

F2.3 In November, 2001, the ISS department along with some input from the CRISS committee, developed a draft Strategic Information Technology Plan. The plan includes Principles, Objectives and Strategies; Public Policy Implications; and Plan Review and Key Implementation Steps. However, additional documents referenced in the plan, such as the

Emerging Technologies Report; the City of Cleveland Integration Report; the Information Technology Organization Report; and the Information Technology Infrastructure Report, have yet to be developed. The plan has not been reviewed or approved by the CRISS committee or the Mayor.

- R2.3** The CRISS committee and the new CIO should be primarily responsible for development of the strategic IT plan. The focus of the plan should be to define the strategy and set priorities for IT activities, coordinate departmental efforts, and provide a framework for investments in information technology. The technology plan should be consistent with and support an overall City strategic plan. The comprehensive strategic technology plan should also be presented to Council who must fully support the objectives and goals stated within the plan and ensure that adequate funding is provided.

Because of the rapid, often unpredictable changes in information technology, the strategic plan must be dynamic and should be reviewed at least annually by the CIO, the steering committee and departments.

- F2.4 The City has not kept pace with changes in the technology work force. For example, the City does not have a comprehensive technical training program for its technical staff. Currently training is provided to technical staff on an as needed basis. Similarly, the City has not performed an assessment of user training needs for current and projected computer users. (See F2.33 for additional details on training issues.)

The job descriptions for the City's technical positions are not up-to-date. For example, the Supervisor Software Support, and Senior Computer Operator descriptions have not been updated since 1982. Job descriptions for other functions, such as Network Administrator and PC Technician, do not exist. Salary ranges for some positions are not appropriate. To compensate, when hiring, departments use a job classification which will provide the most competitive salary range. As a result, certain classifications are used for a variety of positions. For example, the Systems Analyst classification is used for PC Support, Database Developer, and Trainer positions.

Table 2-2 lists the job classification titles and the functional titles of the ISS Division positions as listed on the organization chart. (Safety department employees reporting to ISS are not included.)

Table 2-2: ISS Job Classifications vs. Functional Titles

Job Classification	Job Function
Assistant Administrator	Trainer
Assistant Administrator	Budget
Asst. Manager Application Development & Tech Support	Special Projects
Assist. Manager Data Processing Operations	Manager of Network Support
Chief Telephone Operator	Supervisor Operations
Commissioner of ISS	Commissioner of ISS
Data Conversion Supervisor	Billing Clerk
Hardware Analyst	Trainer
Information Control Analyst	Help Desk Clerk
Junior Clerk	Help Desk Clerk
Private Secretary	Private Secretary
Project Coordinator	Project Manager
Project Leader/Applications	Assistant Supervisor Network Support
Project Leader/Applications	Project Manager
Senior Computer Operator	Cell Phones/Pagers
Senior Programmer Analyst	Print shop
Senior Programmer Analyst	PC Support
Senior Systems Analyst	Network Support
Software Analyst	PC Support/Software Support
Supervisor Computer Operations	Supervisor Warehouse
Supervisor Software Support	Network Support
Systems Analyst (2)	PC Support
Systems Analyst	PC Support/Software Support
Systems Analyst (3)	Database Developer
Telephone Operator (3)	Operator

Source: ISS Organization Chart

In addition, technical staff at ISS and in other city departments do not receive formal annual evaluations. Without regularly scheduled performance evaluations it is difficult for management to monitor the skills of the information technology staff.

Lastly, both departmental and ISS management listed the residency requirement as a significant hindrance to attracting and retaining qualified technical professionals. ISS

estimates that it has lost 3 individuals over the past two years as a result of the residency requirement. It is not possible to evaluate the number of individuals who rejected an offer or simply did not apply because of the residency requirement.

R2.4 The Gartner Group, a technology consulting organization, predicts that through 2007, 75% of government agencies will face lasting shortages of qualified IT staff unless they implement a comprehensive workforce management strategy. Gartner suggests that the required strategy should incorporate changes in compensation, reform of civil service policies and expanded use of outsourcing.

Part of the reform of civil service policies should include revision of position descriptions and associated salaries. Outdated job descriptions and salaries prevent the City from attracting qualified job candidates. Potential applicants who read the job descriptions may lose interest in submitting an application if they believe the technology and duties they will perform are antiquated, or the salaries are not competitive. The City should revise the technical position descriptions so the duties and required knowledge and skills more accurately reflect the functions needed to support technical operations in ISS and in the departments and a competitive salary structure should be established to attract and retain competent personnel.

Outdated job descriptions also impact the evaluation process. Staff cannot be properly evaluated if the criteria of the description is not relevant to the duties performed. An annual evaluation process should be implemented for all technical staff. Evaluations are necessary to ensure that staff maintain the necessary skills to maintain the City's systems. By evaluating employees' performance on a regular basis, management will have a better idea of where their employees stand in terms of job satisfaction, career goals, training needs, and other vital personnel issues.

IT Management of Distributed Computing

F2.5 The City of Cleveland has many large departments which rely on technology to aid them in providing services. Currently, the City's information technology processing is decentralized. Larger departments have developed their own IT staff and have purchased various hardware platforms (minicomputers, client servers, personal computers, etc.). In the smaller departments and divisions, responsibility for information technology administrative functions has been assigned to users.

The City's ISS division coordinates hardware purchases and will recommend hardware strategies. However, each department director has ultimate responsibility for his/her data processing. The following examples illustrate the distributed nature of the City's computing environment:

- The Department of Port Control (DPC) has its own IT staff to support the airport operations. ISS reviews and approves major airport IT projects from a purchasing standpoint, but does not provide any support to the users at the DPC unless requested. As such, the DPC IT staff are solely responsible for handling all internal network maintenance, hardware problems, and software purchases & upgrades.
- The Central Collection Agency (CCA) IT staff consists of four individuals three of whom are consultants. The Project Leader/Applications development is the only City employee on the ISS staff. The other members include an Applications Specialist, Database Specialist, and a Network and Operations Specialist. The CCA IT staff are responsible for all support and operational tasks required to support the income tax application and all the underlining technology.
- The Finance department has its own technical staff to support the PeopleSoft financial application. The FRC technical staff includes six individuals who perform technical functions, including security administration, administration of the Oracle database software, batch processing, report writing, application support, and some limited administration functions of the Windows NT network.
- The Department of Public Utilities which has 29 Budget/ITS staff in the Division of Water, 11 staff in information services at Cleveland Public Power and a consulting engineer to perform IT functions at Water Pollution Control. To coordinate IT activities within the Department of Public Utilities, an Information Architecture Committee was formed. The Utility department hired a consulting firm to develop a comprehensive strategic plan for the department. The Division of Water has also contracted with the consultant for \$18,700,000 to perform the following additional services:
 - Review and update the IT Plan and the Business Strategic Plan;
 - Prepare a design of high level requirements for priority Initiatives;
 - Design a program office charter, structure and governance; and
 - Perform Implementation/Integration Services.

F2.6 Due to the combination of a decentralized IT structure and the lack of direction from a central IT management leader, planning and work force issues have resulted in a number of policy, support and network issues which could be improved through better management of distributed computing. The following bullet points describe the inefficiencies and problems resulting from decentralization in the functional areas of security; hardware purchasing and support; software support; network development; communications; and help desk functions. The final bullet point discusses issues regarding ISS service billings.

Security Administration

- The City's security policy has not been communicated to the user community. The Information Systems Service Division recently developed an Information Systems Security Management Information Security Policy; however, most City of Cleveland employees have not seen or signed off on the policy. Although the security administration procedures appear comprehensive, addressing among other areas, security changes, termination procedures, and appropriate user access, the effectiveness of a policy is limited without an ongoing computer security policy and education program.

Without proper security policies and training, users may not be aware of their responsibilities to secure data and it may be difficult for management to hold an individual responsible for unauthorized activity. In addition, without formal policies and procedures in place for security over logical access controls, unauthorized access to various records and files may occur without the awareness of management. Loss or misappropriation of assets could result from a lack of controls over system security.

- Security administration is decentralized. The City has 110 NT servers and 36 other servers, including Novell, SUN, Compaq Alpha, UNIX and AS400. ISS is responsible for; security over the 20 servers which physically reside in the ISS building, administering Internet access, and managing the access profiles for all City Hall users. Responsibility for network security on all other servers as well as the security of the applications residing on these servers, is the responsibility of the data owners in the departments.

ISS does not have a security administrator position. Network security administration functions, including establishing security parameters, set up and removal of user accounts, and security monitoring are performed by individuals in a variety of departments without coordination.

Refer to **R2.5** for further explanation on the **Security Administration** function.

Hardware Purchasing and Support

- Weaknesses in the purchasing process create delays in the receipt and delivery of computer equipment to ISS and subsequently the departments.

Information listed by the departments on the requisitions is not always properly transferred to the purchase order. All computer equipment purchases must be pre-approved by the Commissioner of ISS to ensure compatibility with the City's current

systems. The requisition is then sent to OBM for budget checks and then to purchasing where a purchase order is created. A copy of the purchase order is then sent to the vendor and ISS.

In some cases, ISS is not receiving a copy of the purchase order. A copy of the City's official purchase order is used in the tracking and receiving process. Vendors call ISS to schedule deliveries. Although ISS has access to research the purchase order on the PeopleSoft financial system, they will refuse receipt of goods without an official City copy.

In other instances, vendors are not receiving purchase orders in a timely manner and therefore cannot order or deliver the goods. The Supervisor of Computer Operations contacts vendors fifteen days after the purchase order has been sent to determine the status of the order. The City currently uses interoffice mail to send purchase orders to ISS and the regular mail to send copies of purchase orders to the vendors.

- A centralized inventory of computer equipment is not maintained.

All computer equipment is supposed to be received, tagged and delivered by ISS. ISS staff manually record the equipment information on paper forms. ISS enters the computer inventory information into one of two electronic inventories. An Access data base includes PC information from November 1999 to December 2001. An Excel spreadsheet includes all inventory data from January 2002 to the present. Once equipment leaves ISS there are no additional procedures for tracking the equipment. Equipment received by the City prior to the policy requiring centralized receipt and recording of computer equipment is not included on either the database or spreadsheet.

Other equipment is not included in the inventory because it was delivered to the destination department without ISS's knowledge. In addition, some departments remove the ISS tag upon receipt of the equipment, re-tag it and include it on their own inventory listing.

Although most computer equipment does not meet the fixed asset capitalization threshold, a centralized, complete inventory is needed for assessment of on-going equipment needs, for maintaining warranty information, for assessment of software license needs, and for effective help desk support.

Although the City recently purchased a help desk software product, it is in the early phase of implementation and does not include all computer inventory information.

- ISS does not have the resources to centrally receive and deliver all hardware equipment as required by current city policy.

ISS is located on the fourth floor of an office building. The delivery dock consists of the alley behind the building. Because the building houses other companies which receive frequent deliveries, the vendor must contact ISS two days prior to the expected delivery date in order for ISS to schedule the delivery and ensure availability of the freight elevator. If the vendor does not make the appointment to deliver the goods to ISS, the goods are refused and sent back to the vendor.

ISS staff inspect and receive the goods, log and tag them for inventory purposes, and set up PCs for the City's network. ISS no longer has a courier to deliver equipment, so technical staff must deliver equipment or request that the receiving department arrange for pickup of the equipment.

Departments expressed a low degree of satisfaction with the receiving service provided by ISS. In one instance, delivery of 65 PCs to the Division of Water was delayed two months due to a communication problem over software licensing and a shortage of ISS staff to inventory the equipment.

As a result, some departments/divisions are having equipment delivered directly to them without ISS's knowledge. Bypassing ISS complicates inventory, network setup and help desk support. Payment problems also arise because all invoices are sent to ISS even when deliveries are made to other departments/divisions and ISS sends the invoice to FRC as not received.

- The City does not centralize management of equipment warranties within the ISS Division. The City requires that all hardware purchase contracts include a three year on-site repair warranty. Equipment warranty periods are not centrally tracked. Departmental staff are responsible for tracking warranty periods for all their equipment as well as calling for service for any malfunctioning equipment. User departments may or may not be tracking this information.

As a result, departmental IT staff may be performing maintenance on computers under warranty. All computers purchased through ISS are required to have maintenance agreements. This is usually accomplished through a requirements contract with the vendor who is selling the computers to the City. Some departments with their own IT staff perform maintenance on the computers and void the requirements contract.

Without centralized tracking, equipment may not be covered under a maintenance contract which could result in delays and costly repairs. For example, the warranty

for the Dell servers used for the PeopleSoft financial application, expired in October 2001 and a maintenance contract has not yet been obtained.

Refer to **R2.5** for further explanation on the **Hardware Purchasing and Support** function.

Software Support

- Maintenance of software licenses is decentralized. Although some software licensing for Microsoft software, virus protection software and internet browsing control software is centrally controlled by ISS, for the most part, each department is responsible for maintaining software license agreements. Without centralized control of licenses, departments may not keep license agreements current. For example, the contract with Oracle for the database software used by the PeopleSoft financial application was unpaid for over two years while it was held in the legal department.

The City does not maintain a comprehensive listing of software and licenses. There is no formal tracking of Original Equipment Manufacturer (OEM) or vendor direct purchase software in place either at ISS or within the individual departments. Without a complete, detailed inventory, the City cannot effectively evaluate software needs or coordinate purchasing. For example, most city departments use the KRONOS timekeeping software, however some departments such as Port Control and Public Utilities, enter into separate agreements with the vendor.

Without a complete inventory, the City cannot properly evaluate its exposure to software piracy. Software piracy is the installation or use of unauthorized copies of software. It is illegal and could have costly consequences to the City.

Centralized maintenance would also provide for better coordination of Microsoft licenses. The City negotiated an Enterprise Agreement (EA) with Microsoft for 1000 PCs. The standard Microsoft EA is user specific and would have to be renewed each year. The City was able to negotiate, per ISS, a favorable agreement which tied the license to specific sites instead of specific users. The EA covers the Windows operating system, Office Professional Suite, and BackOffice Client Access software on desktops only. The quoted price was \$333 per license, per year for 3 years. Thus, the City was to pay a \$333,000 installment for each of 3 years. However because of concerns over availability of future resources for licensing, ISS paid for three years in advance, which cost them a discounted rate of \$779,076. Although the EA applied to City Hall, ISS, the Convention Center, and Waste Division building, other buildings such as Public Safety and Utilities were not covered under the agreement.

At the inception of the contract 865 PCs were covered by the 1,000 PC Enterprise Agreement. ISS felt it needed to cover the additional 135 PC's as they expected to add PC's throughout the year. At any time during the 3 years the City can upgrade to the current release or it may do so at the end of the EA. The EA allows the City to upgrade, but also to maintain older versions of the software packages.

Refer to **R2.5** for further explanation on the **Software Support** function.

Network Development and Support

- The City has several issues related to the development and maintenance of the network which must be addressed in order to address Internet, communication and accessibility issues.

All administrative buildings are not “wired” for computer network access, and several offices are only partially wired.

The City has extended it's INET backbone to 10 of the administrative buildings. Included in these 10 building is the City's Convention Center. This access can not be utilized as the offices within the building have not been wired for computer network access. Office space within the Convention Center houses the Department of Parks, Recreation and Property.

Additionally a number of the buildings connected to the INET are not fully wired. **Table 2-3** lists the buildings connected to the INET fiber network as well as an approximation of the internal wiring.

Table 2-3: Buildings Connected to the City's Fiber Network

Building	Approximate Percentage of Wiring in Each Building
ISS offices - 1404 East Ninth St	100 %
City Hall	100%
Justice Center	25 % to 30 %
City Convention Center	0 %
Utilities Administrative Building	100% (All 100BaseT)
Cleveland Public Power	100%
Fire Headquarters	50 %
Waste Collection	50 %
Water Pollution Control	100%
3 rd District Police Station	1 st and 4 th floor 100 %; 3 rd floor 50% ;

Source: Assistant Manager Data Processing Operations

ISS has conducted sitewalks and provided cost estimates to divisions, who are connected to INET but are not completely wired internally to all PC's. ISS believes the network would be complete if funding from the divisions was available.

- Dial up connections have not been utilized to connect outlining buildings to the City's network.

Currently dial up connections are being used in a limited fashion at the City. The access has been established to allow City directors or commissioners to access City email. The City has purchased a Cisco AS5300 which will allow up to 96 network connections via standard phone lines. Although the system has been purchased and installed, ISS does not have the resources to fully implement the equipment.

- The City's INET network has been designed with a topology model which does not allow for a high degree of fault tolerance.

The City has established a fiber backbone which they have named the "INET." This high capacity fiber optic line has been "pulled" to ten of the City's buildings. City hall and other major administrative buildings have been included in the backbone. The topology of the network is a traditional star topology (configuration). This configuration does not allow for a high degree of fault tolerance. Network damage,

depending on the site of the damage, could bring only subsections of the network down or bring down the entire network.

- Not all Network communication equipment has been upgraded to the 100BaseT ethernet topology standard, and the City does not utilize a “switched network”.

The wiring within each City building varies depending on location. Most City buildings are wired with 10BaseT ethernet topology standard. Routers are used to connect the buildings to the fiber backbone but these buildings utilize hubs to distribute the access to individual personal computers.

Refer to **R2.5** for further explanation on the **Network Development and Support** function.

Communications Support

- Email systems throughout the City are not coordinated. The City does not have a centralized, Citywide, email service. The City has two different types of email services which are referred to as City email and Internet email. City email is for internal use only. Users cannot communicate with any parties outside of the City of Cleveland. ISS estimates there are 2,550 PCs in use throughout the City. Of these, only 371 users have access to City email. Email accounts have primarily been provided to management level staff.

Internet email is for external use and is provided through the City’s Internet Service Provider (ISP), e-Command. Only 168 users have the capability to use internet email to communicate with peers, constituents, suppliers and others who are outside of the City.

Several departments have implemented separate email systems. Currently the Division of Water, Cleveland Public Power, Municipal Courts, City Council, and the Department of Port Control have independent email services. These separate systems were established at the time, because no other City department or division could support the email and internet needs of these departments. Additionally other city staff members are using personal or free internet email services to meet their communication needs with outside organizations.

- Internet access has been provided to only a limited number of department staff members. Internet Access is provided through an internet service provider, e-Command. The City is connected to this ISP with 4 T1 connections. Access is then routed through the City’s network. Currently only 168 staff members have access to this service.

Separate and distinct Internet connections have been established by several departments to provide their departmental staff members similar access. Currently, the Division of Water, Cleveland Public Power, and the Department of Port Control have outside service providers. These separate systems were established because, at the time, no other City department or division could support the Internet needs of these departments. In addition, in an informal survey performed a year and a half ago, ISS estimates another 300 users have dial up connections to access the Internet using other ISPs.

- The City does not have an Intranet. An Intranet is for internal use within the City and would allow City staff to access and download/print internal information. Access to an Intranet is generally not provided to individuals external to the City such as citizens and community businesses.

Refer to **R2.5** for further explanation on the **Communications Support** function.

Help Desk

- The City does not have a strong centralized help desk function. In addition to the ISS help desk, city employees in other departments provide similar technical assistance. Because departments provide various degrees of support internally, ISS support is divided into two tiers. **Table 2-4** identifies the type of support provided.

Table 2-4: ISS Support

ISS Support (Tier 1)	No direct support (Tier 2 only)
Department of Aging	Fair Campaign Finance Committee
Board of Building Standards and Appeals	Finance Department, Financial Reporting and Control
Board of Examiners of Plumbers	Law Department
Board of Zoning Appeals	One Stop Career Center
Civil Service	Port Control
Community Relations	City Planning Commission
Economic Development	Community Development
Finance Department (except FRC)	Central Collection Agency
Landmarks Commission	Public Health
Office of Equal Opportunity	Public Safety (most divisions)
Parks, Recreation and Properties	Public Utilities
Mayor's Office	-----
Personnel Department at City Hall	-----
Public Service	-----

Source: Supervisor Software Support

The Division of Information Systems Services has devoted 11 staff members to address these support needs. A majority of the individuals within this area are relatively new to their positions. The help desk area has one open position within the current organizational structure. Nine of the staff members have technical backgrounds and can provide support services. The remaining two staff members are clerical staff and primarily answer the hot line phone and log problems into the help desk database. Turnover in ISS has been a factor in the last several years. Eight staff members who provide technical support services have left in the last 18 months. Only two of the technical staff members have four or more years of experience with the City. Two of the staff members were hired in January 2002.

In December of 2001, a new help desk software package was installed by the City to replace the in-house developed database tracking system. The in-house system did not provide the functionality needed to track the required types of data. Asset tracking, and service call billings were not accurately recorded with the systems in place. The purchased package, Magic, from Network Associates, appears to provide the needed functionality. Currently, the ticket creation and tracking functions are the

only portions of the system that have been implemented, and it is only being used by the ISS group.

System support is becoming a problem as a standard software platform or hardware configuration has not been selected. ISS staff members must be familiar with seven operating system platforms, and software configurations must be tailored to each hardware configuration. Software standardization is further complicated as hardware configurations can not be standardized due to City bidding practices. The City's bidding practice is to contract for only one year, requiring frequent rebidding for hardware. The City has not taken advantage of state cooperative bidding contracts. Hardware purchases are coordinated to a limited degree through the ISS department, but no Citywide assessment is made each year to determine how many new computers will need to be purchased in a given year. This prevents the purchase of computer equipment in a large block, which would provide for more hardware standardization.

Refer to **R2.5** for further explanation on the **Help Desk** function.

ISS Billing

Billing of all ISS services to the departments is not tied to services performed. ISS sends each department a bill for base services. This amount is charged regardless of whether services are performed for the department. Departments are also charged for specific services performed such as software installation or assistance provided through the help desk. During 2001, departments received monthly bills for ISS services. In December, additional amounts were deducted from their accounts which were as much as 46 times greater than the monthly bills. For example, the monthly bill to the Utility department, Division of Water, was \$7,513, for a total annual charge of \$90,156. In December, an additional amount of \$349,130 was deducted from their account by OBM without explanation or documentation of the services performed.

The new budget administrator of the Office of Budget and Management (OBM) was appointed in April. Shortly afterward, he began an analysis of the ISS charges to departments. The internal service fund had a deficit balance at the beginning of the fiscal year, and was projected to increase that deficit during 2001. In order to alleviate the projected deficit spending for 2001, OBM calculated an amount for each department based on the number of computers in use during the year. OBM allocated the additional costs to reduce the negative internal service fund balance.

R2.5 In order for the City to elevate their reliance on technology they need to centralize as many technology functions as possible by strengthening the Information Systems Services

department. ISS should report directly to the CIO and should have the necessary staff to support the technology needs of any division or department.

To effectively provide technology services in the most efficient manner, the City should evaluate the long term costs and benefits of maintaining IT staff in different divisions and departments. It may be beneficial for the City to incorporate most divisional technology staff into ISS. Centralizing technology functions would; raise the utilization of technology staff, provide better training opportunities for staff, and increase staff retention resulting from improved advancement opportunities.

At a minimum, ISS should provide the following functions:

- **Security Administration** - Security administration should be centralized and a Security Administrator position should be established within ISS. The Security Administration function should be responsible for citywide security policies and procedures and establish an on-going computer security education program. It should also be responsible for technical security controls and for administering and monitoring the City's network, Internet and Intranet access.
Citywide security policies and procedures should be developed and followed by all divisions and departments. The Security Administration function should assist departments in establishing security parameters and monitor them for compliance with City standards. The Security Administration function should understand how access to each server is secured.
- **Hardware Purchasing and Support** - To ensure compatibility and provide support efficiencies, standard hardware configurations should be established and coordinated through ISS. All hardware and software purchase orders should be approved by ISS. Any deviations from the standards should be evaluated by ISS before being approved. This should reduce equipment cost because it will allow the City to purchase equipment in large blocks.

All hardware should be received by ISS so standard and approved software can be loaded on the equipment. ISS should also maintain an inventory of all equipment. An equipment inventory should be provided to each division and department so they can ensure its existence. Centralizing equipment inventory will ensure standardization, increase hardware support efficiencies, and assist in warranty management.
- **Software Support** - All software purchases should be made by ISS to ensure compatibility and support efficiencies. ISS should only install software determined to be "standard" by the City. Any deviations from the standard should be approved by ISS. ISS should also maintain an inventory of the software loaded onto individual

equipment. Thus, ISS can provide the proper software support and maintain licenses and support agreements centrally.

- **Network Development and Support** - ISS should be fully responsible for the INET, the City's wide area network (WAN). All departments should be connected to the WAN along with all servers. This will allow ISS to properly monitor and service all hardware. Connecting all servers will also ease the passing of data between applications. Appropriate server security will be necessary to prohibit unauthorized access.
- **Communications Support** - With the advent of connecting all departments to the WAN, ISS should develop and maintain a citywide email system. The citywide email system will enhance division and department communications. In addition, ISS should develop standards to determine individual user Internet needs. User request for Internet access should be approved by the employee's supervisor, but should be established by ISS.

Also, ISS should develop and maintain an Intranet site. An Intranet site can be beneficial for employees to access and print standard employee information without having to mail hardcopy requests.

- **Help Desk** - ISS should establish a help desk function to provide support for all hardware and software issues. Establishing hardware and software standards will allow for efficiencies in training help desk staff and enhance their effectiveness.

To assist in properly providing these functions, the CIO and ISS should evaluate each of the following recommendations:

- Provide a single point of contact for all users to report and resolve problems. ISS staffing needs should be evaluated based on the current and projected help desk service requirements. The City should continue with citywide implementation of the Magic software. Per ISS, the Magic software not only creates and tracks service tickets, but has capabilities for maintaining equipment histories, developing service billings, and asset tracking. ISS believes Magic also has the capabilities to create sub areas of control which could allow all of the City's technology staff members the ability to use only one application for service calls, and the software can also provide for accurate billing for the services provided. Once implemented the software can maintain a historical record of each system's hardware and software configuration, and be used to maintain and track hardware warranties and software licenses.
- Consolidate network file servers to provide consistent IT administration services and improved physical security.

- Establish backup standards for all software. To ensure proper backups are performed regularly it may be necessary to initially centralize server backup procedures under ISS. This will also aid in storing backup files at a secured off-site facility. If servers are physically consolidated, then backups can be easily performed by ISS.
- Since ISS is considered an internal service fund, it is imperative that all associated ISS costs are distributed to all users of ISS. ISS should establish a proper charge back structure. During the budgeting process, ISS should provide estimates to all necessary divisions and departments for expected charge back costs. All annual ISS costs should be budgeted back to some division or department.

The CIO along with the steering committee will need to initiate greater collaboration among departments to improve planning and coordination of citywide initiatives such as expansion of the INET and standardization and enlargement of email and the Internet. To provide for better accountability of the City's investment in IT, the CIO should develop processes for measuring the return on all IT investments, for aligning IT services with best practices and for identifying and implementing performance measures for IT.

FRC Structure and Responsibilities

F2.7 The City of Cleveland Financial Reporting and Control technology group maintains the hardware and PeopleSoft software. The FRC technology group has three main functions:

- Maintaining the PeopleSoft application - The FRC technology group mainly creates reports and designs interfaces. Changes involving original program source code are performed by the vendor, PeopleSoft, and then installed by FRC technology staff via patches, fixes and new versions. However, there has been occurrences when the FRC technology group has made source code changes via the direction of PeopleSoft. Additionally, the FRC technology group executes data interfaces which have been developed to upload data from other department's software applications.
- Performing system administration functions - The FRC technology group also performs system administration functions over PeopleSoft application. They are responsible for the administration of the PeopleSoft application, Oracle database software, the PeopleSoft application security and the PeopleSoft Windows NT network security. The FRC technology Manager, currently the Assistant Controller of Technical Systems, has been given the responsibility to create new PeopleSoft user accounts.
- Produce citywide monthly reports - The FRC technology group develops and tests standard monthly reports. They run these monthly reports and distribute them to the appropriate departments.

Currently, there are FRC staff entering data. They enter receiving warrant journal entries, requisitions and purchase orders, internal service billings and other journal entries. However, data entry functions and reconciliation procedures are generally not performed by the staff members of the FRC technology group, but are the responsibility of the individual user departments.

All application and database updates and backups are performed by FRC staff members. FRC performs this duty for their own machines to avoid incurring additional charges from ISS.

- F2.8 The Systems Analyst, who performs the database administrator function, within FRC is responsible for the installation of PeopleSoft patches, fixes and version upgrades as well as the daily duties of database maintenance. Patches and fixes are provided weekly by PeopleSoft and must be installed and tested before they can be implemented into the production environment. The City receives roughly 5 or 6 program patches per week. As of January 29, 2002 the City is about 80 patches behind. One reason is that users are required to test each patch and the users are behind in this testing. Another issue is the lack of adequate customization documentation. An understanding of the PeopleSoft software customization is essential to determine the impact of the patches to the customized software.

The Project Cost module was so significantly customized that PeopleSoft will no longer support Cleveland's Project Cost module. The City must modify and support the Project Cost module themselves or hire an outside party.

- F2.9 Expansion of the PeopleSoft system and the expansion of the interaction of PeopleSoft with other departmental systems has not been clearly defined. A Budgeting module of PeopleSoft has not been utilized by the City, and it is not known if it will be implemented. Several departments are purchasing application systems that could interact with PeopleSoft. However, the FRC technology group has not been "officially" included in the planning process of these projects. No assessment has been made concerning the additional system or administrative burden of these new interfaces. Additionally, staffing needs have not been assessed if additional modules or interfaces are added.

Table 2-5 identifies the PeopleSoft modules currently utilized by the City and the departmental use of that module.

Table 2-5: PeopleSoft Module Use

Software Product and Version	Department Usage
PeopleSoft General Ledger 7.5 Ownership – FRC Ownership – OBM – Budget Ledger only	Inquiry – All Departments Update – FRC; Utilities; Airport
PeopleSoft Payables 7.5 Ownership – Division of Accounts (DOA)	Inquiry – All Departments Update – DOA; Treasury
PeopleSoft Asset Management 7.5 Ownership – Utilities Ownership – Airport	Update – FRC; Utilities; Airport
PeopleSoft Billing 7.5 Ownership – Licenses & Assessments; Airport	Update – Airport; Licenses and Assessments
PeopleSoft Accounts Receivable 7.5 Ownership – Licenses & Assessments; Airport	Update – Airport; Licenses and Assessments
PeopleSoft Purchasing 7.5 Ownership – Purchasing; DOA; FRC; OBM	Inquiry – All Departments Update – FRC; Purchasing/Supplies; Accounts; OBM
PeopleSoft Project Costs 7.5 Ownership – Utilities Ownership – CD	Utilities and Community Development

Source: FRC Technology Group

F2.10 No one from the FRC Technology Group attends the CRISS meetings. They were receiving the minutes from those meetings, but the CRISS committee has not met recently. CRISS is the technology steering committee for the City and helps determine the direction technology will take internally. An important piece of the City’s technology is the accounting system and it is essential that someone represents the needs of the City’s finance function.

F2.11 For the past 1-1/2 years, contact with PeopleSoft has been limited to FRC technology staff to support the software. PeopleSoft tried many times to maintain contact through the Finance Director, but phone calls were never returned. As of January 10, 2002 contact with PeopleSoft has been reestablished by the interim Finance Director.

R2.6 The FRC technology group currently has nine staff (**Refer to Chart 2-2**). With the addition of a city CIO who will report to the Mayor, and the escalation of ISS reporting to the CIO, technical responsibilities currently handled by FRC technology staff should be reassigned to ISS. The Systems Supervisor and the two Software Analysts (one who works as the Data Base Administrator) should be transferred into ISS. They would still be responsible for maintaining the Oracle data base, implementing PeopleSoft patches and upgrades, making software customization modifications, and developing interfaces and complex reports. Other

ISS staff would be responsible for the Oracle and PeopleSoft licenses and support agreements along with any hardware and network issues. (Refer to **R2.5** for an explanation of the ISS Hardware Development and Support function.)

The PeopleSoft support responsibilities that would stay within FRC should be reduced from its current assignments to only providing support for PeopleSoft and FRC accounting needs. FRC should retain the responsibilities for two Functional Advisors and one Functional Project Manager for PeopleSoft. (Refer to **R2.7** for an explanation of functional advisors and functional project manager.) These employees should understand the PeopleSoft General Ledger module completely. The Project Coordinator, who is currently working in FRC, but reports to ISS should be considered as the Functional Project Manager.

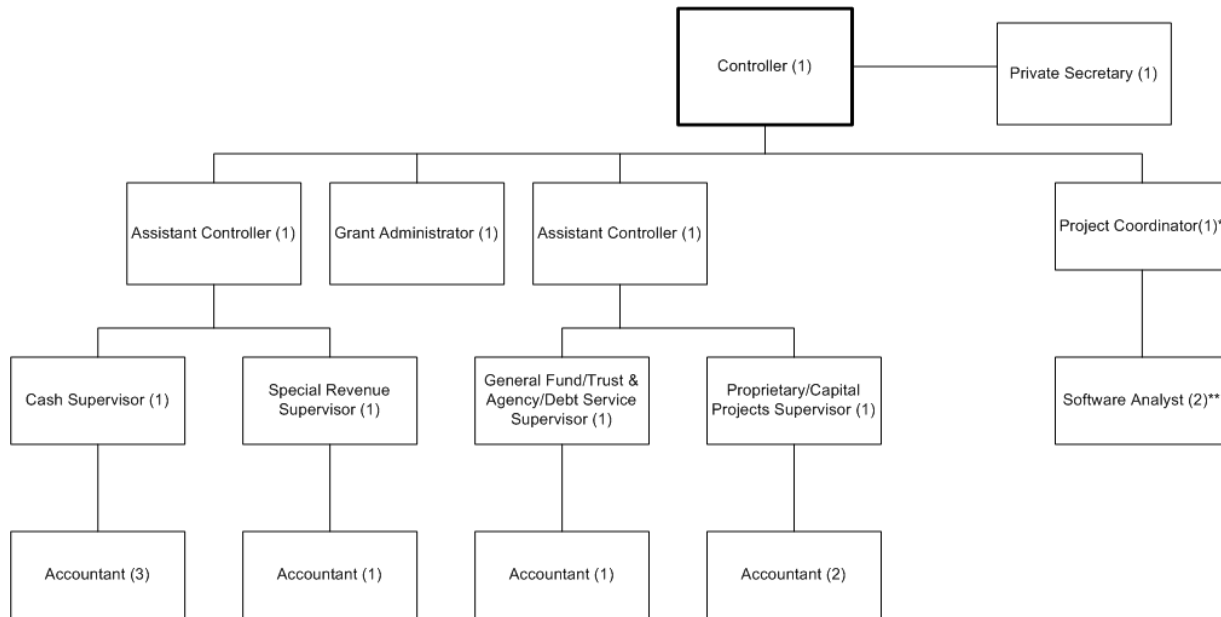
The Functional Project Manager would manage all Functional Advisors to ensure they properly support all PeopleSoft modules. The Functional Project Manager should not only have an understanding of the General Ledger module but also a very comprehensive understanding of all PeopleSoft modules and the associated city business processes.

The Functional Advisors should have a complete understanding of the PeopleSoft General Ledger module and a thorough understanding of the associated city business processes that this module supports. These Functional Advisors would be responsible for supporting the general ledger module for users of any department that would utilize it. The support would not only be in the form of a “help desk”, but would also require these Functional Advisors to provide training to the users. They should provide the initial training to all users of the module and then also provide users training associated with the module version upgrades.

Additionally, FRC currently has three staff totally devoted to data entry. They mainly enter journal entries initiated at other departments. These data entry responsibilities will be performed at the originating departments and thus these staff positions can be eliminated within FRC.

The FRC structure should be modified as pictured in **Chart 2-5**:

Chart 2-5: Proposed FRC Organization



* This person should be the City's Functional Manager

** These individuals should be the Functional Advisors for the PeopleSoft General Ledger Module.

Source: Developed by AOS

The Project Coordinator would be the Functional Project Manager and the two Software Analysts would be Functional Advisors.

It is not expected that this new structure can be implemented immediately. It will have to be phased in, as determined by the modifications of the business processes and enhanced use of PeopleSoft. The data entry responsibilities will slowly be relieved as other departments assume that responsibility. Technical support can be moved into ISS once the new CIO/ISS structure is established.

PeopleSoft Support Structure

F2.12 The City has not been able to effectively produce financial information since the implementation of PeopleSoft. The reasons appear to result from a poor implementation process.

User requirements were not assessed prior to selecting the PeopleSoft software. The project floundered due to poor project management and the dismissal of internal staff. Even though an internal project team was created and received training on PeopleSoft, the impact of PeopleSoft on City business processes was never determined. Also, the cautions of the outside consulting firms who evaluated the implementation process were not heeded and the software was implemented, probably before the City was ready. This became evident as the subsequent year evolved and the City required another outside firm to assist them. Thus, it appears the City never truly executed a proper System Development Process in regards to selecting and implementing a Financial Software solution.

As a result the City finds themselves in the current situation; inaccurate journal entries, double posting, inability to produce monthly reports, difficulty in monitoring financial transactions.

The following provides background into the PeopleSoft implementation to date.

The City purchased the following public sector financial package modules from PeopleSoft Inc. on June 29, 1998; General Ledger, Asset Management, Payables, Project Costing, Receivables, Billing, Purchasing, Budgets. The following is the initial product cost:

License fees (including underlying software)	\$1,325,000
Account Manager assignment	\$15,000
After the first year maintenance fees of 18% of the License fee of \$1,325,000	\$238,500

Maintenance fees can increase 5% annually. The 2001 maintenance fees were \$256,000.

In July of 1998, an implementation firm was hired to assist the City of Cleveland in the implementation of the PeopleSoft product. Based upon input from the City, April 12, 1999 was set as the “go live” date. The implementation date was changed 3 times from February 1999, to March 1999 to eventually April 23, 1999.

In January 1999, the City concerned about the implementation, contracted with a consulting firm to perform an Implementation Review. Areas of review included: Project Administration, System Configuration, Business Organization and Technical Infrastructure. The City was provided with a report of findings and a risk assessment of issues to be addressed. One of the recommendations was to implement a quality assurance and control function for the project.

In March 1999, the consulting firm again was engaged to perform the quality assurance function over the project to: monitor the status of the risk assessment issues; identify newly emerging risks; review the quality of final “go live” activities; and to review progress and

quality over security and controls, technical operational procedures, testing, staff skills, and post implementation support.

In November 1999, the FRC Technology Manager, who was responsible for supporting the system during implementation, left employment with the City and was replaced by another technically experienced employee.

In October of 1999, the implementation firm went bankrupt, and ended the working arrangement with the City. The PeopleSoft product modules were partially installed. The general ledger (GL), accounts payable (AP), Purchasing/Requisition, Accounts Receivable (AR) and Billing modules had been installed. In this installation process the City relied heavily on the implementation firm for functional and technical knowledge, testing, patching, training, and report writing, as City staff members did not have expertise in this platform nor this application. The Budget, Project Costs and Asset Management modules, as well as the workflow software had not been installed.

The outside consulting firm was then again employed in October of 1999 to assess security controls. The report includes a matrix of weaknesses with assessed risks, implications and recommendations. A fairly large number of significant weaknesses were reported. These security weaknesses should have been addressed during implementation.

After the PeopleSoft support ended in December 1999, a new implementation firm was hired to finish the installation of the system, and to provide support for items identified as implementation weaknesses. These items included: the creation of operational procedures, security procedures, and customized reports; the training of both IT and general users; and the general system administration of the PeopleSoft software. Standard reports were not produced for approximately 15 months after the April 1999 implementation.

In January of 2000, the outside consulting firm again provided a Security Assessment of PeopleSoft and revealed substantial operational and data integrity risks in the following three categories: segregation of duties, user management, and data integrity.

The initial contract with the new implementation firm expired in June 2000 for which they were paid \$1,543,500. Even though their contract expired the implementation firm never left and in October 2000, the City decided to continue their contract. The City needed further assistance to perform daily processing and to develop reports and provide training. Their agreement for additional services to the City was for an amount not to exceed \$3,754,575 which increased the total contract amount to \$5,298,075.

Even though the City began to utilize the PeopleSoft functions effectively, there were still processing problems. It appears city employees were still unfamiliar with the software and how to complete their job responsibilities utilizing the software. Thus, additional training

and report development were provided by the implementation firm until September 2001, when their contract expired. However the training was basic PeopleSoft module training and staff were not trained on the functional use of the software as it related to the City's business processes.

When the implementation firm left in September of 2001, the following v7.5 PeopleSoft modules were implemented and being utilized to some extent:

- General Ledger
- Accounts Payable
- Purchasing/ Requisitioning
- Accounts Receivables
- Billing
- Project Costs
- Asset Management

F2.13 The implementation of PeopleSoft occurred with limited input from user departments. The following depicts user department involvement:

- CCA management were minimally involved with the purchase or implementation of the PeopleSoft application.
- Even though the Office of Budget and Management (OBM) administrator at that time was involved in the PeopleSoft selection, the OBM staff does not feel they were included in the decision to purchase PeopleSoft. Some staff members believed there were problems with PeopleSoft relating to budgeting. In addition, they felt that the system was not tested properly and that information from FAMIS, the old accounting software system, was not properly posted to PeopleSoft. To date, the City has not implemented the Budget module of PeopleSoft, but it was purchased under the original contract with PeopleSoft. The current configuration of PeopleSoft does not permit the level of reporting information related to budgeting that FAMIS was able to provide.
- The Division of Port Control (DPC) Comptroller believes that some DPC Budget and Finance department personnel were involved in the PeopleSoft implementation, but none were consulted during the actual selection process. The DPC IT Manager was not consulted on the PeopleSoft acquisition. However at the time he was serving as CPP's IT Manager and not DPC IT Manager.
- The Department of Parking (DOP) was consulted with when the City was looking to move to PeopleSoft. However, DOP is not connected to the City's network and thus do not use PeopleSoft. Although, the majority of DOP's staff went to one day of training.

F2.14 The following are the current automated interfaces which transmit data to or from the PeopleSoft general ledger module:

National City Bank	Bank notices and canceled checks
Key Bank	Bank notices and canceled checks
LockBox Files (Key Bank)	Cash balances Key bank account
Ceridian Payroll	Payroll Data
CCA (MITIS)	Refunds to tax filers
CPP (Banner)	Refund to Utility customers
Bank One	Payroll Warrants

Presently, there are no reconciliation procedures in place between the GL and the other PeopleSoft modules. FRC is in the process of contacting other PeopleSoft sites to determine how they are reconciling between modules.

F2.15 Users can run Crystal, nVision and SQR reports and they have the ability to run a Query, as well. The Queries can be imported into an Excel spreadsheet. However, this allows for the data to be modified in Excel, which could taint the validity of the data. However, most users do not create their own reports, they ask the FRC technology group to develop them.

F2.16 With version 7.02, the system response time and performance was better than it is currently with version 7.50. Initially the second implementation firm supplied a knowledgeable data base administrator (DBA) to tune the Oracle database. However, when the City went to version 7.5 in September 2001, the new DBA supplied by the implementation firm, was certified but had limited knowledge about Oracle or PeopleSoft and thus the system has not been properly tuned.

F2.17 A chartfield listing was created in October 1999 which documented all the chartfields (account code structure). The listing has not been updated since that time. The "Project Coordinator" within ISS (currently working in FRC) was recently given the responsibility of updating that listing. In addition to the field information, the listing includes all general ledger accounts, groupings, organization titles (department, division, section), funds, sub-classes, program codes and project listings.

Additionally, the Project Cost module has been modified significantly, however, the customization documentation is insufficient to properly evaluate the impact of the PeopleSoft patches supplied on a weekly basis.

The adaptability of PeopleSoft to varying accounting environments is one of its biggest benefits. When PeopleSoft approved modifications are made, it is necessary to have

sufficient documentation of the modifications to ensure the modifications can be replicated at future dates as new releases of PeopleSoft are installed.

- F2.18 Even though the Project Cost module was modified significantly, customization to most modules has been minimal. Approximately 51 total modifications have been made. Modifications are defined as actual changes to the core source code of PeopleSoft. The Project Cost module has had significant changes. The Project Cost module was so significantly customized that PeopleSoft will no longer support Cleveland's Project Cost module. Meaning the City must modify and support the Project Cost module themselves or hire an outside party.
- F2.19 The Office of Budget and Management uses PeopleSoft to query information and enter budget adjustments throughout the year. The PeopleSoft module has been purchased but is not used. The following are technology uses of the Office of Budget and Management.
- The budget analysts prepare Excel spreadsheets that are sent to each department for completion. These individual department budgets are then compiled into the "Mayor's Budget Estimate" document which is then sent to Council. Based on revisions made to the "Mayor's Budget Estimate" by Council, a permanent appropriation document is prepared. These Excel spreadsheets are prepared by detailed account within the various fund(s), sub-fund(s), department(s), and/or division(s). Totals and sub-totals, per major object code within the various fund(s), sub-fund(s), department(s), and/or division(s) on the spreadsheets are compared to the approved appropriation document, by the Budget Manager. This review is done to ensure the accuracy and completeness of appropriations prior to their submission to the Financial Reporting and Control Division (FRC). The Excel spreadsheets are placed on a network shared drive, which can be accessed by the FRC technical staff. FRC extracts the appropriation information from the Excel spreadsheets and uploads the information into PeopleSoft. When the permanent appropriations are loaded into the system, the temporary amounts are lost.
 - The unencumbered balances are provided by FRC while the revenue estimates are generated by OBM. From this information, the Budget Manager provides the City with the unencumbered balances/revenue estimates document along with a cover letter and Excel spreadsheet with the unencumbered balance computations.
 - The Budget Manager and an employee in FRC work together to prepare an Excel spreadsheet of estimated revenues to be entered into the computer system. Prior to entering estimated revenues into PeopleSoft, totals and sub-totals from the Excel spreadsheet are compared to the applicable certificates of estimated resources and/or other detailed supporting documentation. The FRC employee manually posts the estimated revenue amounts into Peoplesoft.

- On an annual basis, FRC prepares and distributes an encumbrance and pre-encumbrance report from PeopleSoft to the various divisions and/or departments along with a cover letter prepared by the Director of Finance. The cover letter request the divisions and/or departments to review the outstanding encumbrances and pre-encumbrances to ensure they still represent valid commitments. The divisions and/or departments then submit a request to decertify the old outstanding encumbrances and pre-encumbrances. Pre-encumbrance decertification requests are submitted and processed by OBM, while encumbrance decertification requests are submitted either to the Division of Accounts (services requested) or Purchasing (goods requested).

The Office of Budget and Management could utilize PeopleSoft more effectively to complete their duties. Refer to the Office of Budget and Management Section of this Report for specific recommendations.

- F2.20 The Sinking Fund Commission's Assistant Secretary utilizes Microsoft Excel to prepare and maintain information related to the servicing of outstanding obligations of the City. The Assistant Secretary prepares and maintains schedules of debt service obligations, cash flow projections, bank reconciliations, and year end investment reconciliations. All the information gathered using Excel is then used to prepare journal entries that are sent to FRC whose staff enter the information into the PeopleSoft system. Journal entries are prepared in paper format and sent to FRC.
- F2.21 All purchasing records are being maintained on the PeopleSoft System. No individuals within the Purchases and Supplies division are performing an IT function. The following depict the use of PeopleSoft for citywide purchasing.

The Purchases and Supplies division uses the purchasing module of the PeopleSoft system. All departments have inquiry access to look up purchase orders. Only FRC, Division of Accounts and the Purchasing and Supplies departments can update purchase order information.

The Purchases and Supplies division is responsible for the creation of purchase orders within the PeopleSoft System. FRC is responsible for the entry of requisition information into the PeopleSoft system. Purchase orders are created by Purchases and Supplies after all vendor bids are returned to the city. The specifications indicated on the requisition are used by the division's buyers to solicit appropriate vendor bids.

The Purchasing Agents use the PeopleSoft system to create a Purchase Order (PO). During the creation process both budget and edit checks are performed by the software. When the PO is created, the monies are actually encumbered. Once vendor quotes are available, the

Commissioner of Division of Purchases and Supplies (DPS) will review the requests, and the Purchase Order form created by the buyer.

The DPS has been supplied with several standard reports. The Commissioner indicated that these reports meet her needs. All these reports are generated using Crystal reports. The commissioner also has been trained and uses query access to download data into Excel spreadsheets. These spreadsheets are used to make ad-hoc reports for herself.

Within the division most PeopleSoft support is provided by the division's Commissioner. If the problem can not be handled by her, the FRC helpdesk is contacted.

The Purchases and Supplies division could utilize PeopleSoft more effectively to complete their duties. Refer to the Purchases and Supplies Section of this Report for specific recommendations.

F2.22 The Division of Port Control (DPC) Budget and Finance department is currently using the following PeopleSoft modules:

- Fixed Asset Module
 - For most of 2001, fixed asset acquisitions and disposals were recorded on a Microsoft Excel spreadsheet called the Fixed Asset Detail Listing. This listing was used to track, classify and depreciate all DPC fixed assets in accordance with the City of Cleveland's Fixed Asset Policy Manual. In September, 2001, the Fixed Asset Management module of PeopleSoft was implemented at the DPC and the Excel spreadsheet was uploaded to this module. A reconciliation was performed at that time to ensure the data transfer occurred properly.

Fixed asset additions and retirements are still being recorded on the Fixed Asset Detail Listing, but the actual journal entries to record these transactions in the PeopleSoft trial balance are not performed until year-end. Depreciation expense is also not recorded for assets until year-end when actual depreciation is calculated for the fiscal period. The Fiscal Manager - O & M Expenses/Budget is going to attempt to implement a perpetual inventory system, whereby any fixed asset additions will be directly entered into PeopleSoft as they are acquired and/or their value is determinable. Once this perpetual system is adopted, a reconciliation between the Fixed Asset Detail Listing and the PeopleSoft Fixed Asset Management module will be performed quarterly.

- Accounts Receivable Module
 - Landing/Fuel Receipts - The airport charges and bills the airlines, who use the airport a landing fee for landing their planes or a fuel flowage fee for using their fuel. This fee is calculated by the Billing Clerk, who manually calculates the charges for both landing fees and fuel. The Billing Clerk then inputs the total charges for services into the PeopleSoft billing module and an invoice is generated and mailed to the vendor.
 - Car Rental/Parking/Concession/Utility/Terminal Receipts - The airport charges and bills vendors for concession space, utilities, parking garage operation and rental car parking lot occupancy. These fees are calculated by the Billing Clerk using a Microsoft Excel spreadsheet to calculate the charges for car rentals, parking. The Billing Clerk then inputs the total charges for services into the PeopleSoft billing module and generates an invoice which is mailed to the vendor.
 - Approximately three times per week, a courier goes to Key Bank and obtains copies of the payments made and a statement of deposit. These items are delivered to the Accounts Receivable Clerk, who records them in the PeopleSoft receipts ledger that is interfaced with the City of Cleveland. After recording the receipt, the Accounts Receivable Clerk applies the amount of the check copy to the outstanding invoice or account balance. An accounts receivable reconciliation is performed within the PeopleSoft A/R module by the Project Accountant after posting receipts to the general ledger.
- Accounts Payable Module
 - The Fiscal Manager sends the invoices to City Hall for processing. A Microsoft Access “tally sheet” of the invoices sent to City Hall is kept and, through inquiry into the PeopleSoft A/P module, the Fiscal Manager ensures invoices are entered and paid.
- Project Costing

The DPC could utilize PeopleSoft more effectively to complete their duties. Refer to the DPC Section of this Report for specific recommendations.

F2.23 The A/R module is a specific source of frustration at the DPC. There have been three specific problems that have gone unsolved for over three months. The A/R system currently has four deposits “locked up” due to old budget year transactions that were included in them. The four deposits in question all have had their actual monies deposited into the bank, but the deposits haven’t been accounted for in PeopleSoft (applied to the respective vendor accounts) because they are in suspense. For example, a \$.01 credit was posted against an

account from a prior year (to clear that budget year for that account) and now a deposit in the amount of \$1 million cannot be posted to their account because the credit is not being accepted by the system. The credits have not been reversible thus far, so these deposits are still lingering in the system. It should be noted that these problems did not start happening until version 7.5 was installed in September 2001.

Additionally, The DPC staff believe that, with all of the information entered into the PeopleSoft system, it should be possible to make reports easier to access and/or manipulate. As it stands, SQR reports print directly to the printer and the staff must extract the pages they specifically needed for their purposes. Sometimes only 5 pages of a 200 page report are needed. The Crystal reports can be downloaded to an Excel spreadsheet and the data can be manipulated there. This is a time-consuming process.

The DPC could utilize PeopleSoft more effectively to complete their duties. Refer to the DPC Section of this Report for specific recommendations.

- F2.24 The CCA uses the Municipal Income Tax Information System (MITIS™) a windows based application, to process tax data. The primary function of MITIS™ is to collect and record municipal income taxes and to distribute the tax revenue back to the member communities. Users utilize an icon driven interface to enter or update information on line. A variety of batch processes are also executed to provide daily and monthly reports, print bills, issue refunds and load lockbox and other data from external sources. Revenue collected includes employer withholdings and payments of municipal income taxes from taxpayers of member taxing communities.

Most operational reporting within CCA is based on this system. The remainder is supplied from the City via the PeopleSoft application. Although not physically or logically connected to the City's PeopleSoft application, data from the MITIS™ application is uploaded to the City's PeopleSoft system. Wire transfer sheets are prepared by CCA and sent to FRC for manual entry once all authorizing signatures have been obtained. Tax payer refund amounts are transferred via an electronic file. This information is collected on a diskette by CCA and sent to FRC via a courier. Staff members of FRC then transfer the data from the diskette to the PeopleSoft system.

The PeopleSoft accounting module is not updated by staff at CCA. Only one PC at the agency has PeopleSoft access and currently that PC is not working. Access had been limited to inquiry of related G/L accounts. Supply requests and other purchases must be executed through a manual process and entered at FRC. Revenue entries are prepared on paper and sent to FRC for data entry. Presently, accounting inquiries are not being performed, since the lone PC connection is unavailable and CCA staff have not been trained on the new 7.5 version of PeopleSoft.

Reconciliations between the MITIS™ system and PeopleSoft system are performed by reviewing reports generated by both systems. The PeopleSoft reports are delivered by courier to CCA. The following reconciliations are performed:

- The PeopleSoft “AP trial Payment Register” is reconciled to the “FAMIS interface report”, which is generated from the MITIS™ system.
- The PeopleSoft “Detailed Check Register” is agreed to the MITIS™ report of “Refund Voucher Batch Status Window”.

If problems occur in obtaining the reports generated by PeopleSoft, the FRC technology staff or Controller are contacted.

The CCA could utilize PeopleSoft more effectively to complete their duties. Refer to the CCA Section of this Report for specific recommendations.

F2.25 The Division of Parking (DOP) personal computers do not have “PeopleSoft” capabilities. The DOP enters their parking receipts data into Excel spreadsheets and an ACCESS database, which are located on stand alone PCs. A copy of the receiving warrant is sent to FRC and is utilized to post the revenue transactions into PeopleSoft. FRC completes a bank reconciliation of the parking bank account and processes all journal entries for parking.

PeopleSoft generates reports of Parking Division revenues collected, deposited and the receipts posted. FRC distributes the PeopleSoft reports to the Parking Division. The Parking Commissioner and the Budget Analyst (OBM) compare the monthly PeopleSoft revenue reports to the internally generated Parking Division reports. Further, the Budget Analyst spot checks the receiving warrants to the postings within the PeopleSoft computer system.

Monthly reports generated from PeopleSoft are usually received about half way through the following month. The DOP hasn’t been able to reconcile their balances from the Excel spreadsheets to the reports from PeopleSoft. If the differences are over 1,000 dollars, then the DOP will investigate the discrepancies. The DOP never balance to the penny because the FRC is late in posting items into PeopleSoft and the FRC will make adjustments to the DOP’s accounts and do not inform the DOP.

The DOP could utilize PeopleSoft more effectively to complete their duties. Refer to the DOP Section of this Report for specific recommendations.

F2.26 The Department of Parking accounts for parking billings in the following manner:

The St. Clair parking facility operates as a monthly prepayment lot with thirty parking spots. The monthly rate is forty-five dollars, per month, which is due by the fifth of every month.

The Parking Division generates and mails the monthly bills, for the subsequent month, along with the current month's parking tag.

The Senior Clerk posts the customer account information (ie. billings and collections), into an ACCESS data base program, within one of the Parking Division's stand alone PCs. A monthly report of delinquent accounts is prepared and reviewed from this program.

The DOP could utilize PeopleSoft more effectively to complete their duties. Refer to the DOP Section of this Report for specific recommendations.

- F2.27 The Utilities department prepares a receiving warrant and sends it to City Hall. The warrant is picked up by the security guard when he picks up the deposit bags from the Cashiers and Cash Receipts departments. The cash and a copy of the receiving warrant is taken to the Treasurer's office and another copy is sent to FRC. FRC enters the receipts journal entry into PeopleSoft.

A summary of the daily amounts for the month are reconciled by the Utilities department to amounts recorded into PeopleSoft. The PeopleSoft amounts are obtained via a PeopleSoft query.

The Chief Auditor of Utilities enters accounts receivable adjusting entries into PeopleSoft at month - end to convert amounts reported in PeopleSoft on a cash basis to an accrual basis.

Utilities could utilize PeopleSoft more effectively to complete their duties. Refer to the Utilities Section of this Report for specific recommendations.

- F2.28 Unlike collections, that are updated daily into PeopleSoft, utility customer billing information is updated monthly into PeopleSoft. Monthly sales register reports (a list of all accounts billed during the month), generated by the DOW Billing and Collection System and CPP's Customer Information System, are summarized by the Utilities Accounts Receivable department into five accounts receivable Excel spreadsheets: (Water: active and inactive, Agency: active and inactive, and CPP). These reports are sent to the Utility Auditor department where journal entries are made to update Accounts Receivable into People Soft. Journal entries are prepared and sent to the Chief Auditor, who enters the data into the Project Cost module in PeopleSoft, which are then moved over to the general ledger. There is no direct interface between DOW's and CPP's billing systems and PeopleSoft.

Utilities could utilize PeopleSoft more effectively to complete their duties. Refer to the Utilities Section of this Report for specific recommendations.

- F2.29 Utilities fiscal control department generates monthly income statements and quarterly balance sheets from the data in People Soft.

Although data from PeopleSoft is used to create monthly income statements, the income statement report is not generated directly from PeopleSoft. Because the voucher payments are summarized in the general ledger account, queries are used to obtain the voucher payment detail. Monthly income statements are created from three reports generated by PeopleSoft: an income trial balance report; an expense cost account report from the project cost module; and a reconciliation report that identifies expense differences between the project cost module and the general ledger. These reports are reviewed by the Chief Auditor and delivered to the Commissioner, the Assistant Commissioners, the Director, and the Chief of Internal Audit.

Other reports, such as, budget, revenue reconciliations, and expenditure reports are produced weekly. Daily and monthly cash received reports are also produced. At year-end, balance and income statements are delivered to the City of Cleveland Controller for the City of Cleveland's combined financial statements.

Utilities year-end financial statements are prepared from PeopleSoft financial statement reports from accounts payable, accrued wages, current investments, purchasing and redemption amounts, and amounts due to other divisions information provided by FRC and the Treasurer.

Utilities could utilize PeopleSoft more effectively to complete their duties. Refer to the Utilities Section of this Report for specific recommendations.

- F2.30 A review of other cities (Escondido, California; Eugene, Oregon; Fresno, California; Pittsburgh, Pennsylvania; Tallahassee, Florida) and the University of Akron indicated a common support structure.

Table 2-6 identifies the PeopleSoft support structure for cities utilizing similar PeopleSoft modules.

Table 2-6: Peer City PeopleSoft Support Structure

City/ PeopleSoft Modules	Technical Support Staff	Functional Support Staff
<p>Escondido, California</p> <p><i>PeopleSoft Modules v 7.02 -GL, A/P, Purchasing, A/R, Asset Management, Project Cost, Billing, Inventory, Human Resource/Payroll</i></p>	<p>1 Database Administrator (does not require full time commitment),</p> <p>1 Systems Analyst devoted full time to PeopleSoft financials.</p> <p>1 Systems Analyst devoted full time to PeopleSoft HR/Payroll.</p> <p>1 Systems Analyst devoted full time to PeopleSoft Utility Billing.</p> <p>All systems analysts are located in the Data Processing department and are responsible for developing reports, trouble shooting, version upgrades and patches, database “tuning”, and interface development.</p>	<p>1 Functional User in each department, but not in the Data Processing department.</p> <p>All functional users are responsible for developing and providing training to users in their department, help desk, executing interfaces, and simple reports and queries.</p>
<p>Eugene, Oregon</p> <p><i>PeopleSoft Modules v 7.02 -GL, A/P, Purchasing, Asset Management, Inventory, Human Resource/Payroll</i></p>	<p>1 Database Administrator- Responsible for all modules</p> <p>2 Systems Analyst devoted full time to PeopleSoft financials.</p> <p>2 Systems Analyst devoted full time to PeopleSoft HR/Payroll. All are located in the Data Processing department.</p> <p>Responsible for developing reports, trouble shooting, version upgrades and patches, security administration, database “tuning”, and interface development and execution.</p>	<p>6 full time Functional Advisors (1 - General Ledger, 1 - A/P, 1- Purchasing, 1- Asset Management, 1- Inventory 1 - HR/Payroll).</p> <p>All are staff located within varying financial departments, not in the Data Processing department.</p> <p>Responsible for developing and providing user training, help desk, and simple reports and queries.</p>

City/ PeopleSoft Modules	Technical Support Staff	Functional Support Staff
<p>Fresno, California</p> <p><i>PeopleSoft Modules v 7.02 -GL, A/P, Purchasing, Asset Management, Human Resource/Payroll, Project Costing, Billing, A/R</i></p>	<p>2 Database Administrators (Responsible for all databases not just PeopleSoft),</p> <p>6 programmers (3 for PeopleSoft financials and 3 for HR/Payroll). Only 5 FTE's as 2 are part time.</p> <p>1 security administrator (manages all security not just PeopleSoft).</p> <p>All are located in the Data Processing department.</p> <p>Responsible for developing reports, module customization, trouble shooting, version upgrades and patches, security administration, database "tuning", and interface development and execution.</p>	<p>8 Module Leads (1 - General Ledger, 1 - A/R, 1 - A/P, 1- Purchasing, 1- Asset Management, 1 - Billing, 1- HR/Payroll, 1- Project Costing).</p> <p>All are staff located within finance, except the Project Cost lead is in the Projects department.</p> <p>Responsible for developing and providing user training, help desk, and simple reports and queries.</p>
<p>Pittsburgh, Pennsylvania</p> <p><i>PeopleSoft Modules v 6.0 -GL, A/P, Purchasing, Asset Management, Inventory, Utility Billing, A/R</i></p>	<p>1 Database Administrator (Responsible for all modules),</p> <p>2 Systems Analyst. Located in the Controller's office.</p> <p>Responsible for developing reports, trouble shooting, version upgrades and patches, database "tuning", and interface development.</p>	<p>4 full time Functional Advisors (1 Project Manager, 2 - Report writers, 1- assistants in all work</p> <p>All are staff located within the Controllers office.</p> <p>Responsible for developing and providing user training, help desk, security administration, executing reports and queries, and interface execution.</p>

City/ PeopleSoft Modules	Technical Support Staff	Functional Support Staff
<p>Tallahassee, Florida</p> <p><i>PeopleSoft Modules v 7.5 -GL, A/P, Purchasing, Asset Management, Inventory</i></p>	<p>1 Database Administrator (Responsible for all modules)</p> <p>4 Systems Analyst (only 1 is full time responsible for PeopleSoft financials, others assist if necessary).</p> <p>All are located in the Data Processing department.</p> <p>Responsible for trouble shooting, security administration, version upgrades and patches, database “tuning”, and interface development.</p>	<p>6 full time Functional Matter Experts (2 - General Ledger, 1 - A/P, 1- Purchasing, 1- Asset Management, 1- Inventory).</p> <p>One is designated as the Functional Project Manager.</p> <p>All are staff located within varying financial departments, not in the Data Processing department.</p> <p>Responsible for developing and providing user training, help desk, the majority of reports and queries, and interface execution.</p>
<p>University of Akron</p> <p><i>PeopleSoft Modules v 7.5 -GL, A/P, Purchasing, HR/Payroll (the university also has numerous student administration modules).</i></p>	<p>1 Database Administrator</p> <p>1-Network Administrator</p> <p>1- HTML Client Administrator</p> <p>1-Database Server Administrator</p> <p>1-Data Administrator</p> <p>1-Upgrade Administrator</p> <p>1- Security Administrator.</p> <p>All staff are responsible for the entire technology operation.</p> <p>Responsible for trouble shooting, security administration, version upgrades and patches, database “tuning”, and interface development.</p>	<p>7 Functional Leads (2 - General Ledger, 1 - A/P, 1- Purchasing, 3- HR/Payroll).</p> <p>All are staff located within the finance, HR or payroll departments.</p> <p>Responsible for developing and providing user training, help desk, the majority of reports and queries, and interface execution.</p>

The following are additional comments regarding the selected PeopleSoft cities:

- 1) All believe that the PeopleSoft software is effective for their needs.
- 2) All cities except Pittsburgh have their technology support staff in their data processing department. Pittsburgh has all PeopleSoft support staff under the Controller’s office.
- 3) No one is utilizing the Budget Module, as it is not considered an effective module for government budgeting.

- 4) They all believe the volume of patches and fixes prohibits keeping the software current. However, they are all considering moving to the new 8.4 version and will thus have to update their software with the patches and fixes.

R2.7 We believe the City has two options to alleviate their financial systems problems. Neither is simple and both will require additional time and money.

The first is to retain PeopleSoft and perform a “re-implementation”. The benefits of this solution are:

- 1) The City has spent nearly \$8,000,000 on the PeopleSoft licensing and consulting fees to make the software operational. Even though additional funds will be needed to send staff to training and update the City business processes, this is inexpensive compared to option two.
- 2) Knowledge has already been acquired for certain aspects of the software. For example; FRC staff are familiar with the report writer software and Port Control utilizes the A/R and Fixed Asset modules.
- 3) The software is being utilized successfully by cities nationwide. At this time there is no reason to believe that it is not a viable solution for the City.

The reasons for not continuing with the use of PeopleSoft are:

- 1) City personnel have negative feelings towards the software, which are mainly due to a poor implementation.
- 2) Since a proper user requirement assessment was not completed, PeopleSoft may not be the best financial software solution for the City.

The City’s second option is to complete an entire Systems Development Process. This would include performing a user requirements assessment, selecting the best solution vendor package via an RFP process, establishing an appropriate project implementation team, developing a project implementation plan, and finally performing the implementation. The benefits of this option are:

- 1) The City should have the best solution currently available.
- 2) If performed properly, users should have more positive feelings about the software and be more receptive to the implementation.

Reasons the City may not want to follow this solution are:

- 1) The implementation of a new software package will require 3 -5 years and until the software is implemented the City will still need to use PeopleSoft. Since the City is having difficulty utilizing PeopleSoft to track their financial transactions, they will still need to increase the knowledge and use of PeopleSoft. Thus, to a great degree they will still require additional training and need to revisit how they process financial transactions using PeopleSoft.
- 2) Performing the entire process will be costly and require additional time. The

conservative cost estimate to date for the PeopleSoft implementation is \$8,000,000. Thus, following this solution can be expected to cost, at least, this much. Also, to complete the entire implementation process properly will probably require 3 -5 years.

We believe that option one, the PeopleSoft Re-implementation, is the most cost effective solution for the City. The City has to continue its use of PeopleSoft no matter which option they choose. Thus, they will still require additional training and business process upgrades, until the new solution resulting from option two is selected. Also, the cost for a full implementation will be high and the time to complete can be extensive. Since the City has already implemented PeopleSoft and continues to learn more about the software daily, they have eliminated many of the selection and implementation hours which are required with option two. The selection of PeopleSoft can not be a totally wrong solution. PeopleSoft is a national company, and numerous cities have implemented it and are using it successfully.

No matter which option the City chooses they will still need to update their citywide network to ensure all PeopleSoft users can access the software. In addition, the City should perform the following phases to fully understand and utilize PeopleSoft.

To properly evaluate current PeopleSoft use and identify potential enhancements these three phases should be followed:

- 1) Support structure reorganization;
- 2) Staff training; and
- 3) PeopleSoft re-implementation.

These phases are obviously required if the City decides on the PeopleSoft Re-implementation option. However, these phases should also be performed even if the City decides to complete a full Systems Development Process, because the City still needs to increase their understanding and enhance their use of PeopleSoft.

These phases do not include project plan details. An implementation plan for reorganizing the staff, providing training and completing the re-implementation needs to be established by the CIO and Finance Director.

Support Structure Reorganization

Currently PeopleSoft is mainly supported by the FRC technology staff. There is minimal input or support from other departments.

The move from the mainframe based FAMIS system to the client server based PeopleSoft software has moved the requirement for processing knowledge away from a centralized IS department out to the main user departments of each module. It becomes necessary that each user department understand not only the business process cycle (i.e. purchasing), but the user

also needs to understand how the computer application must be set up and maintained, since it is the users who will maintain the database tables.

The following internal structure should be established to assist in stabilizing the current PeopleSoft processing, to evaluate potential additional uses of the PeopleSoft software, and to support PeopleSoft in the future. There should be two types of support functions:

Technical Support - Should be the responsibility of ISS staff. These responsibilities would include: Hardware support, technical software support, data base administration, security administration, installing new patches and versions, creating reports which require complex database table accessing, and interfacing with vendors on maintenance support agreements and warranties. Staffing is already in place within FRC to provide technical support. These employees should be moved into the new ISS (See **R2.1** and **R2.2** of this section).

Functional Support - Would require the City to establish certain city staff as “Functional Advisors” for each module and associated business process. These employees should have a complete and thorough understanding of how the PeopleSoft module is set up, how it works and how the City should process information through it. These employees will be the “go to” staff for not only their department, but also users of other departments who utilize the PeopleSoft modules assigned to the functional advisor. There is not a separate department for these people, but there should be an informal structure to ensure they are performing their functional advisor responsibilities. These employees would have to be selected and developed. Current staff working within FRC, Division of Accounts, OBM, License and Assessments Treasurer, and Purchasing should be considered for functional advisor positions. The type of individual to consider are those that understand a particular business process thoroughly and have a basic understanding of computer processing. These people should be able to grasp the processing cycles at a high level. Clerks who only perform one function may not be able to comprehend the processing requirements for all affected departments.

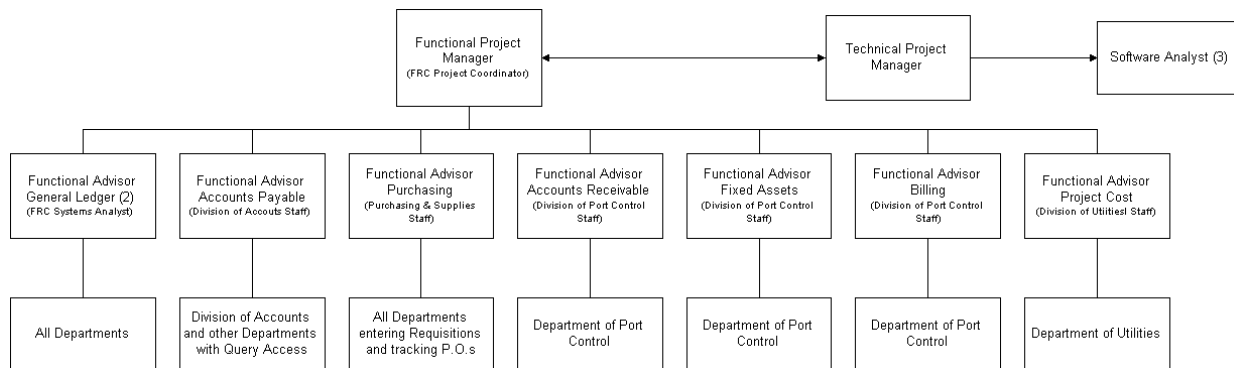
Functional Advisors’ responsibilities include:

- 1) Develop and maintain a procedures manual for their module relating to data entry, processing and reporting.
- 2) Develop, maintain and teach training courses specific to the use of the module at the City.
- 3) Review patches and version upgrades to determine their usefulness and impact on the City’s PeopleSoft installation.
- 4) Develop and provide training to users for processing changes to the module as a result from version and patch upgrades.
- 5) Review and modify the module’s set up.
- 6) Review and modify departmental procedures for utilizing the module.

Due to their importance to the support of PeopleSoft, the functional advisors should be sufficiently compensated. It may be necessary to move some of their non-PeopleSoft responsibilities to other staff.

Chart 2-6 is a suggested PeopleSoft support structure. All functional advisors should report indirectly to the functional project manager. The functional advisors are responsible for supporting users of all departments who have access to their module. The technical project manager and system analysts should support all PeopleSoft modules and coordinate all activity with the functional project manager.

Chart 2-6: Suggested PeopleSoft Support Structure



Source: Developed by AOS

With this established structure the City should be able to effectively support PeopleSoft. Any problems that occur should be rectified by either the technical support within ISS or the functional support via the functional advisors.

Staff Training

The technical staff supporting PeopleSoft should have a good understanding of each modules use and technical aspects of PeopleSoft and Oracle data bases. Thus, they would require basic training in each PeopleSoft module. The Data Base Administrator should understand the Oracle data base software and PeopleSoft data base tables in order to “tune” the system for efficient processing. System analysts supporting PeopleSoft should have a good understanding of the PeopleSoft data base tables and the use of the report writers. They should be trained on how to use the PeopleSoft report writers; nVision, Crystal and SQR.

Once the functional advisor for a particular module has been selected, they should receive comprehensive PeopleSoft training on their module and be trained on any other modules affected by their module. This training should include not only how to use the module to record, process and report information, but also on how to set up the module based upon the City's processing environment.

Department users should be trained on how to use the PeopleSoft modules they need to perform their job responsibilities. They should be provided basic PeopleSoft training and training on how to perform specific City business process utilizing PeopleSoft. The specific training should be developed and provided by the PeopleSoft module's functional advisor.

Refer to **R2.9**. for a more detailed explanation on PeopleSoft Training.

PeopleSoft Re-implementation

Utilizing this structure the City should perform a "Re-implementation" of PeopleSoft. The re-implementation would not require the software to be uninstalled and then reinstalled. It would require the City to revisit the need requirements for each department and identify how each departments' procedures should be modified to incorporate the enhancements the PeopleSoft software provides. This assessment should be performed by the functional advisors and any affiliated user departments. Technical support staff should be included as needed to ensure efficient processing.

As part of this Re-implementation the City should consider the elimination of "sidebar" applications. These sidebar applications may retain information that is either duplicated in PeopleSoft or could be maintained in PeopleSoft. Some of the potential procedure enhancements and modifications have been identified in other sections of this report.

The establishment of the new support structure, training and the re-implementation should be given a high priority and be one of the first responsibilities of the new CIO. The CIO and Finance Director should collaborate to ensure these phases occur. This would give the project the high-level support it needs to be effectively completed on a timely basis. The completion of the project should be coordinated by the Functional Project Manager and the Technical Support Manager. It should be well planned with reachable time line goals and applicable staff not only from ISS, but also FRC and any affiliated departments.

Personnel/Payroll

F2.31 The City has used the same Ceridian payroll processing for the last 10 years. All City payroll information is maintained utilizing Ceridian software located on a server within the Division of Accounts. Once a pay period's payroll data is complete, the City sends it to Ceridian, who will create the payroll checks and direct deposits.

The Ceridian software located on a DOA server retains minimal personnel information. DOA enters some personnel information such as rates and tax information, and the Personnel department updates other personnel information, such as benefit information and HR status, into Ceridian.

According to the Personnel Director, the application is not adequate to account for all of the personnel information needed. A separate ACCESS database is kept in the Personnel department to accumulate information not handled by the Ceridian software.

Besides FRC, DOA, Civil Service and Personnel, no other departments have access to the Ceridian software. Other departments require inquiry access to personnel information (i.e. the Utility department needs to look up information on Utility staff for budgetary or personnel purposes). However, establishing and maintaining security over user department access would be very time consuming and has thus prohibited this access.

DOA recently went out to bid for a new payroll application. The Commissioner of Accounts indicated that personnel requirements were considered in the bid process. The Director of Personnel (only on staff 7 weeks), was not aware the Division of Accounts was in the process of looking at RFPs for a new payroll application. However, staff members in the Personnel department were involved in designing the specifications for the RFP, but only for personnel information which resides in the current payroll system. They did not include any personnel information that is maintained outside the Ceridian software.

The new application is to be implemented for payroll only and will not be used as a comprehensive citywide Human Resource database. The Personnel Director and the Commissioner of DOA would like to see a new payroll application that is also functional for the Personnel office.

As a result of the RFP, three bids were received:

- PeopleSoft/Maximus - PeopleSoft HR and Payroll modules with Maximus processing the checks.
- ADP - ADP Integrated HR/Payroll application with ADP processing the checks.
- Ceridian - Integrated HR/Payroll application with Ceridian processing the checks.

Based upon the proposals, DOA determined ADP software and processing was the best solution. Board of Control has approved the selection. However, the contract has not been awarded and the vendor has not been notified.

R2.8 The City needs to ensure their evaluation of moving to the ADP payroll processing software is in the best long-term interest of the City. The payroll system should be tightly interfaced with a comprehensive personnel system. The City should review their decision and should

revise their requirements to include Personnel department needs and needs from other departments, such as the need for departments to access staff salary information. The final decision should be delayed until input from the newly hired Finance Director and Chief Information Officer can be obtained.

Technical Training

F2.32 Training for PeopleSoft version 7.02 was provided to 56 departments or divisions throughout the City of Cleveland by the consulting firm who performed the implementation. Training materials, including manuals and test data files, were developed specifically for the City, however, the underlying business processes and procedures utilized by the City were not integrated into the training. Initial training was provided on a Citywide basis, sometimes to staff members who were not using the software. PeopleSoft version 7.50 was implemented in September 2001. This new version has significant differences from version 7.02 and training has not been provided to City personnel. **Table 2-7** is a listing of the PeopleSoft courses which were offered and the number of City employees who attended each course.

Table 2-7: PeopleSoft Training

PeopleSoft Course	PeopleSoft Users Trained with Log-In	PeopleSoft Users Trained with NO Log-In ⁽¹⁾
PS Accounts Payable	22	
PS Accounts Receivable	19	
PS Asset Management	18	5
PS Billing	13	
PS General Ledger	36	4
PS Project Grants	7	
PS Purchasing	15	
PS Purchasing & Requisitions	4	
PS Request for Quotes (RFQ)	9	
PS Inquiry	208	54
PS nVision	16	
PS Query	67	10

Source: Financial Reporting and Control

⁽¹⁾ Users who were trained, but have no access to the system.

F2.33 The FRC Technology group is comprised of six individuals. The experience and educational levels of this group are varied. Many of the individuals require additional PeopleSoft

training to support the technical requests of the users. **Table 2-8** provides a brief summary of the education and work experience of the group as well as the current training needs, as defined by the employee.

Table 2-8: FRC Technical Support – Experience and Education

Current Position	Years of Service	Computer Related Courses Concerning PeopleSoft	Educational/ Employment Background	Training needs
<p>Systems Supervisor Software Analyst</p> <p><i>Functional Title</i> Technology Manager</p>	<p>11</p>	<p>PeopleSoft:</p> <ul style="list-style-type: none"> • Business Process Design • Data Management Tools • Configuration & Administration <p>Oracle:</p> <ul style="list-style-type: none"> • Intro to Oracle: SQL and PL/SQL • Enterprise DBA Part 1A: Architecture and Administration • Enterprise DBA Part 1A:Backup and Recovery • Enterprise DBA Part 2: Performance and Tuning 	<p>College Classes related to Information Systems and Programming.</p> <p>No degree.</p> <p>IS manager for City Police department (AS 400 environment)</p> <p>Experience with Networks and other IS issues.</p>	<p>PeopleSoft:</p> <ul style="list-style-type: none"> • Functional level training as the product relates to City processes, procedures, account structure, etc.
<p>Operations Shift Supervisor</p> <p><i>Functional Title</i> Security Administrator</p>	<p>28</p>	<p>Windows NT Administration PeopleSoft Security People Tools 1</p>	<p>College Classes in computer science</p> <p>No degree.</p> <p>Extensive experience in the City.</p>	<p>No training needed given the current job position of the individual.</p>

Current Position	Years of Service	Computer Related Courses Concerning PeopleSoft	Educational/ Employment Background	Training needs
<p>Software Analyst</p> <p><i>Functional Title</i> Database Administrator</p>	<p>11 months</p>	<p>Oracle:</p> <ul style="list-style-type: none"> • Intro to Oracle: SQL and PL/SQL • Enterprise DBA Part 1A: Architecture and Administration • Enterprise DBA Part 1A: • Backup and Recovery <p>PeopleSoft: scheduled for</p> <ul style="list-style-type: none"> • PeopleSoft Network Administration • Performance and Tuning <p>Cleveland State University (CSU):</p> <ul style="list-style-type: none"> • People Tools 1 • EDI Manager • Intro to Oracle: SQL and PL/SQL 	<p>MBA from CSU in Information Systems</p> <p>Used PeopleSoft at former employer (CSU)</p>	<p>PeopleSoft:</p> <ul style="list-style-type: none"> • Technical Issues for PeopleSoft and Oracle • Functional level training as the product relates to City processes, procedures, account structure, etc.
<p>Software Analyst</p> <p><i>Functional Title</i> Report Writer / Support</p>	<p>12 years</p>	<p>Internal training:</p> <ul style="list-style-type: none"> • Crystal Query • nVision 	<p>BBA in Management Information Systems and Public Administration</p>	<p>PeopleSoft:</p> <ul style="list-style-type: none"> • Technical Issues for PeopleSoft and Oracle • Functional level training as the product relates to City processes, procedures, account structure, etc.
<p>Software Analyst</p> <p><i>Functional Title</i> Report Writer /Support</p>	<p>6 months</p>	<p>PeopleSoft: from prior employer</p> <ul style="list-style-type: none"> • PeopleSoft Tools 1 • PeopleSoft Tools 2 • People Code 	<p>Bachelor in Architecture</p>	<p>PeopleSoft:</p> <ul style="list-style-type: none"> • Technical Issues for PeopleSoft and Oracle • Functional level training as the product relates to City processes, procedures, account structure, etc.

Current Position	Years of Service	Computer Related Courses Concerning PeopleSoft	Educational/ Employment Background	Training needs
Software Analyst <i>Functional Title</i> Report Writer /Support	6 months	On the job training.	Master degree in Engineering and Management Information Systems	PeopleSoft: <ul style="list-style-type: none"> • Technical Issues for PeopleSoft and Oracle • Functional level training as the product relates to City processes, procedures, account structure, etc.

Source: Financial Reporting and Control Technical Support Manager

F2.34 Basic training on PeopleSoft version 7.02 was provided to the OBM when it was first implemented. Individuals within OBM were trained to be trainers within OBM, but left the division prior to training other OBM staff members. PeopleSoft manuals were not provided to OBM staff members. A budget analyst within OBM has prepared a procedures manual for OBM processes within PeopleSoft.

R2.9 The City of Cleveland should analyze the PeopleSoft training already provided and determine the individuals who still require training and identify individuals who may need to repeat certain training courses. Once this analysis is completed, the City should develop a comprehensive training program for all users of the PeopleSoft application system. The training should encompass PeopleSoft functionality and educate the users on the associated business processes of the City.

All users of the application should be trained in the relevant PeopleSoft modules required to perform their job. This functional training would include entering data, navigating between panels, understanding features of the panel, understanding different types of data fields, understanding transaction types, running reports, performing searches with “key” fields, and understanding error and warning messages.

Training associated with the underlying business processes of the City should be provided by “Functional Advisors” established for each module and associated business process. This training would be more detailed than the functional training and would include policies and procedures specific to the City. It would also orient the user to the software from the perspective of the City. Users would be instructed on the flow of information from their individual departments, through the module, and into the General Ledger. Users would also be trained on identifying and resolving errors, understanding the integration of their module

with other modules, and the establishment of procedures to ensure integrity between their module and the General Ledger.

The training program should also include provisions for providing education and training on a continual basis.

F2.35 CCA IT staff have not received technical training due to limitations in funding. In order to stay current on technology, the IT staff reads professional magazines, books and internet articles. They also take advantage of free seminars and conferences that may be offered in the area. CCA staff receive informal training on departmental procedures and use of the computer systems. Applications manuals have been developed, but on the job training is the primary method used for developing the skill sets of CCA staff members.

F2.36 ISS does not have a formal plan for education and training of their technical staff. Training is normally provided on an as needed basis for new technology (hardware and/or software). Training is budgeted annually, but future training needs are not based on a plan.

R2.10 The hiring of technically competent workers is imperative for the City to operate effectively and efficiently. In order to attract and retain competent IT staff, the City of Cleveland should develop a comprehensive training program for the ISS staff as well as IT staff located in other departments throughout the City.

Standards for IT knowledge and skills should be established. A skills assessment of the IT staff and a comparison of those assessments to the City's standards should be made to determine the immediate training needs of the City. Based on this analysis, an appropriate technical training program should be established to ensure City IT staff remain current with new technology.

Conclusion Statement

The effectiveness of the Information Systems Services department has been decreasing with the advent of decentralized processing. However, this has resulted in uncertainty as to who will perform the services. The City needs to centralize and strengthen technology management. The City needs a Chief Information Officer (CIO) reporting directly to the Mayor who can provide key leadership in managing its technology initiatives and support. ISS should report to the CIO and can then supply IT services to all departments equally and support the overall City's technology goals. In order to provide these services it is imperative the City upgrade their ISS job descriptions to attract and retain the necessary personnel. All city technical staff should be provided training in order to keep the City on the leading edge of technology. Each person should be evaluated annually and should attend training to keep up with the dynamic progress of technology.

Standards for hardware, software, purchasing, security administration and asset management should be developed by ISS and applied by all departments. All technology initiatives should be approved by the CIO and follow a citywide technology plan. To ensure all departments have input on a citywide technology plan and technology standards, the CRISS committee should be re-instated and meet monthly. The Mayor should be kept informed as to the CRISS meeting discussions. One of the first discussions should focus on completing the City network and establishing a citywide email system. Additionally, the CRISS committee should discuss the selection and eventual implementation of a new personnel/payroll system. A new personnel/payroll system should support all departments.

The City implemented the PeopleSoft accounting modules in April 1999. However, due to a lack of proper project management and the loss of key user personnel, the software has not been utilized to its fullest. The City needs to reorganize their PeopleSoft support. Internal functional advisors should be developed and accept full responsibility for supporting individual modules. These functional advisors will be the internal experts for their module and thus require extensive training on how to set up and use the module and how to modify the City's business processes to use the module efficiently. A functional advisor should develop module training for users and also be their instructor. The training should be developed based upon City business processes. Technical support for all PeopleSoft modules should be provided by the ISS department. Once the support has been established and training provided, then the City needs to re-evaluate how they use PeopleSoft. There are many additional PeopleSoft functions which the functional advisors and user departments should be able to identify and incorporate into City processes. Many of them have been documented in the other sections of this report.

Financial Reporting & Control

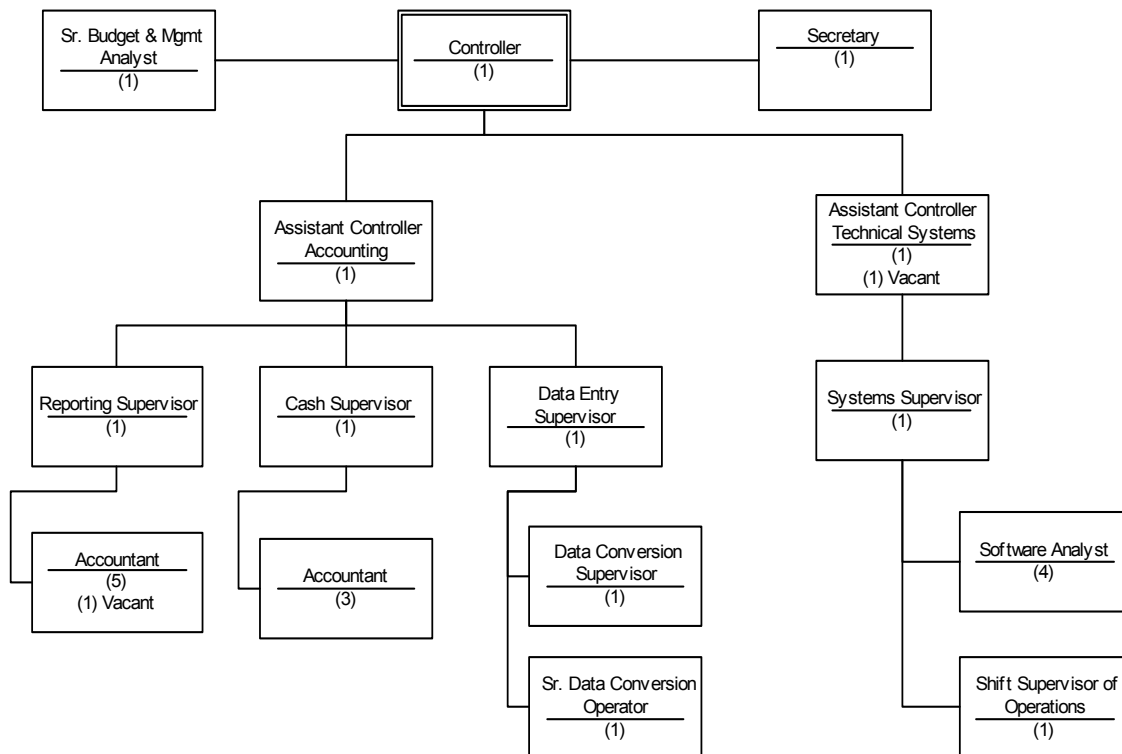
Background

The Division of Financial Reporting and Control (FRC) was established through the passage of Ordinance 2363-81 in 1981 by a unanimous Council vote of 33-0. FRC is administered by a Controller under the supervision and direction of the Finance Director. The Controller provides controls over the maintenance of the City’s accounting system and the integrity of the information submitted to that system; reconciles interfund accounts payable and receivable (due to and due from); organizes and maintains a property control system; monitors grant expenditures and cash draw downs; prepares monthly and annual financial reports and statements; performs cash reconciliations; and performs such other duties as may be required by ordinance or by the Finance Director.

Organizational Chart and Staffing

Chart 3-1 depicts the organizational structure and staffing levels of FRC as of December 31, 2001.

Chart 3-1: Organizational Chart



Currently the following positions within the FRC organizational structure are vacant:

- Assistant Controller - Technical Systems; and
- One Accountant.

Table 3-1 displays FRC's actual staffing levels (accounting side of FRC) for 1989 compared to 1999, 2000, and 2001. In addition, FRC's 2002 budgeted staffing levels are presented.

Table 3-1: Staffing Level (Accountants) Comparisons

Position (1)	1989	1999	2000	2001	2002
Controller	1	1	1	1	1
Project Coordinator	0	1	1	0	0
Assistant Controller	0	0	0	1	2
Grant Administrator	0	0	0	0	1
Assistant Administrator	0	1	0	0	0
Sr. Budget Analyst	0	0	0	1	0
Budget Administrator	0	0	0	0	0
Accounting Supervisors	4	2	2	2	4
Accountants	8	5	8	7	7
Secretary (Private)	2	0	1	1	1
Financial Analyst	1	0	0	0	0
Fin. Systems Coordinator	1	0	0	0	0
Total	17	10	13	13	16

(1) Does not include the applications personnel of FRC

As reflected in **Table 3-1**, there was a change in philosophy on the financial staffing level needed to ensure the mission statement of FRC since 1989. The employment data reflects a 41 percent staff reduction within the division from the staffing levels in 1989 to 1999. As of December 31, 2001, the average length of tenure for an FRC staff member was less than 21 months (excluding one staff accountant with 22 years of experience), which is less than two years per staff member.

The core of the accounting side of FRC is within the accountant positions (accountants and accounting supervisors). At the end of 1989, FRC had a staffing level that included 12 accounting positions. As of December 31, 2001, the number of accounting positions has decreased to nine, of which four were dedicated to the Cash Section. The level of staffing for the cash functions has not changed as to the number of accountants dedicated to the full range of cash reconciliation activities from 1989 to 2001. However, the number of dedicated accountants to monitor all the City funds

other than the cash functions has had the most significant decrease from eight to five accountants, a 37.5 percent decrease.

Under the organizational structure as of December 31, 2001, the Controller has direct supervision over the senior budget & management analyst and the two assistant controllers overseeing the accounting and technical sections respectively. Within the Accounting Section of FRC, one accounting supervisor oversees the reporting aspect of accounting. This would entail the monitoring and reporting of all the funds. One other accounting supervisor oversees the Cash Section.

Prior to 1994, FRC was staffed with accountants throughout its organizational structure. However in 1994, the City transferred nine information systems development personnel from the Information Systems Service Division (ISS) to FRC. The City's intention was to move from a mainframe environment to various decentralized systems translating into significant cost savings.

Organization Function

FRC is the centralized accounting function for the City of Cleveland with the following primary responsibilities:

- Performing reconciliations of cash and investments;
- Maintaining control over the City's accounting system (PeopleSoft) and the integrity of the information submitted to it;
- Preparing and issuing timely required financial reports such as the Comprehensive Annual Financial Report (CAFR) and monthly budgetary and accounting reports;
- Maintaining accountability and internal controls with over \$1.5 billion in transactions;
- Performing certain (non departmental) accounting tasks (recording of property tax) which are not applicable to any outside division or department; and
- Issuing best practice accounting policies and procedures throughout the City.

Traditionally, the FRC structure is organized into several sections in accordance with the City's reporting structure with the appropriate number of staff personnel assigned to each section. FRC's five sections, with the exception of the Cash Section, were divided by the City's Fund Structure and are listed as follows with the respective duties within each area:

Cash

- Reconcile cash and investments on a monthly basis to the general ledger for all funds;
- Account for the daily reimbursement of comingled cash from segregated funds;
- Review the balances in the Treasurer's group of accounts on a monthly basis;
- Perform reconciliations on Municipal Court bank account activity; and
- Assist in the implementation of the City's cash and investment policy.

General Fund, Trust & Agency, and Debt Service

- Monitor all activity related to the General Fund;
- Review monthly reports for problem areas to ensure proper reporting with the accounting system;
- Prepare certain accounting entries (property tax revenues) not applicable to any division or department; and
- Monitor all Trust and Agency Funds.

Grant and Special Revenue Accounting

- Assist the grantees in converting their manual records into usable PeopleSoft reports;
- Establish procedures for closing out inactive grants in the accounting system;
- Assist grantees in preparing year-end audit schedules and analyses;
- Monitor cash drawn for all grants operating on a cash reimbursement basis; and
- Provide for efficiency in reporting relating to grants.

Capital

- Centralize capital project expenditures for the Capital Projects and Enterprise Funds through the accounting (preparing journal entries) and maintenance of construction funds;
- Prepare general fixed asset schedules;
- Receive and review Issue 2 payments; and
- Assist with the implementation of GASB 34.

Proprietary Accounting

- Coordinate and reconcile interfund receivables and payables;
- Monitor and control all activity as they relate to the PeopleSoft accounting system;
- Monitor the internal service funds for proper charges to user departments and appropriate cash balance;
- Prepare and review year-end schedules and analyses needed for financial reporting;
- Review and train where necessary to ensure that the departments are properly utilizing the accounting system for financial and budgetary purposes;
- Monitor and reconcile the Proprietary Funds' Fixed Assets Accounting System; and
- Develop schedules for the aging of accounts receivable.

Summary of Operations

The City's accounting system is organized and operated on a fund basis under the direction of FRC. Traditionally, like most Ohio cities, the City primarily operates on a budgetary basis of accounting (cash basis). The City maintains their accounts on a cash basis. Revenues and expenditures are recognized only when cash is received or disbursed, but certain commitments related to purchase orders, contractual obligations to vendors, and legislation authorizing contractual obligations are treated as expenditures.

In addition to the budgetary basis of accounting, the City aspires to the highest level of accounting reporting standards by producing the CAFR. The CAFR is the final culmination of a year long process of FRC maintaining the City's accounting system and monitoring all transactions entered into the system. Subsequent adjustments and accrual entries satisfying generally accepted accounting principles are prepared to produce the CAFR document, primarily used by investors and creditors of the City.

It is FRC's responsibility to maintain appropriate controls and provide oversight to the City's accounting system and the various reporting methods (cash basis, accrual basis, and modified accrual basis) in order to issue financial statements for the City on an annual basis. In addition, FRC is responsible for the generating of timely, accurate, and usable financial information throughout the year.

Financial Data (and Statistical Data)

Table 3-2 depicts FRC's actual expenditures for 1999, 2000, and 2001 on a cash basis. Additionally, the budgeted expenditures are presented for 2002. Expenditures for 1999 and 2000 are audited numbers. Expenditures for 2001 are unaudited, but were agreed to the City's general ledger at December 31, 2001.

**Table 3-2: Actual Expenditures for 1999-2001
and Budgeted Expenditures for 2002**

	1999	2000	2001	2002
Salaries and Wages	\$729,939	\$718,571	\$913,908	\$1,167,175
Employee Benefits	163,168	135,488	239,473	284,349
Training and Professional Dues	16,163	11,332	17,352	60,500
Contractual Services	55,603	23,378	10,487	432,400
Materials and Supplies	47,496	34,065	28,226	30,244
Maintenance	250,257	297,297	285,575	333,000
Inter-Departmental Charges	86,559	60,166	32,978	123,702
Total Expenditures	\$1,349,185	\$1,280,297	\$1,527,999	\$2,431,370

Source: Mayor's Estimate 2002

The City's large increase in Contractual Services is due mainly to the implementation of GASB 34 which incorporates significant structural changes to the presentation of the CAFR including valuation of the City's infrastructure. The Maintenance expenditure which was almost non-existent up until 1998, is primarily for the annual software and hardware maintenance costs paid to PeopleSoft, Oracle, and Dell. Increases in Salaries and Wages represents FRC's desire to achieve an appropriate professional level of staffing in order to fully implement the PeopleSoft accounting system and serve its financial mission fully.

A comparison of the City's financial accounting and reporting structures with two other Ohio cities is difficult due to the different organizational structures within each Finance Department. The City of Columbus was not chosen as a comparative city due to having an elected Auditor as its chief financial officer. **Table 3-3** lists a comparison of the three Ohio cities and the full-time staffing of the various financial divisions.

**Table 3-3: City Financial Staff Comparison
to Peer Cities (2002 Budget Year)**

Division	Akron	Cincinnati	Cleveland
Administration	3.0	3.0	4.0
Financial Reporting & Control (FRC)	0.0	0.0	25.0
Accounts & Audits	0.0	28.0	0.0
Budget & Evaluation	0.0	17.0	0.0
Budget & Management (OBM)	0.0	0.0	11.0
Audit & Budget	5.5	0.0	0.0
General Accounting	13.5	0.0	0.0
Accounts (DOA)	0.0	0.0	20.0
Total	22.0	48.0	60.0

The City of Akron, which processes about one-third of the transactions that the City of Cleveland in terms of revenues and expenditures employs 5.5 full-time employees whose responsibility is to prepare the CAFR and the Operating Budget Plan, maintain the integrity of the accounting system, and serve as budget analysts throughout the year. The Akron employees work closely with the Finance Director to provide recommendations and proposals and provide assistance to various departments and divisions.

The City of Cincinnati's Accounts and Audits Division, comprised of 28 staff members, maintains the accounting system for all the funds of the City, monitoring and assuring that all expenditures are within budget. The Division is ultimately responsible for the acceptance of the City's fund accounting system by Federal, State and independent auditors. The Division is also responsible for the payroll system, indirect cost rates for Federal grants, and the citywide cost allocation plan. It also is the custodian of all official bonds, deeds, and contracts of the City. The division also maintains the financial system that integrates mainframe computer processing with numerous personal computers throughout the City.

Compared to Akron and Cincinnati, the City of Cleveland separates its budgetary, financial reporting, and accounts payable/payroll divisions separately. The City of Akron combines its financial reporting with budgetary responsibilities all within 5.5 employees. The City of Cincinnati combines its financial reporting with accounts payable and payroll.

Performance Measures

The following performance measures were used to analyze the operations of FRC:

- Assess the management, staffing levels, and organizational structure;
- Ensure that financial accountability is clearly defined and communicated within the division and throughout the City;
- Assess the accounting system (PeopleSoft) for accounting accuracy, user friendliness, report generating capability, and efficiency; and
- Assess FRC's ability to perform various accounting functions, including the preparation of the CAFR.

Findings / Commendations / Recommendations

Staffing Levels and Organizational Structure

F3.1 Although FRC was established by Ordinance 2363-81, there is no mention within the City Charter. The Division of Treasury and Division of Accounts are mentioned and also defined as to duties and positions within each division. The Charter specifically states that the Commissioner of Accounts shall be the chief accounting officer of the City, installing and maintaining accounting procedures through the appointment of bookkeepers and other employees charged with keeping books of financial account in all departments and offices of the City. Each department and office is required to issue a daily report to the Commissioner of Accounts detailing the receipt of all the monies and the disposition thereof. The passage of the City Ordinance 2363-81 empowered FRC with accounting responsibilities that have decreased the responsibilities and control measures previously performed in the Division of Accounts (DOA).

Ordinance 2363-81 amended three separate sections of the City's Codified Ordinances in order to redefine the duties of other divisions reporting to the Finance Director and their relationship to FRC. The following lists the amendments that were implemented:

- Section 127.21 Treasurer's Daily Statement; Payments to Treasurer
Before noon of each business day, the Treasurer shall make to the Commissioner of Accounts and Controller a sworn statement showing the total amounts deposited in each depository Bank account the preceding business day, the number and amount of checks issued on each depository, the number and amount of tax abatement or refunding certificates cashed and the balance in each depository.
- Section 127.24 Duties of the Commissioner of Accounts
The Commissioner of Accounts shall maintain records of all monies received by the Treasurer and of all disbursements made by the Treasurer upon warrant of the Commissioner of Accounts.
- Section 127.25 Daily Balances and Monthly Statements
The Commissioner of Accounts shall maintain books which will show the cash balance of each fund and shall issue no warrant payable from any such fund unless there is money belonging to the fund sufficient for the payment of the warrant in full.

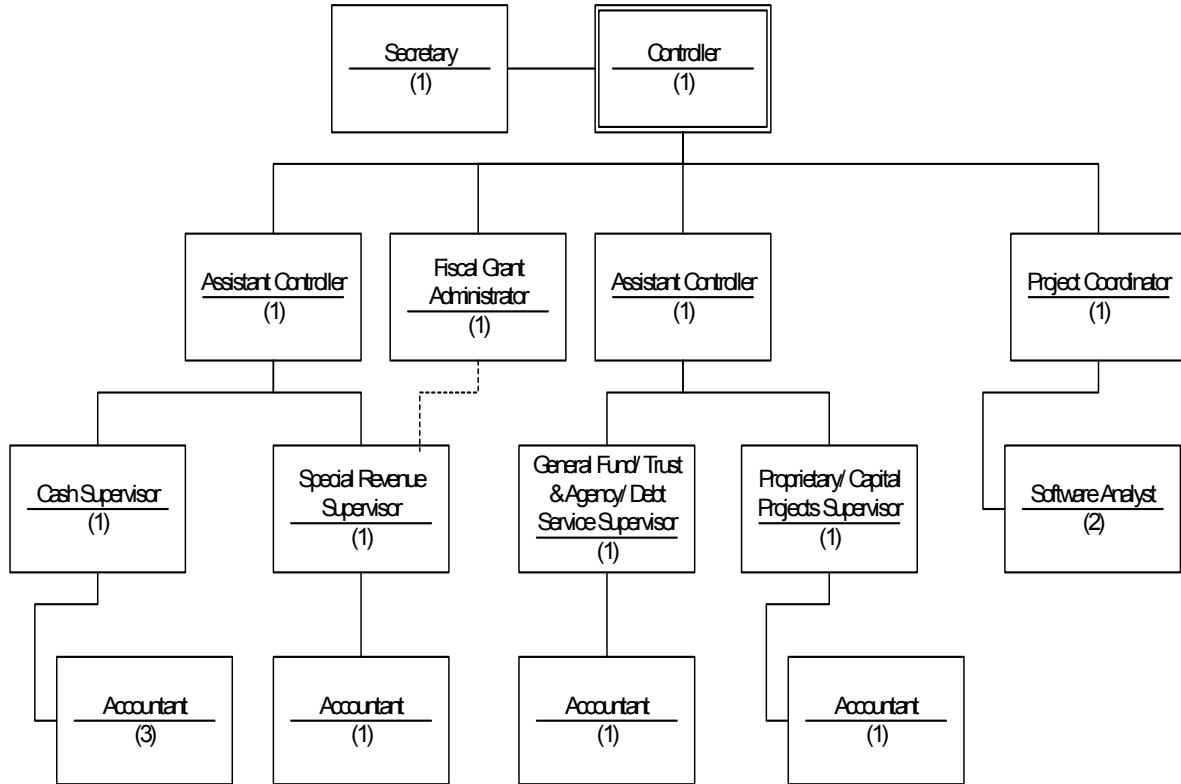
The Controller shall maintain the records of the amount of deposits made by the Treasurer with each depository and the daily aggregate amounts of payment instruments issued by the Treasurer. The Controller shall certify to the correctness of the Treasurer's daily sworn statements through a comparison with their respective books. The statements of correctness shall be kept in the office of the Controller. If

any of the Treasurer's sworn statements are found to be incorrect, the Controller shall give notice to the Treasurer and if the discrepancy is not immediately corrected, the Controller will notify the Mayor and the Director of Finance.

After the end of each month, the Controller shall reconcile the statements of the respective depositories to the Treasurer's daily statements and the accounting records. If the accounting records are found to be incorrect, the Controller shall notify the Commissioner of Accounts.

- R3.1** The City should submit a legislative request to redefine Ordinance 2363-81, Section 127.25 to say, "the Controller shall maintain books which will show the cash balance of each fund. The Commissioner of Accounts shall issue no warrant payable from any such fund unless there is money belonging to the fund sufficient for the payment of the warrant in full".
- F3.2 The existing organizational structure is depicted in **Chart 3-1**. As noted by the amount of data, system, and software personnel, the emphasis of FRC has moved more to manual data processing and computer system troubleshooting. There are ten positions dedicated to these functions, while functions associated with financial reporting and control are supported by eleven employees.
- R3.2** FRC should consider the following organizational chart as depicted in **Chart 3-2**. The recommended organization will provide the ability to monitor, control, and report on all the City funds effectively and efficiently. Major changes include a staffing reduction from twenty-four to eighteen employees and a redistribution of financial and accounting responsibilities. In order to meet the required work load, FRC will be divided into four accounting sections with a respective supervisor heading each section and the appropriate number of staff assigned to the following four sections: Cash; General Fund/Debt Service/Trust & Agency; Special Revenue; and Capital Projects/Proprietary Funds. The staff's attention to the full working order and appropriateness of the funds will increase significantly.

Chart 3-2: Organizational Chart (Proposed)



F3.3 Currently, there are seven dedicated employees who are data processors, systems analysts, and troubleshooters. Additionally, FRC has three staff members totally dedicated to data entry.

R3.3 When the PeopleSoft system is fully operational and at least six months of successful operations have been experienced, the ten dedicated system employees should be able to be reduced to three employees within FRC. At that point, all the originating departments will have the ability and experience level of entering information directly into the PeopleSoft system thereby eliminating the need for data entry personnel and decreasing the number of systems analysts needed for PeopleSoft. Two of the FRC Data Entry positions can be transferred to Purchasing and Supply to assist in their electronic purchasing system. The other five FRC systems staff may be reassigned to the Information Systems Support department. The responsibilities of the remaining three system employees are fully developed in the Information Systems Services section of this report.

The remaining Financial Systems Coordinator will be versed in both accounting and information systems terminology and technology. This expertise will allow FRC to be proactive in writing accounting programs.

F3.4 Currently, the Fiscal Grant Administrator position within the Internal Audit is vacant. The position was created to coordinate the grants throughout the City. Currently the City is not utilizing its grant awards to its fullest. Many problems exist at the central accounting and budgetary level (FRC and the Office of Budget & Management (OBM)) on the coordination and communication of the existing grants throughout the City. Such problems as disallowed costs, expired and unspent grants, timely draw downs, and the ability to procure new grants are the major issues facing the City currently.

R3.4 The Finance Director should consider reimplementing the position of the Fiscal Grant Administrator and transferring the reporting function from Internal Audit to FRC. The job functions of the position are to oversee all current grants, work closely with the Special Revenue Accounting Supervisor, potentially secure new grants, and synchronize communication between FRC, OBM and the grantees. The benefits of a grant administrator include:

- Eliminating the City’s negative cash positions by maximizing the City’s investment revenues through timely draw downs of grant dollars;
- Eliminating disallowed costs relating to the City’s grant funds;
- Ensuring the full utilization of grant dollars;
- Increasing the City’s ability to procure new grants; and
- Enforcing grant compliance will necessitate less problems arising from failure to comply with rules and regulations of the respective grants.

The number of federal grants and the amount expended by the City for the last ten years is depicted in **Table 3-4**.

Table 3-4: Grant Information

Year	Number of Grants	Amount of Expenditures
1991	155	\$68,525,653
1992	161	\$68,474,002
1993	132	\$73,260,435
1994	136	\$75,270,896
1995	146	\$90,156,915
1996	129	\$89,856,670
1997	120	\$89,537,404
1998	133	\$74,772,452
1999	143	\$91,861,896
2000	152	\$84,783,329

The Fiscal Grant Administrator (FGA), working with departments that have grants and coordinating compliance, grant proposals, and record keeping, should increase the level of expertise obtained by FRC. Secondly, all accounting information will be retained by FRC as the FGA will be working with the Special Revenue Supervisor on grant accounting.

F3.5 The position of Senior Management & Budget Analyst was recently established in FRC primarily due to a breakdown of the organizational structure within the division. Over the last several years, the Controller has assumed much of the day to day tasks of FRC due to a lack of accountants and experienced staff. Late in 2000, a Senior Management & Budget Analyst was added to the FRC staff to work on management projects, budget issues, and analyze various policies and procedures for effectiveness. This position is distinct from all other accounting positions. The major responsibilities of the position are:

- Prepares the annual budget for the Division;
- Interfaces with Law and Council to initiate and monitor legislation issues that are financially relevant; and
- Initiates and prepares requests for legislation.

R3.5 When FRC adopts the proposed organizational structure (**Chart 3-2**) and properly reassigns daily accounting duties to its accounting staff which are being performed by the Controller, many of the functions will be performed by the Controller. Therefore, the Senior Management & Budget Analyst position is not warranted and should be eliminated from

FRC and replaced by a second Assistant Controller, who will supervise the accounting of the Governmental (except Special Revenue) and Proprietary Funds.

F3.6 The organizational structure of FRC has deteriorated from sections which paralleled the City's fund structure to a structure that currently does not have direct financial oversight over the City's departments and divisions. FRC has been unable to sustain its accounting function primarily due to the following:

- High turnover within the Finance Department at all levels;
- Reduction of senior/staff accountants overseeing the fund structure of the City;
- Added clerical and accounting duties normally performed by outside divisions have been assumed by FRC primarily due to the hiring practices and promotions relating to the outside departments and divisions, specifically the positions that are related to accounting system;
- Inexperienced personnel on both ends (FRC and users) leading to a lack of communication and coordination with outside City departments and divisions; and
- The improper implementation of PeopleSoft and its modules has caused significant shifts within the Finance Department leading to a lack of divisional job responsibilities at the Controller level and many unattended accounting issues relating to the PeopleSoft accounting system.

Other governmental entities within the region such as the Auditor of State offer \$34,214 as a beginning salary for a person with an accounting degree coming directly out of college. Currently, the nine staff accountants (accounting supervisors and accountants) are averaging \$35,468. In addition, the City requires all new employees to reside within the city boundaries.

R3.6 In order for the City to recognize the optimum output from the FRC Division several significant conditions must exist:

- FRC should be adequately staffed with experienced (preferably governmental) and professional accountants with proper levels of compensation;
- The financial accounting system should be in proper working order and produce basic fundamental reports (trial balance) for the FRC staff to utilize and make available to the outside departments and divisions;
- Each department (CCA, DOA, etc.) and or division must have at least one financial person who can interact with FRC and serve as a liason for daily reconciliations and/or problem solving;
- Proper and continuous training should be implemented, including PeopleSoft and GASB 34. FRC should follow Governmental Auditing Standards regarding the amount, type, and frequency of continuing professional education, for its accounting staff, to help ensure their knowledge, skills, and other competencies. Presently, forty

hours per year would be a minimum;

- A policy and procedures manual should be developed and implemented; and
- Reference materials (codifications, pronouncements) need to be updated and made readily available including an FRC policy and procedural manual.

F3.7 For the 2002 budget year, the City appropriated approximately \$400,000 within FRC's budget in order to fully implement GASB 34, the new financial reporting model, through the procurement of outside contractual services. FRC has appropriated for these services because staff is presently working on resolving past accounting issues and is not available to fully dedicate themselves to the necessary GASB 34 implementation procedures.

R3.7 Since the finance department, including FRC has added additional quality staffing, we believe that the City will only need limited services through the initial implementation and should dedicate as many staff as possible to this project. By using internal resources for the implementation of GASB 34, FRC staff will retain the knowledge and expertise gained in the establishment of the recently established reporting standards and significantly lessen the City's reliance on outside assistance in the future.

Financial Accountability

F3.8 Formerly, the City Controller maintained and issued the accounting policy and procedure manual for the City of Cleveland. It appears that for the last thirty months, FRC did not view this as a priority responsibility and did not maintain the procedure manual. Former controllers, from 1983 through 1998 were contacted and insisted that a manual existed at the time of their controllership.

R3.8 A policy and procedure manual must be reestablished and published for City use. At a minimum, the policy and procedure manual should address current accounting issues and PeopleSoft issues within FRC and all applicable GASB requirements. The policy and procedure manual should be reviewed quarterly and promptly updated to reflect all changes.

F3.9 The City's pension cost for PERS (13.55 percent), Police Pension (19.5 percent), and Fire Pension (24.0 percent) is not recorded as a liability within the operating departments at the time payroll is incurred. The City does record its cost of the Medicare liability (1.45 percent) at the time payroll is incurred. The pension match is the only payroll deduction not accounted properly for. The pension expenditure is not recorded as a liability or expenditure until 90 to 120 days later within the operating departments. This procedure leads to an overstatement of unencumbered cash balances equal to at least six pay periods of employer matches at the end of each quarter. The amount of pension expenditures not recorded at December 31, 2001, within the General Fund, is over \$13 million.

- R3.9** The City should record a liability for the employer's portion of the pension cost each time payroll is posted. The proper recording of the City's pension liability for each payroll will provide the City with a correct unencumbered cash balance.
- F3.10 Prior to April 1999, FRC prepared daily reconciliations of unencumbered cash balances for all annually appropriated funds. This procedure insured proper budgetary revenue and expenditure transactions within the accounting system as well as a budgetary review and control measure. In addition, FRC performed a daily review of all general ledger balances and the related subsidiary files/modules to ensure appropriate relationships and financial integrity of the general ledger and the subsidiary files/modules. Over the last three years, FRC has not performed these daily reviews, leading to inadequate monitoring of the unencumbered cash balances.
- R3.10** FRC should immediately take the necessary steps to ensure and reestablish the reconciliation of unencumbered cash with a daily monitoring of the general ledger and its relationship to the subsidiary files/modules. This should include reviewing 1999 through 2001 activity and identifying all incorrect transactions. Accurate reports with proper support, generated from the accounting system, are an integral part in the monitoring of daily and monthly activity.
- F3.11 In accordance with Section 127.25 of the City's Codified Ordinances, during March 2002, FRC began receiving signed daily sworn statements from the City Treasurer depicting the total amounts deposited within each bank account the preceding business day and the number and amount of checks issued on each bank account for the preceding business day. The sworn statements allow FRC to perform cash reconciliations on a daily basis. Reconciliation of the City's accounting system to the bank activity should be confined to one business day of activity, thereby limiting the amount of transactions to review. Prior to March 2002, daily sworn statements were delivered several business days later and were not signed by the City Treasurer, thereby violating Section 127.25 of the City's Codified Ordinances.
- F3.12 The unencumbered fund balances of the Internal Service Funds vary from significantly high balances to deficit amounts. As of December 31, 2000, the Motor Vehicle Maintenance Fund reflected a cash balance of over \$4.5 million. The City's Information Systems Services Internal Service Fund's negative cash balance amounted to over \$1 million. A negative balance reflects an absence of review and control leading to insufficient user charges. A large balance may be legitimate only to the point of an Internal Service Fund's commitment to accumulate resources for a significant future expense.
- R3.11** FRC should work with the individual internal service departments to review user charges and establish the desired balances of each fund. At a minimum, a quarterly review of all the Internal Service Funds should provide reliable information necessary to adjust future user

charges and properly charge the user departments for the goods and services that they have received.

F3.13 The accounting supervisor in charge of monitoring construction activity within the City, preparing journal entries for fixed assets within the accounting system, and preparing fixed asset information for the CAFR, has yet to receive any formal training with respect to the GASB 34 implementation. The City of Cleveland is required to incorporate GASB 34 for fiscal year 2002 including beginning balances as of January 1, 2002. The City is currently lagging behind in the process of developing a comprehensive implementation plan.

R3.12 The City Controller should create an implementation plan that outlines the specific actions in order to be compliant with GASB 34. Included in such plan, selected individuals directly responsible for the implementation of GASB 34, should be earmarked for the appropriate training and made aware of seminars involving the implementation of GASB 34. The GASB 34 implementation plan is discussed previously in **R3.8**.

F3.14 Pre-encumbrances are useful for budgetary purposes due to their ability to secure appropriations for specific purposes until actual contracts (corresponding encumbrances) are established with a vendor. Most pre-encumbrances are established when legislation is introduced. The establishment of a pre-encumbrance guarantees that appropriations will be available and committed towards the establishment of contracts, once the legislation is passed. Recently, the City has utilized pre-encumbrances to commit current year appropriations for anticipated expenditures of subsequent years without legislative authority.

R3.13 The Administration and City Council should agree on pre-encumbrance practices. The utilization of pre-encumbrances for uses other than the securing of appropriation as it relates to specific legislation needs to be communicated to Council. A potential usage of a pre-encumbrances outside the normal legislation process is the securing of funds for a 27th payroll which occurs approximately every 11 years. The City may choose to pre-encumber anticipated amounts several years prior to the year which incorporates 27 pay periods. This practice lessens the impact of a 27th pay period for the specific budget year. All obligations which require the establishment of pre-encumbrances should be approved by City Council.

F3.15 The amount of encumbrances and pre-encumbrances existing at any given time should be reflected accurately within the PeopleSoft accounting system. During the City's early utilization of the PeopleSoft system, pre-encumbrances were incorrectly coded into the accounting system limiting the establishment of contracts (encumbrances) to one. The unused portion of the pre-encumbrance could not be decertified until the contract it created was fully spent. City personnel established an additional pre-encumbrance (equal to the remaining balance of the original pre-encumbrance) in order to produce additional contracts which were unable to be generated from the original pre-encumbrance. For certain departments whose budget was insufficient to accommodate multiple pre-encumbrances, the

appropriation was increased for the portion of the pre-encumbrance that could not be decertified. These actions overstated both the number of pre-encumbrances within the accounting system and the appropriation levels of departments and divisions.

For example, legislation to enter into a contract for \$1 million is introduced and passed and a pre-encumbrance is established for \$1 million. A subsequent contract is awarded to a vendor for \$600,000 reducing the pre-encumbrance to \$400,000. An attempt to issue an additional contract from the remaining pre-encumbrance could not be processed due to the coding of the pre-encumbrance allowing only one contract. The remaining balance of the pre-encumbrance cannot be decertified as long as the contract (encumbrance) of \$600,000 is existing. Additional appropriation of \$400,000 is added to the budget and an additional pre-encumbrance is established in the amount of \$400,000.

R3.14 Multiple contracts (encumbrances) should be able to exist simultaneously under one pre-encumbrance. The option to code pre-encumbrances with an amount or quantity control should be addressed as to the need of such a control. FRC should review and discuss this option with the Information Systems Services and determine the necessity of having an option limiting the number of contracts established by a pre-encumbrance. In most cases, the control measure for a pre-encumbrance should be at the amount level. The control at the amount level will allow for multiple contracts to be established by a pre-encumbrance only to the extent that the aggregate total of the contracts does not exceed the amount of the pre-encumbrance.

F3.16 A report issued by the Division of Internal Audit (DIA) recommending that the Convention Center record revenue when earned rather than when it is received has two divisions within the Finance Department sending mixed messages to the users of the accounting system. Staff members at the Convention Center are preparing journal entries debiting accounts receivable and crediting revenue based on a communication by the DIA citing the Governmental Accounting, Auditing, and Financial Reporting (GAAFR). The intent of the DIA recommendation was to establish true GAAP statements without considering the ramifications of the City's budgetary reporting process.

R3.15 The Finance Director needs to reestablish FRC as the gatekeeper within the Finance Department as it relates to the ownership of the accounting system, accounting policies and procedures, and the financial integrity of the City of Cleveland. DIA should not dictate accounting policies to departments and divisions of the City. DIA should be in direct communication with FRC on issues relating to the accounting system. Communication on how to record journal entries into the accounting system is the responsibility of FRC.

Accounting System

F3.17 Prior to 1999, the City utilized for nearly two decades the Financial Accounting and Management Information System (FAMIS) as its main accounting system. FAMIS was primarily used for its general ledger and financial reporting capability. During the 1990s, the City did not purchase additional FAMIS modules similar to PeopleSoft. These FAMIS modules would have provided efficiencies and eliminated various manual processes.

Several characteristics of the FAMIS accounting system environment were as follows:

- Entering of data was centralized through data entry personnel;
- Issuing of daily, weekly, monthly, and annual reports was centralized through FRC;
- The expenditure/disbursement cycle from preparing the initial purchase requisition to the vendor payment incorporated significant manual processes outside of the FAMIS system; and
- The revenue/receipt cycle from issuing a bill to recording a payment incorporated significant manual processes outside of the FAMIS system.

In April 1999, the City converted from the FAMIS accounting system to the PeopleSoft accounting system without any parallel testing. Unlike FAMIS, PeopleSoft is a table driven database application designed to provide efficiencies through the replacement of manual processes saving time and money while empowering user departments and divisions with the ability to enter data and retrieve timely information and reports.

The implementation of the PeopleSoft accounting system included several modules in addition to the general ledger module designed to streamline fundamental processes. The following efficiencies are to be realized once the system and the citywide environment (connectivity and skill level of personnel) is properly established:

- Empower the users (divisions) to create paperless purchase requisitions within the system forwarding the document through the hierarchy of electronic approval;
- Permitting users to issue bills directly from the system and record receivables directly into the system;
- Lessening the need for centralized data entry personnel;
Eliminating the need to print centralized production reports and permitting users to view and print reports at any time; and
- Empower the users to prepare receiving warrants directly into the system.

F3.18 Prior to implementation, an outside consulting firm reviewed the PeopleSoft implementation plan and rendered an opinion as to the risks of the project at that time with appropriate recommendations. The following observations rated “high” in the risk category assessed by the consulting firm:

- Many concurrent project activities are in progress as the City nears the go-live date, and regular meetings are held to discuss issues and remove barriers. However, a task list of remaining activities with dates and accountability is not maintained to ensure that all required activities are complete and accepted by the City prior to production cut-over;
- The City has not reviewed the system controls;
- Weaknesses in PeopleSoft's password management functionality must be addressed;
- The City has not completed enough testing to prove that the system, the data, the business processes and the technical infrastructure are ready to be moved into a production environment;
- Some potential business improvements identified at the beginning of the project have not yet been completed; and
- No formal, documented technical operational procedures exist at either the City level, or the Financial Department level. Some examples of technical operational procedures include change control, back up and recovery, security policies, disaster recovery and contingency.

F3.19 The PeopleSoft accounting system has been customized and modified to meet certain needs of the City. Over the last two and one-half years, the immense customization has led to a situation where the PeopleSoft system significantly differs from the original standard version leading to a serious maintenance problem for the City. The standard version obviously was not tailored to the City's specific organizational accounting requirements and therefore required many modifications. The disadvantages of modifying standard software is currently being felt by the applications development staff of FRC. The disadvantages of customization are as follows:

- FRC must allocate time, resources, and money for extensive testing of all the modules;
- Additional support services are necessary because the standard processes have been modified;
- Upgrading is difficult and requires considerably much more effort than needed for standard modules;
- Standard system documentation is insufficient and inadequate. Additional system documentation has to be developed;
- Additional training documentation also is inadequate and needs to be developed;
- Interfacing with other modules and applications is much more difficult; and
- Slowing down the implementation process.

To date, the PeopleSoft accounting system has proven to be an extremely high maintenance accounting system requiring a great deal of dedicated personnel to correct the implementation problems and sustaining the day to day operations of the system.

R3.16 In order for PeopleSoft to work for the City, FRC and the City must be fully committed to the full implementation of the system. Most importantly is that the City should limit its modifications. The more modifications the City incorporates into its software, the harder it is to accept PeopleSoft's upgrades for which the City is paying annually. Additional modifications also require additional internal staff to maintain the accounting system, primarily systems analysts. The City's commitment to PeopleSoft will require significant expenditures and dedicated resources as follows:

- Full integration of all applications and systems as overseen by a Chief Information Officer;
- Additional monies allocated to fully implement the PeopleSoft accounting system;
- Annual software maintenance required per contract;
- Costs of connecting all users with proper links and personal computers;
- The financial skill level among the users needs to be upgraded, including relevant training in relation to usage of PeopleSoft; and
- The City should align itself with the PeopleSoft software and not utilize the system to accommodate the manual practices of the past.

F3.20 Currently, purchase requisitions are manually prepared and forwarded through the channels for appropriate approval until entered into the system by the data entry staff in FRC. PeopleSoft allows a requesting department to prepare a requisition within the system and forward the paperless requisition through the approval hierarchy. Once approved, the purchase requisition will convert over to a purchase order without any data entry personnel involvement. There will be no need for additional personnel at the user divisions since the manual process currently performed at that level is replaced by direct entry into the accounting system, thereby eliminating the need for centralized data entry personnel.

F3.21 Receiving warrants which are utilized to account for revenues received by the City continue to be manually prepared by the departments and divisions throughout the City. Currently, all receiving warrants are manually prepared by the receiving department and manually assigned a receiving warrant number by DOA prior to the depositing of collections to Treasury. The receiving warrant is then entered into the PeopleSoft accounting system by the data entry personnel in FRC. The PeopleSoft system allows the receiving departments to prepare an electronic receiving warrant directly into the system without the use of a preprinted paper form and eliminating the need for data entry. The PeopleSoft system would assign a receiving warrant number and eliminate the manual assignment currently performed by DOA.

F3.22 FRC continues to print out and disseminate monthly reports to all departments and divisions. The PeopleSoft system allows users to print their own reports without involvement from FRC. The users can select what reports they need to print out or just view the information

from a computer screen. There are certain departments (i.e., Parking) in the City that do not have access to the PeopleSoft system due to a lack of connectivity issues.

R3.17 The City should utilize the PeopleSoft system to its full ability to eliminate old manual processes executed under the FAMIS system and create operational efficiencies. To date the City has not implemented many of these features PeopleSoft has to offer. FRC should implement the PeopleSoft system by empowering the users and decentralizing FRC's role of data entry and issuer of hard copy reports. The City should also make sure that all users have access to the PeopleSoft system.

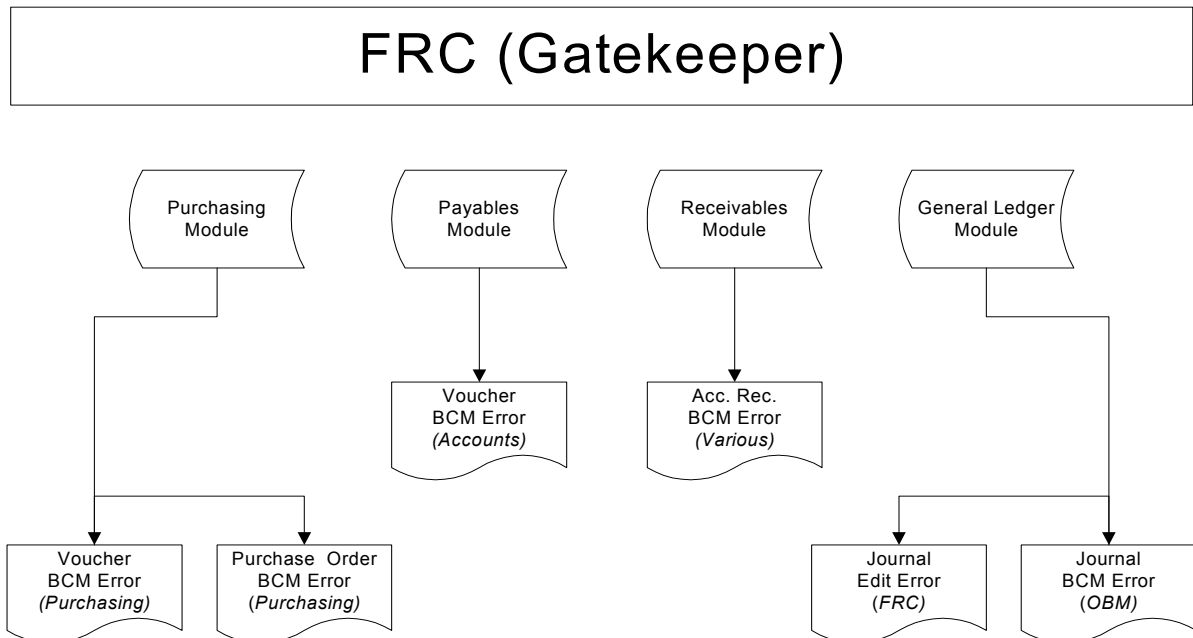
F3.23 Certain fundamental reports generated by FRC staff members that existed in the previous system (FAMIS) and are traditional to most governmental entities are not currently being generated by FRC staff members. Three years after PeopleSoft was implemented, the City has yet to establish the full array of monthly reports to ensure proper internal and external reporting of financial information. This is primarily due to the aforementioned modifications made to the system which has caused a lack of support from implementation vendors. Other reasons for failing to implement PeopleSoft fully are insufficient training of City users and a lack of quality internal technical support.

R3.18 FRC should list all the reports needed to perform its duties and communicate the desired reports to the City systems analysts. This list of reports should be reviewed, established, tested, and proven by the City's and FRC's systems analysts and the accounting personnel in FRC. Accurate and timely reports are critical to FRC's function of maintaining and ensuring financial integrity.

One example of a fundamental report details the beginning of the year balances for all accounts, all the debits and credits year to date for each account, and the current balance of each account. Since municipalities budget on a cash basis, this report is ideal in illustrating increases or decreases in cash balance with the corresponding credits and debits to cash basis revenues and expenditures.

F3.24 Outstanding entries from April 2001, remained unposted due to errors within the batch until February 2002. The entries were reviewed and either correctly posted or eliminated after careful review. **Chart 3-3** lists the six different error reports generated by the different modules and the appropriate division responsible (in parenthesis) for correcting the errors in a timely fashion. Certain divisions within the Finance Department have disputed FRC's role as the central custodian of correcting journal entry errors.

Chart 3-3: Error List

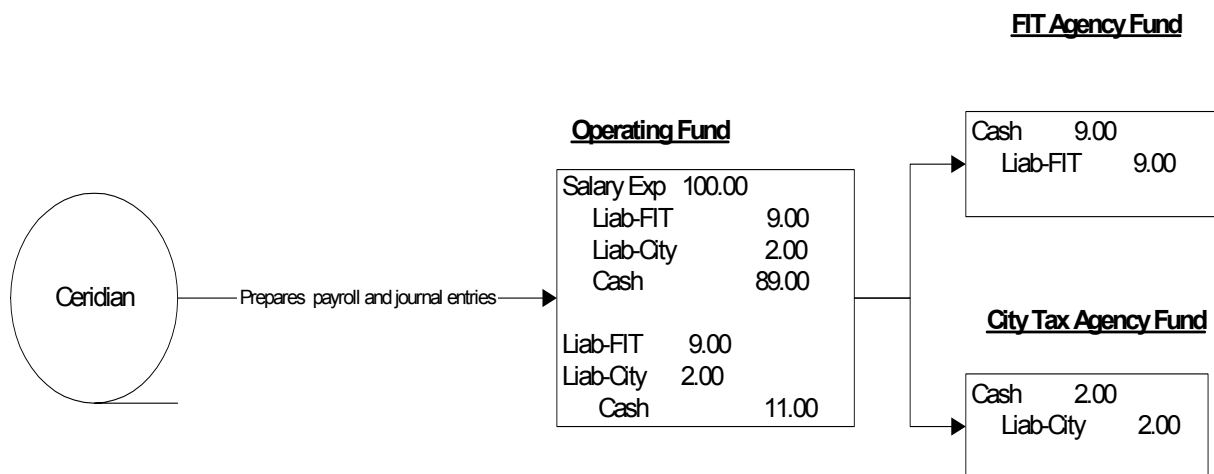


R3.19 All manual journal entries must be approved by the City Controller prior to the submission of the entries into the PeopleSoft accounting system. It is ultimately the responsibility of FRC to assure the City that all journal entry errors are properly corrected in a timely manner. All journal entries should be reviewed centrally by FRC on a daily basis with the appropriate followup with the respective departments and divisions on correcting the journal entry. The appropriate accounting supervisors within FRC are responsible for their respective funds to which the journal entries are intended to post and are ultimately responsible for clearing the error entries. FRC should educate and train the accountable divisions on correcting errors and understanding the reasons for the errors hopefully preventing recurring errors in the accounting system.

F3.25 The City’s payroll is currently being outsourced to Ceridian. The City receives information on a flat file to download the processed payroll into the PeopleSoft accounting system. Prior to the download, an FRC staff accountant must locate all payroll entries in need of a project number due to Ceridian’s inability to incorporate project codes and encode the appropriate project number. In addition, the FRC staff accountant must review all grant related payroll entries to assure proper posting to an active grant. The amount of time spent on these payroll duties by the FRC staff accountant is significant.

Payroll is normally entered initially by debiting payroll expense and crediting withholding liability accounts. The debit and credit to the liability accounts should create a zero balance. **Chart 3-4** presents an example of the postings.

Chart 3-4: Payroll



R3.20 For the short term, Agency Funds relating to payroll withholding should be reconciled to the appropriate balance at any given date. For the long term, Agency Fund accounting should be discontinued. A proper working accounting system such as PeopleSoft should decrease the number of transactions and eliminate the need for making entries to the Agency Funds and initiate the correct utilization of liability accounts within the operating funds. Grant administrators should be held accountable to properly record payroll properly into active grants. The City should acquire and fully implement the PeopleSoft payroll module allowing for full integration of payroll into the accounting system.

Preparation of CAFR and Other Various Accounting Duties

F3.26 Most staff members, including the individuals instrumental in preparing the CAFR did not have a copy of the prior year CAFR. In addition, the entry for the inventory of supplies, for the East Side Market, has been the same \$10,000 amount for over four years.

R3.21 FRC must realign and reestablish its organizational structure in accordance with its fund structure and have dedicated staff accountants monitoring and fully understanding the mechanics of the respective funds. These same staff members will also be ultimately responsible for all accrual entries of their respective funds. FRC must allocate sufficient time for completing the CAFR and preparing for the City’s annual audit by establishing a schedule/timetable adhered to by all staff members. The schedule/timetable should include

tasks, responsible persons, and the allotted time necessary to complete such tasks. Outside divisions and departments need to be informed by FRC, as early as possible, on specific audit requests and reports needed to assemble the financial statements.

- F3.27 Due to the turnover within the FRC Division, the communication from outgoing employees to incoming employees left several duties unfulfilled such as the distribution of certain income taxes. The City is responsible for the collection and distribution of withholding income tax that is specifically generated by the Gateway Project and other revenue sharing projects. Amounts received are deposited into a special revenue fund on a monthly basis and a schedule is prepared by the Central Collection Agency (CCA) which determines the amount to be paid to the City's General Fund and Restricted Income Tax Fund, Cuyahoga County, and the Cleveland Board of Education.

Based on the agreements, tax amounts should be distributed to the appropriate entities twice a year. FRC is ultimately responsible for the semi-annual distribution. Based on the most recent schedule submitted by CCA and the cash balance within the Gateway Shared Income Tax Special Revenue Fund of over \$4 million, the City has not distributed any amounts for the distribution years 2000 and 2001. A review of the fund in the 2000 CAFR indicates a cash balance and an unreserved and undesignated balance of \$2.5 million exists with a zero balance in "Due to Other Funds" and "Due to Other Governments".

- R3.22** Coordination within both the CCA and FRC divisions should be established to assure that the disbursement of funds from the Gateway Shared Income Tax Special Revenue Fund are performed timely and accurately. Since CCA prepares the schedule of restricted income tax deposits and the appropriate reallocation of such funds, they should be responsible for the initiation of the disbursement process of the restricted income tax revenues to the various entities. The FRC should approve the entries made in the financial statements for the Special Revenue Funds and should understand the mechanics of reporting the liabilities.

- F3.28 The East Side Market receives a monthly check from its sole tenant. The check is forwarded directly to an FRC staff accountant, who prepares a receiving warrant, attains a receiving warrant number from the Division of Accounts, and deposits the check to the Treasury. Prior to FRC performing this duty, the check would be processed by a staff member of the Parks, Recreation, and Properties Department. FRC began processing the monthly check when the staff person ceased employment with the City.

- R3.23** FRC should assign the recording and depositing function back to a staff member within the Parks, Recreation, and Properties Department. Clerical duties are the responsibility of the user divisions. FRC should not be performing clerical duties of other departments and divisions. FRC should continue to record only the revenues which are considered non-departmental such as property taxes and estate taxes.

Conclusion Statement

The FRC Division needs to establish an effective organizational structure. Currently, the limited amount of staff members are assigned more centralized accounting duties including clerical duties handed down by outside departments and divisions. The staff's attention to the full working order and appropriateness of the funds has decreased significantly. To provide the ability to monitor, control and report effectively and efficiently, the Division should be divided into four sections with a respective supervisor heading each section and the appropriate number of staff assigned to the following four sections: Cash; General Fund, Debt Service, Trust & Agency; Special Revenue; and Capital Projects and the Proprietary Funds.

In the recent hiring of two individuals as the Controller and Assistant Controller, the City addressed the issues of experience and leadership. Both individuals were at one time employed within FRC. The knowledge and experience coupled with the supervisory and managerial skills each one possesses should provide a strong first step towards staffing FRC with competent leaders.

In addition to reestablishing the accounting sections within FRC, a fiscal grant administrator should be moved to FRC from Internal Audit to oversee and coordinate all grants secured by the City. Also, FRC should not retain the data entry personnel and computer system troubleshooters they presently have as staff. In conjunction with a strong Chief Information Officer, the City should develop Information Systems Services as the systems analysts and development personnel. This restructuring would allow FRC to return to accounting systems and reporting.

Under the leadership of the Finance Director, FRC needs to reestablish itself as the gatekeeper within the Finance Department as it relates to the ownership of the accounting system, accounting policies and procedures, and the financial integrity of the City of Cleveland. As a result, the City's management reliance on timely and accurate financial information will ultimately be met assuring compliance with budgets and grant regulations and providing the appropriate base for financial decisions and future planning purposes.

The PeopleSoft accounting system should replace many of the current manual processes and provide numerous efficiencies by enabling the users (outside departments and divisions) to enter information directly into the system and retrieve report information directly from the system. A monumental challenge for FRC is to overcome the less than desirable implementation of the PeopleSoft accounting system.

The City should take advantage of the new system through the careful and appropriate incorporation of all the features that PeopleSoft has to offer. This will occur when the City fully understands the PeopleSoft accounting system and most importantly establishes the necessary controls and security measures in empowering the users access to the system.

Finally, FRC has assumed many duties due to outside departments and divisions inability to perform such tasks. FRC must coordinate the establishment of strong accounting personnel in each user department, to help coordinate a strong citywide accounting system. Once reliability is established, FRC's role as accounting and reporting will be restored and the City Finance Department will ne strengthened.

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Division of Treasury

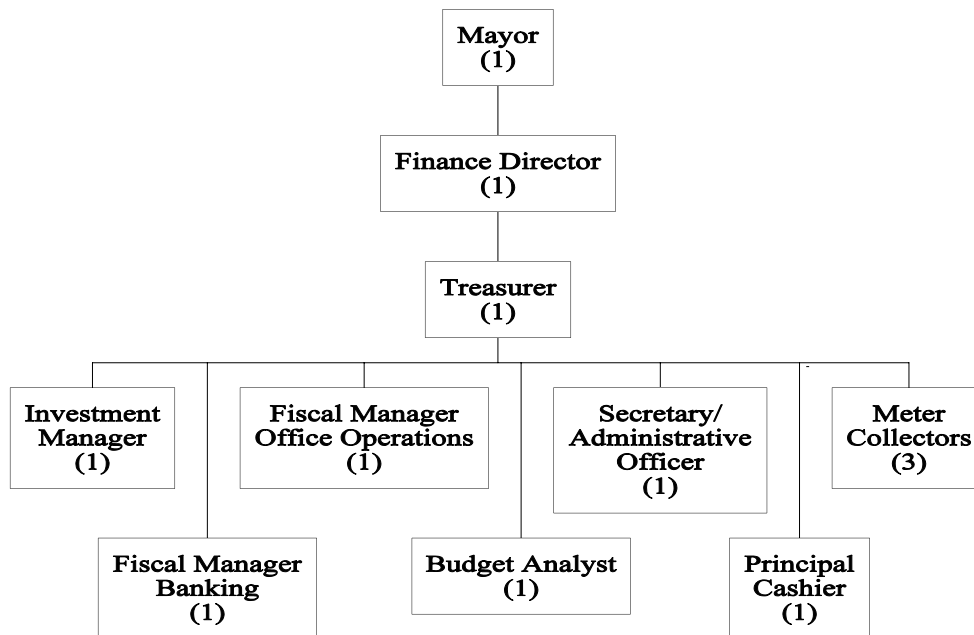
Background

This section summarizes the operations of the City of Cleveland’s (the City) Division of Treasury (Treasury). The Treasury is responsible for investing City funds according to the City’s codified ordinances and investment policy, receiving and depositing cash, and warrant disbursement. A functional role of the Treasury is to provide safety and liquidity of all City funds per requirement of applicable ordinances.

Organizational Structure

Organizational chart, **Chart 4-1**, depicts the current reporting relationships and staffing for the Treasury.

Chart 4-1: Division of Treasury’s Organizational Chart



Staffing

Table 4-1 presents the Treasury’s actual staffing levels from 1999 through 2001, and their budgeted staffing levels for 2002.

Table 4-1: Treasury’s Staffing Levels

Position Title	Actual 1999	Actual 2000	Actual 2001	Budget 2002
Treasurer	1.0	1.0	1.0	1.0
Investment Manager	2.0	1.0	1.0	1.0
Fiscal Manager - Office Operations	1.0	1.0	1.0	1.0
Fiscal Manager - Banking	0	0	1.0	1.0
Budget Analyst	0	0	1.0	1.0
Principal Cashier	1.0	1.0	1.0	1.0
Secretary/Administrative Officer	1.0	1.0	1.0	1.0
Meter Collectors	3.0	3.0	3.0	3.0
Total	9	8	10	10

Source: Mayor’s Estimate and the Treasurer

As indicated in **Chart 4-1**, the Treasury consists of ten full time employees.

The Treasury is responsible for depositing the City’s monies, investing activities for various departments, disbursing, managing bank accounts, regulating wire transfers, and maintaining savings bonds for employees. Each main function in the Treasury has a regular employee assigned and a back-up employee available when necessary. See **Appendix A** for position descriptions.

Governing Laws, Rules, and Regulations

There are many City Codified Ordinances and Ohio Revised Code sections that govern the operations of the Treasury. The following are considered to be the major sections.

The Ohio Revised Code Section 9.38, “Deposit of public moneys”, requires that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt.

The City’s Investment Policy was promulgated pursuant to Codified Ordinance Section 178.14. Section 178.12 lists the eligible investments. Section 178.14 requires that the Director of Finance shall promulgate a cash management and investment policy for the City consistent with the provisions of this chapter, which shall include, but not be limited to, the following:

- Identification of the funds to be managed and invested in accordance with the policy;
- Authorized investments and the extent of funds to which the City may invest them;
- Policies and procedures for daily investing, documenting, and safekeeping;
- Reporting Requirements;
- Procedures for evaluating eligible depositories and securities dealers; and
- System of internal controls governing the deposit and investment of public monies and a procedure for reviewing and monitoring these controls.

The ordinance states, “On an annual basis, the Cash Management and Investment Policy shall be reviewed by the Director of Finance and, if the Director deems necessary, be revised and updated. A copy of the Cash Management and Investment Policy promulgated or revised and updated pursuant to this section shall be delivered to the Clerk of City Council by April 1st of each year and published in the City Record.”

Summary of Operations

The Treasury has been assigned to administer the City cash management program. Cash management or liquidity management includes the functional areas of controlling the City’s cash resources from the time of deposit and investment to the disbursement of funds. Currently, the Treasury is responsible for six functional policy areas that are designated as components in the City of Cleveland’s overall cash management policy. The six functional policy areas are as follows: deposits, investments, disbursements, maintaining bank accounts, wire transfers, and savings bonds.

The Treasurer establishes objectives of the cash management program that are within the limits stated by the Treasury’s policies and procedures. As the City’s cash manager, the Treasurer is responsible for the utilization of City cash resources and maintaining the safety and liquidity of investments.

Investment activity and the management of cash resources is dependent on the predictability of cash flows. The Treasury is required to maintain a cash flow forecast used by the Treasurer and Investment Manager in the determination of daily investment activity. The investment of City funds is determined by the available cash from various operating unit’s funding sources and the cash requirements predicted by the Treasury’s Budget Analyst.

Treasury staff are assigned duties that are delegated in order to facilitate the stated objectives and goals of prudent cash management. The complete and accurate recording of the deposit, investment, and disbursement of City funds is a required function of the Treasury. The City Treasurer is responsible for maintaining the necessary reporting of cash management and investment activity and conveying the information to Financial Reporting and Control (FRC). The compliance with all stated policies and legal directives is overseen by the City Treasurer.

Performance Measures

- Assessing the Treasury functions of investment operations, compliance, and rate of return;
- Evaluating processing systems over collections and depositing; and
- Evaluating controls over disbursements.

Findings/Commendations/Recommendations

Investment Operations, Compliance, and Rate of Return

- F4.1 The Treasurer controls an investment portfolio with an average balance of \$587,648,912 and daily invests about \$9 million. The Treasury receives and deposits \$2.5 million per day on average.
- F4.2 The Treasurer, Investment Manager, and Fiscal Manager - Banking are each involved in the investing process. They each attended the annual investment seminar given by the State of Ohio, Office of the Treasurer, and received certificates of completion.
- F4.3 The City maintains an Investment Policy which was promulgated pursuant to Codified Ordinance Section 178.14. Section 178.12 lists the eligible investments.

The eligible investments listed in Codified Ordinance Section 178.12 should match the investments listed in the Investment Policy, however this was not the case. The Investment Policy included “derivatives” as an eligible investment and the Codified Ordinance did not grant permission to invest in this type of instrument. Also, the Investment Policy did not include bonds and notes of the state or local governments as eligible investments, but the Codified Ordinance did.

- F4.4 Codified Ordinance Section 178.14 states that the Investment Policy should outline “Reporting requirements to be prepared by the Director of Finance or the Director’s designee”. The Investment Policy does have a section listing the reporting requirements which are as follows:

- Each business day the Treasurer shall provide the Commissioner of Accounts and the City Controller a sworn statement showing the total amount deposited in and total amount withdrawn from each depository the preceding business day. (The Daily Treasurer’s Report).

The Daily Treasurer’s Report was not prepared during 2001, however, the Treasurer has begun preparing this report during 2002.

- No later than the fifteenth business day of the following month, the Treasurer shall provide the City Controller with statements which will list the par and market value of collateral held by the Federal Reserve Bank of Cleveland and third party custodians securing the deposit of public moneys in eligible depositories.

The Treasurer only provides the City Controller with statements that list the par and market value of collateral held by the Federal Reserve Bank of Cleveland at year-end.

- No later than the tenth business day of the following month, the Treasurer shall make to the City Controller, a sworn statement which will include the par and market value of outstanding investments; the average maturity of the investment portfolio, the average yield on the investment portfolio, the securities purchased pursuant to repurchase agreements and an analysis that the required ratio of securities purchased to the principal dollar amount of the investment in each repurchase transaction was maintained as required by Section VII (B) (2) of this Policy.

The Treasurer does not prepare this report. Currently FRC prepares and maintains the investment portfolio which is reviewed by the Treasurer monthly. The investment portfolio doesn't include the market values, the average yield on the portfolio, or securities purchased pursuant to repurchase agreements.

- A weekly financial report of the status of the City's commingled cash and investment position will be provided to the Director of Finance by the City Treasurer.

The Treasurer does not prepare this report weekly. The investment portfolio, including commingled cash and investment position, is presented monthly to the Director of Finance by the Treasurer.

- Quarterly commingled cash balance, interest income, and interest rate forecast reports will be provided to the Director of Finance by the City Treasurer.

The quarterly commingled cash balance, interest income, and interest rate forecast reports are not provided to the Director of Finance by the Treasurer.

- An annual review of this policy shall be conducted by the Director of Finance and an annual submission of this document shall be made to City Council by April 1st. Eligible depositories and eligible broker/dealer shall receive notice of changes to this document as well.

There was no evidence that the policy had been annually reviewed by the Director of Finance or that the policy had been revised.

- A copy of the Cash Management and Investment Policy promulgated or revised and updated pursuant to this section shall be delivered to the Clerk of City Council by April 1st of each year and published in the City Record.

The Clerk of City Council verified that City Council did not receive a copy of the Investment Policy by April 1, 2001; subsequently, there was no publication in the City Record.

R4.1 The Treasurer should provide the following reports in order to comply with the City's Investment Policy requirements which are promulgated pursuant to Codified Ordinance Section 178.14:

- The Treasurer should provide the City Controller with statements that include the third party custodians securing deposits in eligible institutions;
- The Treasurer should make to the City Controller, a sworn statement which will include the par and market value of outstanding investments, the average maturity of the investment portfolio, the average yield on the investment portfolio, the securities purchased pursuant to repurchase agreements, and an analysis that the required ratio of securities purchased to the principal dollar amount of the investment in each repurchase transaction was maintained as required by Section VII (B) (2) of the Investment Policy;
- The Treasurer should provide a weekly financial report of the status of the City's commingled cash and investment position to the Director of Finance; and
- The Treasurer should provide quarterly commingled cash balance, interest income, and interest rate forecast reports to the Director of Finance.

Additionally, in regards to the Investment Policy, the following should be performed:

- An annual review of the Investment Policy should be conducted by the Director of Finance and an annual submission of this document shall be made to City Council by April 1st. Eligible depositories and eligible broker/dealer shall receive notice of changes to this document as well;
- A copy of the Investment Policy, whether updated or not, should be submitted to the Clerk of City Council, by April 1st. The receipt of the Investment Policy by City Council should be published in the City Record; and
- A copy of the Cash Management and Investment Policy promulgated or revised and updated pursuant to this section should be delivered to the Clerk of City Council by April 1st of each year and published in the City Record.

F4.5 The Government Finance Officers Association recommends that the governing bodies and the public remain informed of the current market value of the portfolio. Regular disclosure

of the value of a governmental entity's investments is an important step to furthering taxpayer and market confidence in state and local government investment practices. The City does not currently include market values in their investment reports.

R4.2 We recommend that the Treasurer include fair market value for each security listed in their investment reports.

F4.6 The City's investment policy outlines the eligible investments and details a maximum diversification. **Table 4-2** lists the type of investment instrument, its percentage maximum diversification, and its actual diversification.

Table 4-2: Diversification of Cleveland's 2001 Investment Portfolio

Type of Instrument	Maximum Diversification Percentage by Instrument Allowed by Investment Policy	Actual Diversification by Instrument
Certificates of Deposit	100%	.5%
U.S. Treasury	100%	0%
GNMA	5%	0%
Federal Agency Obligations	35%	31.7%
StarOhio	50%	64.9%
U.S. Government Money - Money Market Funds	5%	0%
Repurchase Agreement	50%	2.4%

According to **Table 4-2**, the City has exceeded the maximum limits for diversification by instrument for StarOhio in the City's 2001 year end investment activities. The City invested 64.9 percent in StarOhio, when their limit was 50 percent. The Treasurer invested heavily in StarOhio due to the market trend over the last six months. The City of Cleveland does not have an investment control board/committee to monitor the Treasurer's compliance with the City's Investment Policy.

R4.3 We recommend that the City establish an Investment Control Board (ICB) consisting of the City Council Finance Committee Chair, Mayor, Finance Director, Law Director, and Treasurer. The ICB should perform the following functions on a monthly basis:

- Review compliance with City Ordinances;
- Review the rate of return on investments made by the Treasurer;
- Review cash flow analysis performed by the Treasurer;

- Monitor maturity dates; and
- Make necessary adjustments to the Treasurer’s investment limits.

City of Warren and Cuyahoga County both have boards for the purpose of monitoring the investment process. Chartered municipalities that are not required to follow the Ohio Revised Code are recommended to establish an investment control board through their charter or investment policy. Counties are required by Ohio Revised Code Section 135.341 to establish an Investment Advisory Committee to monitor the investment process.

F4.7 We compared the City’s rate of return on investments made by the Treasury to Cuyahoga County and Geauga County. See **Table 4-3** for the comparison.

Table 4-3: Rate of Return Comparison

Entity	Average Investment Inventory Balance	Interest Earnings	Rate of Return
City of Cleveland	\$587,648,912	\$30,912,723	5.26%
Cuyahoga County	\$564,971,219	\$30,313,016	5.37%
Gauga County	\$49,130,783	\$2,743,978	5.59%

Source: Treasurer of the City of Cleveland, Cuyahoga County Treasurer, Geauga County Treasurer

The analysis in **Table 4-3** shows that the City Treasurer’s rate of return is 11 basis points lower than the Cuyahoga County and 33 basis points lower than Geauga County. In order to project what the City’s Treasurer could make with more aggressive investing practices, we took the average of the county’s rates of return and calculated 5.48 percent to be a benchmark. With a rate of return of 5.48 percent the City would have earned approximately \$1.3 million additional interest income. The Treasurer does not calculate the rate of return on their investment portfolio.

F4.8 The City has over 100 bank accounts and only six percent of these accounts earn interest. Of these accounts only two have sweep accounts, which are with Metropolitan Bank. These are not main bank accounts. We analyzed the City’s National City Bank account #200-3280 to determine if it earns interest. The bank account has a monthly “Activity Analysis” statement which shows how much interest is earned on the account and the bank fees applied to the interest. The interest is used to offset the fees charged, and it has never realized interest. At the end of the year if there is a positive interest balance it automatically goes to zero, the City does not receive an interest payment. However, if at the end of the year there is a negative balance because the fees were greater than the interest applied, then the City owes the bank that negative amount.

There exists, at Fifth Third Bank, a repurchase agreement that provides the same interest rate as StarOhio. Using StarOhio’s average monthly rate of return for 2001 of 4.07 percent and

the average 2001 month-end balance of \$1,848,684 for National City Bank account #200-3280, this account would have earned about \$26,443 in additional interest annually with this type of repurchase agreement.

R4.4 The Treasurer controls an average investment portfolio of over \$580 million, invests about \$9 million daily, and receives and deposits an average of \$2.5 million per day. Because of this level of activity, the Treasurer should negotiate agreements with financial institutions which will eliminate banking charges and insure that all City funds are earning interest.

F4.9 A cash flow analysis is a good tool to use in order to monitor the cash flow and cash needs of the City. This analysis is used by investors to determine the level of funds they have to invest over what period of time. The Treasurer currently utilizes a daily cash flow analysis and says they are in the process of implementing a long-term cash flow analysis.

R4.5 We recommend that the Treasurer utilize a long-term cash flow analysis worksheet. This worksheet projects the cash flow over the period of at least one year and calculates and monitors the average rate of return on the investment portfolio. Creation of this analysis, in-line with the newly formed ICB will ensure the City's investments are maximized, secured, and meet the cash flow needs of a City spending about \$1.2 billion annually.

Additionally, an analysis should be performed on the type of bank accounts open for their purpose and usefulness. The Treasurer should consider entering into repurchase agreements on any idle funds and determine the reason for any City money sitting idle.

F4.10 A list of the approved depositories, which have depository agreements, are on file with Treasury. The Treasury receives collateral statements from the depositories on a quarterly basis. All of the securities used as collateral are segregated physically or in book-entry form or are part of a collateral pool held at the Federal Reserve Bank in the name of the respective depository bank. If a depository wishes to move securities which are pledged to the City, they must give notice, in writing, to the City for their approval.

Codified Ordinance Section 178.10 states that the City Treasurer shall require the eligible depository to pledge to and deposit with the City Treasurer, as security for the repayment of all public monies to be deposited in the eligible depository, eligible securities in the aggregate market value equal to one hundred and ten percent (110%) of the amount of public monies to be at the time so deposited. Currently Ohio Revised Code Section 135.18 requires at least one hundred percent (100%) of the amount of public monies to be at the time so deposited.

Table 4-4 shows the total cash and deposits balance, deposited with the designated depository at December 31, 2001 for each depository held by the Treasurer in line with GASB Statement No. 3.

Table 4-4: Securities Pledged Against Bank Balances

Depository	Bank Balance at 12/31/01 ¹	Pledged Securities at 12/31/01	Percent Pledged
National City Bank	\$24,312,244	\$8,307,504	34%
Key Bank	\$24,590,369	\$23,646,564	96%
Charter One Bank	\$2,451,020	\$2,765,000	113%
Metropolitan Bank	\$14,861,777	\$17,265,410	116%
Bank One	\$8,169,311	\$14,507,655	177%
Huntington Bank	\$535,004	\$1,831,445	342%

Source: December 31, 2001 bank statements and collateral statements

¹The amounts in the column "Bank Balance at 12/31/01" do not include the \$100,000 covered by the Federal Deposit Insurance Corporation coverage.

As shown in **Table 4-4**, the City's funds, on December 31, 2001, are not fully collateralized for the two banks with the largest total bank balances, National City Bank and Key Bank. There is only one security totaling \$8,307,504 pledged against the deposits held in National City Bank, which accounts for 34 percent of the total bank balance at December 31, 2001. There are four securities which total \$23,646,564 pledged against the deposits held in Key Bank, which accounts for 96 percent of the total bank balance at December 31, 2001.

R4.6 The Treasurer should develop procedures to monitor the percentage and types of securities pledged against deposits to verify that the depositories are fully collateralizing the City's deposits with allowable securities. This monitoring procedure should be performed weekly and the report prepared has to have the physical sign-off of the Fiscal Manager - Banking. Once formed, the ICB should receive these reports monthly, for their review.

F4.11 Of the many bank accounts that the City Treasurer maintains, there are many statements that are not addressed to the current Treasurer. Past treasurers and other departments are addressed on the bank statements. There is no uniformity in who the bank statements are addressed to.

R4.7 We recommend that all applicable City bank account statements be addressed to the Treasury. Since the Treasurer is the signatory, the Treasurer should be receiving the bank statements. A copy of the daily bank activity and monthly bank statements, should be provided to FRC to insure the internal controls over the reconciliation process are complete.

F4.12 The City of Cleveland's Treasury is one of eleven divisions that report to the Finance Director. This reporting relationship has been depicted in **Chart 4-1**.

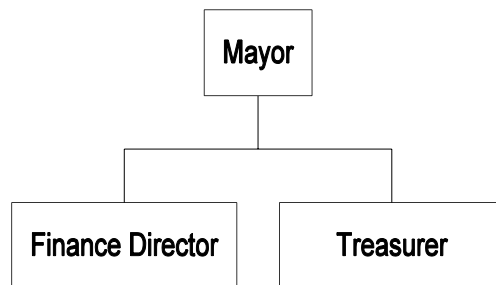
R4.8 We recommend that the Treasurer, due to the required dynamic nature of the position, the need for segregation of duty, and the functions of the division, report directly to the Mayor rather than the Finance Director.

The person that holds this position should be an individual who will maximize the revenue generating potential of the City’s cash and investments, ensure the safeguarding of collections, and manage cash flow operations. This individual should have at least ten years experience in the investment of public funds. Additionally, being a Certified Financial Analyst, a Certified Cash Manager, or having a Masters Degree in Business Administration is recommended. The salary range to retain the services of a person so dynamic and experienced should be in the range of \$120,000 to \$150,000 which is in-line with the proposed salary the current administration has suggested for the head of a division with this level of importance. This is also in-line with a position where a conservative increase of one half of a percent on the rate of return could generate \$3 million in revenue for the City.

This change in reporting, would require an affirmative vote of the citizens of Cleveland to repeal Chapter 17, Section 99 of the City Charter.

Chart 4-2 is our proposal for the City of Cleveland’s reporting structure.

Chart 4-2: City of Cleveland’s Organizational Chart Proposal



Collection and Deposit Procedures

F4.13 As of December 31, 2001, the Treasury does not have City Council approved policies and procedures. However, they do maintain policies and procedures developed by the Treasurer's office. The Cash Management Instructions section was distributed in October 2001, among the various departments that have cash collection points within the City. Although these policies and procedures have never been formally approved by the City Council, the departments have been instructed to refer to and comply with the procedures when handling cash and making deposits. The following is a summary of those policies.

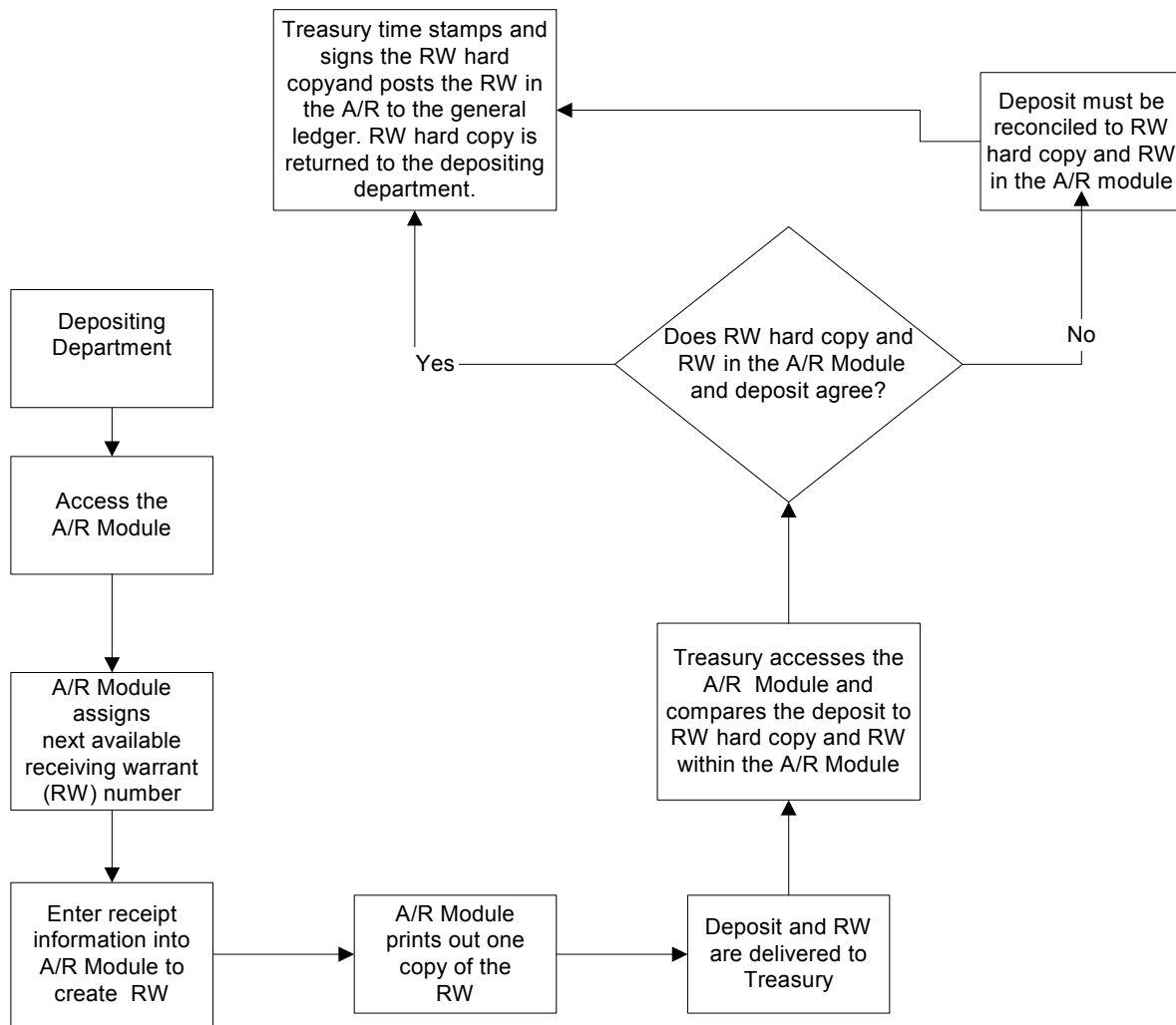
- All funds collected by a City of Cleveland operating division must be recorded via log and/or cash receipt and prepared for deposit. Funds should be deposited with the City Treasury or in an approved depository within 24 hours of receipt or the next business day in the event of a weekend or holiday. The individual operating department/division should have policies and procedures to safeguard and maintain adequate control of cash receipts.
- A four part receiving warrant should be prepared for each deposit. The receiving warrant(s) must be forwarded to the Division of Accounts (DOA) to be assigned a number and then delivered to the Treasury office. The pink copy of the receiving warrant will be stamped by Treasury and returned to the operating division. The receiving warrant copy and supporting documentation should be maintained by the operating division and readily available for review or audit.
- For funds deposited with the City Treasurer, the deposit should be delivered to the City Treasurer with the corresponding receiving warrant. The four part receiving warrant should be properly completed and assigned a number by the DOA before it is delivered to the Treasury office for deposit. All checks should be properly endorsed by the department/division before they are brought to the Treasury office for deposit. It is the responsibility of the operating division to maintain documentation to support the deposits made with Treasury and the corresponding receiving warrant amount.

A staff member (usually the head cashier) in the Treasury takes the cash (and/or checks) and the receiving warrant; then stamps, signs, and dates the receiving warrant. All cash is counted and verified to the receiving warrant. The checks being deposited are given to the Treasury with a register tape (sums up all checks) attached to the receiving warrant. A copy of the receiving warrant is given back to the department making the deposit, one is kept in the Treasury, one was already retained by the DOA, and the forth copy is given to FRC for filing. Data processors use DOA's copy of the receiving warrant to enter the data into the PeopleSoft system.

- For funds deposited directly with the bank, the cashier or designated employee must complete a deposit slip for the total funds collected each day. The deposit slip must indicate the bank account number and deposit amount. The cashier or designated employee must maintain a filing system that contains the bank deposit detail including copies of receiving warrants, deposit receipts, and reconciliation reports. The deposit must be delivered to the bank within 24 hours of receipt or the next business day. The Treasury should maintain a copy of the deposit receipt attached to the yellow copy of the receiving warrant.
- The operating division should reconcile cash receipts to the deposit amount and the total recorded on the receiving warrant. The City's operating division should maintain sufficient documentation to assist in verifying deposits and information recorded in the accounting system.
- The instructions outlined herein are intended to provide general guidance with respect to the cash collection and handling of City funds. The appointing authority for each cash collection point should ensure that policies and procedures are in place at their specific location(s) to provide for the safe handling of City funds.

R4.9 Having the Division of Accounts assign the receiving warrant number is a time consuming and unnecessary process. We recommend that the City explore utilizing PeopleSoft to create a process where the individual departments go on-line for the “receiving warrants”. While the system has not been tested, a proposed electronic version of the process is presented below in **Chart 4-3:**

Chart 4-3: Proposed Electronic Receiving Warrant Process



F4.14 It was noted in the management letter of the City of Cleveland's 2000 financial audit that the City did not have a listing of all the cash collection points throughout the City, nor the average amount of cash collections at each of these locations. The City did, however, provide a listing of the major cash collection points. We obtained a revised list, as of December 31, 2001, of cash collection points that deposit funds through the Treasury. There are approximately 90 operating units listed. The frequency of deposit and average daily amount of cash collected at these points were not readily available.

R4.10 In order to monitor the consistency of deposits from the various cash collection points, we recommend that the Treasury include on their cash collection points list, the average daily amount of cash collected at these points. The cash collection list should be utilized to monitor cash flows from each location and a weekly analysis should be performed.

Disbursements

F4.15 Warrants for vendors are printed in the Treasury. A summary warrant register is run from PeopleSoft each time the warrants are printed. The warrants are held for three days in the Treasury and then mailed out. The date the warrants are mailed is written on the summary warrant register. Vendors may pick up their checks in the Treasury within three days. However, if the vendor wishes to pick up their check later than three days a "request for hold" must be made.

Warrants that are to be mailed out are sent through a fold and seal machine and then distributed. When warrants are picked up in the Treasury, the vendor must sign the daily warrant sign-out sheet. The payee, warrant number, printed name, and signature are filled out for each warrant pick up. The "request for hold" memo is attached to the voucher and sent to the DOA and retained by the Treasury.

Currently, the "request for hold" memo is either sent to the DOA or the Treasury, but not both. As a result, there are internal control weaknesses between the departments and some warrants are not being held in the Treasury per the request.

R4.11 We recommend that the Treasury establish procedures requiring departments to fill out the "request for hold" memo and send it to both the DOA and the Treasury. This procedure will increase efficiency.

F4.16 There are four types of wire transfers made by Treasury which are as follows: Treasury's investment wire transfers; vendor wire transfer payments; bank to bank wire transfers; and daily reimbursement transfers. Treasury wire transfers, initiated in the Treasury, include activity for investment redemptions, interest, and investment purchases. Vendor wire transfer payments, initiated by DOA, are payments for vendor's goods and services. Bank to bank wire transfers, initiated in FRC, relate to transfers between banks for internal

billings. Reimbursement wire transfers, initiated in FRC, are wire transfers relating to repayment of accounts.

F4.17 It was noted during the City of Cleveland's financial audit of the fiscal year ending December 31, 2000, that there were various errors pertaining to the accounting entries pertaining to the investment wire transfers. The following errors were noted:

- Investment wire transfers were not posted onto the database timely;
- There were investment wire transfers noted that had incorrectly entered amounts and account fields;
- Debits and credits were reversed; and
- Wire transfers were transferred into the incorrect bank account.

In order to analyze the wire transfer process, we obtained an understanding of FRC's role in the investment wire transfer function. The Treasurer submits the "Treasury Wire Transfer Summary", which is attached to the "Investment Journal Entry Form", to the FRC Cash Supervisor. In order to track the timely posting of entries, the Treasury has the Cash Supervisor sign and date their copy of the forms that he receives. The Cash Supervisor then forwards the forms to the Data Processing Supervisor who divides all forms received between herself and two other data processors.

The Cash Supervisor indicated that these investment wire transfer errors were purely a result of human error during the data entry process. In order to prevent incorrectly entered amounts, FRC is in the process of obtaining a "Control Total" function to enable the data processing personnel to balance the source document to what they are entering into the system. The data processing supervisor currently performs a cross check each day to verify that all the documents were entered into the system correctly.

Wire transfers are listed on the "Daily Reimbursement & Bank to Banks" spreadsheet. Once the Treasury has obtained all the supporting documents for each wire, and the Treasurer has approved and signed them, the wire transfer can be made. A wire transfer is made by accessing the paying bank's wiring software. Once all the wire transfer information is entered into the computer by the Investment Manager or Fiscal Manager, a second staff member has to verify all information and authorize it. The symbol "OK" is selected by the authorizing employee, and the wire transfer is transmitted. The next day an employee, other than the initiating one, matches the "Daily Reimbursement & Bank to Banks" spreadsheet to the bank statements (downloaded daily) to verify the transfer was transmitted completely and accurately. Within a few days, the bank receiving the transfer will send the Treasury a confirmation, which is then matched to the spreadsheet and bank statement.

R4.12 The control procedures for investment wire transfers appear adequate to detect errors and ensure posting to the database in a timely manner. The Treasury should take the necessary steps to ensure that procedures are properly followed and that controls are not circumvented. The City should periodically assign the Division of Internal Audit to run tests of all four forms of electronic transfers and the corresponding internal controls necessary to ensure compliance and avoid costly errors.

Conclusion Statement

The Treasury has an average portfolio of over \$580 million and invests about \$9 million daily. The Treasury collects over \$2 million daily and disburses about \$1.2 billion yearly. In-line with the responsibility of collecting, depositing, investing, and disbursing such funds, and seeking independence in reporting, the Treasurer should report directly to the Mayor. Also, an independent committee (Investment Control Board) should both monitor and help the Treasurer aggressively seek the highest interest, the most efficient cash flows, and adhere to the City Charter, City Ordinances, Ohio Revised Code laws, and prudent government financial practices.

This report suggests that the City create a Director position reporting to the Mayor. This individual should be an experienced public funds manager with the ability to achieve, \$3 million in additional revenues for the City through increased rate of return on investments.

The Treasurer should pursue opportunities to employ the current PeopleSoft software to promote cost efficiencies in the depositing functions and to improve reporting controls over the City's cash and investments. As such, a new receipting process, consistent with the most current software applications, should be implemented.

Finally, the Treasurer must be an effective disbursement agent for City funds. Development and enforcement of effective controls over the disbursement of City funds must be a priority in order to safeguard these assets.

Appendix A

The following position descriptions are based on written job descriptions and information supplied by the Division of the Treasury.

The functions to be performed by the Treasurer include:

- Supervising the performance of cash collection, investment, and disbursement tasks;
- Preparing, reviewing, and approving documents related to treasury functions;
- Reviewing and analyzing bank statements and other bank information;
- Providing information and recommendations to other city divisions concerning cash matters;
- Preparing reports for Community Reinvestment Review Committee, Finance Director, Mayor, and Council; and
- Preparing special Treasury reports and studies as requested.

The functions to be performed by the Investment Manager include:

- Reviewing daily bank account cash balances;
- Reviewing the Investment Portfolio;
- Preparing the daily cash control worksheet;
- Preparing all investments of city funds;
- Maintaining records of Investment Transactions;
- Preparing transactions/journal entries for entry into the accounting system;
- Preparing journal entries for (FRC) bank to bank transfers/reimbursements;
- Preparing journal entries of interest earnings by bank account;
- Printing warrants daily;
- Providing for vendor warrant pick-ups;
- Back-up for cashier as needed;
- Providing the training of new employees as needed;
- Maintaining banking software and passwords;
- Working with Treasurer in the development of investment reports for each division;
- Working with Treasurer on the development of internet banking access/services;
- Responding to employee and public inquires related to status of payments;
- Attending auctions of city vehicles and equipment - collecting funds for deposit; and
- Providing FRC assistance in the bank account reconciliation.

The functions to be performed by the Fiscal Manager - Office Operations, include:

- Printing warrants daily;
- Preparing deposit bag and records for transport to various banks by Brinks Incorporated;
- Reviewing daily bank account cash balances;
- Serving as a back-up for investment manager - preparing daily cash control worksheet;

- Maintaining city-wide petty cash funds;
- Maintaining Treasury Office policy and procedures;
- Preparing Treasury Office annual budget;
- Reviewing and commenting on all audit issues;
- Working with Treasurer on the development of cash flow analysis;
- Maintaining records and reports for depository collateral holdings;
- Preparing reports and records needed to collect unclaimed City funds; and
- Attending auctions of city vehicles and equipment - collecting funds for deposit.

The functions to be performed by the Fiscal Manager - Banking, include:

- Reviewing daily bank account cash balances;
- Reviewing Investment Portfolio;
- Preparing transaction/journal entries for entry into the accounting system;
- Printing warrants daily;
- Providing for vendor warrant pick-ups;
- Back-up for cashier as needed;
- Preparing deposit bag and records for transport to various banks by Brinks Incorporated; and
- Serving as a back-up for investment manager - preparing daily cash control worksheet.

The functions to be performed by the Budget Analyst include:

- Maintaining records and reports on NSF check and fees;
- Disbursing NSF checks to divisions and preparing tracking reports;
- Maintaining records and reports related to returned checks;
- Working with Treasurer on the development of cash flow analysis;
- Confirming receipt of wire payment and inter-governmental bank-wire transfers; and
- Attending auctions of City vehicles and equipment - collecting funds for deposit.

The functions to be performed by the Principal Cashier include:

- Collecting cash, checks, and related receiving warrants;
- Preparing all banking deposits city-wide;
- Preparing deposit bags and records for transport to various banks, by Brinks Incorporated;
- Preparing report of daily collections by bank account;
- Maintaining files of all daily banking transactions;
- Maintaining Treasury Office petty cash funds;
- Providing city department and division change funds for special events;
- Providing vault services for various city departments/divisions;
- Providing back-up for Treasury Office payroll processing;
- Preparing payroll insert for distribution to employees;
- Responding to employee and public inquires related to the status of payment; and

- Serving as a back-up for printing warrants.

The functions to be performed by the Secretary/Administrative Officer include:

- Preparing requisitions and reviewing invoices for payment of Treasury Office bills;
- Providing the Investment Manager secondary approval of all wires;
- Providing the training for new employees as needed;
- Serving as a back-up for printing warrants;
- Providing for vendor warrant pick-ups;
- Preparing vendor checks for mailing;
- Preparing child support checks for mailing;
- Responding to employee and public inquires related to the status of payments;
- Preparing the Treasury Office payroll;
- Maintaining employee direct payroll deposit records;
- Maintaining employee Saving Bond deductions and records;
- Sorting payroll checks by department and division;
- Preparing employee reimbursements for loss and/or damaged checks;
- Investigating forged warrants; and
- Issuing vendor and payroll checks at the window.

The functions to be performed by the Meter Collectors include:

- Picking up cash canisters from Key Bank;
- Collecting cash from meters on their established route;
- Delivering filled canisters to vault in Key Bank; and
- Delivering prior days cash collection deposit slip to the Treasury.

Division of Accounts

Background

This section summarizes the operations of the City of Cleveland's (the City) Division of Accounts (DOA). The DOA is primarily responsible for the authorization and processing of vendor payments; the authorization of wire transfers; and the gathering and processing of payroll information for the City's approximately 9,500 employees. In an average year, the DOA processes payroll in excess of \$352,000,000 and processes over \$725,000,000 in vendor payments. The DOA is also responsible for maintaining the City's document storage and recording cash receipts.

Organizational Function and Staffing

The mission of the DOA is to accurately record financial transactions and to provide specific centralized accounting services to the City departments. To accomplish this mission, the DOA focuses on three major areas: General Accounting, Payroll, and Accounts Payable. To attain the objective of maintaining the City's records utilizing the PeopleSoft "Financials for General Accounting", the DOA processes encumbrances and requisitions, and manually assigns receiving warrant numbers to receipts. To attain the objective of providing accurate timely payroll data and reports on a bi-weekly basis for Payroll, the DOA collects and distributes data and reports. To attain the objective of paying the City's vendors in a timely fashion for Accounts Payable, the DOA verifies the proper amount of funds needed to meet the City's obligations.

The Commissioner of Accounts oversees the operations of the DOA. The Commissioner's position was created under Chapter 17, Section 97, of the Charter of the City of Cleveland (the Charter). This section of the Charter establishes a Division of Accounts within the Department of Finance with a Commissioner of Accounts as the head of the Division. As such, the Commissioner of Accounts reports administratively and functionally to the Director of Finance.

Table 5-1 displays the DOA's actual staffing levels from 1999 through 2001, and the DOA's budgeted staffing levels for 2002. The DOA consists of eighteen full time employees and there are currently four positions vacant.

Table 5-1: DOA's Staffing Levels

Position Title	1999	2000	2001	2002
Commissioner of Accounts	1.0	1.0	1.0	1.0
Deputy Commissioner of Accounts	1.0	0	0	0
Data Base Administrator	1.0	1.0	1.0	1.0
Operations Supervisor	0	0	1.0	1.0
Central Payroll Supervisor	1.0	1.0	1.0	1.0
Accountant Clerk II	2.0	2.0	5.0	5.0
Chief Clerk	2.0	2.0	1.0	1.0
Junior Clerk	1.0	0	0	0
Principal Clerk	1.0	1.0	3.0	2.0
Senior Clerk	2.0	2.0	1.0	3.0
Auditor	0	0	1.0	1.0
Accountant I	2.0	4.0	0	0
Accountant II	2.0	1.0	1.0	1.0
Budget Analyst	1.0	0	0	0
Personnel Assistant	1.0	1.0	0	0
Senior Personnel Administrator	0	0	0	1.0
Data Conversion Operator	1.0	1.0	0	0
Senior Data Conversion Operator	0	1.0	1.0	1.0
Information Control Analyst	0	0	1.0	1.0
Total	19.0	18.0	18.0	20.0

Source: Mayor's Estimate for 2002, 2001, and 2000

As presented in **Chart 5-1**, the Commissioner of Accounts oversees the operations of the DOA. The hierarchy within the DOA is structured with two supervisors, the Operations Supervisor and the Central Payroll Supervisor, reporting to the Commissioner of Accounts. All employees within the DOA report to either of these two supervisors based on their job functions.

The managerial responsibilities for these three key positions are as follows:

The primary purpose, duties, and responsibilities of the Commissioner of Accounts are to:

- Manage the DOA operations under the administrative guidance and direction of the Director of Finance;
- Supervise the authorization of the disbursement of City funds for vendor payments and payroll accounts;
- Maintain a system of internal controls over the approval and processing of cash disbursements for the City and maintain original records necessary to ensure compliance with applicable federal, state and City requirements;
- Maintain the internal organizational structure of the DOA and ensure an adequate level of qualified staff is maintained to perform the various functions of the DOA;
- Determine and maintain necessary authorization procedures for certain electronic funds transfers;
- Determine and maintain necessary accounting procedures over the approval and processing of the City's payroll; and
- Provide training, counseling, and guidance to DOA supervisors and staff members to ensure they not only adhere to City policies and procedures, but also to policies and procedures specific to the Department of Finance and/ or the DOA.

The responsibilities of the Operations Supervisor include the following:

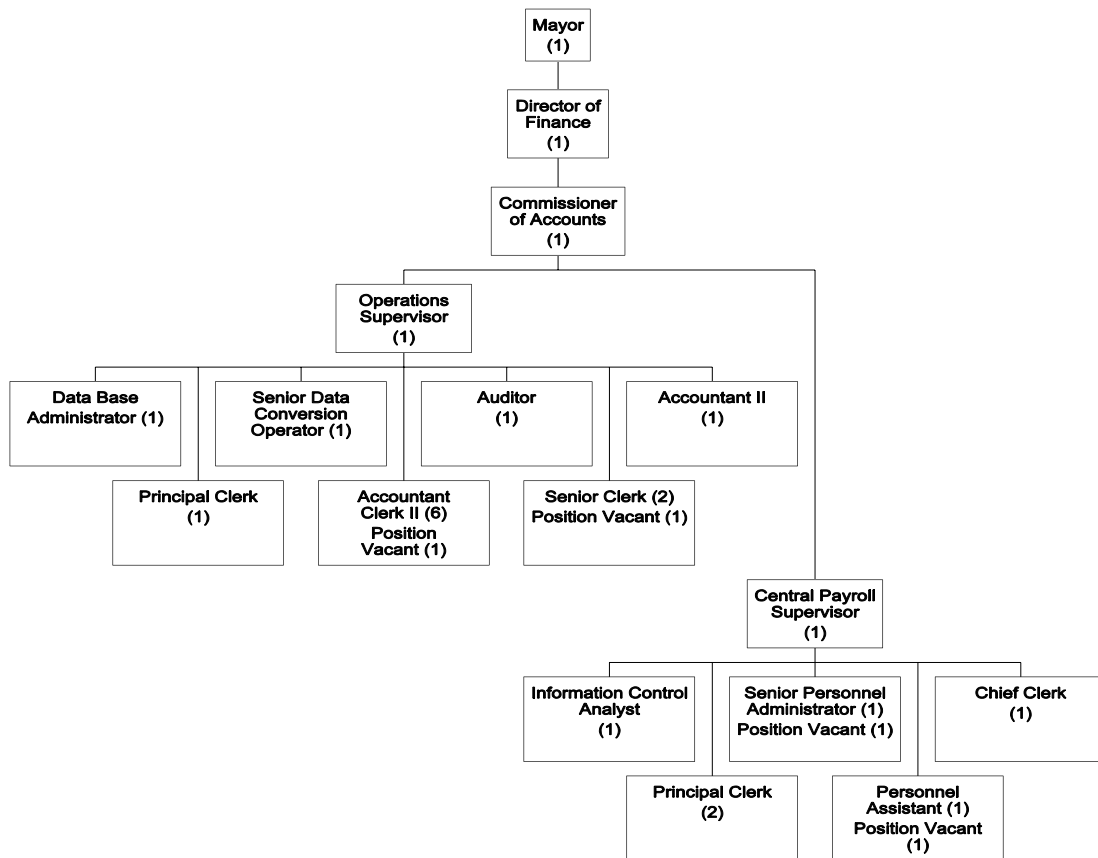
- Supervise the performance of computer system operations to ensure output requirements of the DOA and user departments throughout the City are met;
- Determine and maintain DOA hardware and software user access authorization and security for all DOA employees;
- Provide technical support and assistance to DOA employees;
- Assist the Commissioner of Accounts with special projects; and
- Perform other job-related duties as required.

The responsibilities of the Central Payroll Supervisor include the following:

- Supervise the payroll preparation and processing of the City's payroll;
- Assign job duties and responsibilities to DOA payroll staff;
- Provide assistance and direction to DOA payroll staff;
- Research and supervise the processing of Personnel Information Documents (PIDs);
- Update computer control tables;
- Prepare various payroll reports as required and as requested; and
- Perform other job-related duties as required.

Chart 5-1 depicts the current reporting relationship and staffing for DOA.

Chart 5-1: Division of Accounts (Full-Time Employees)



Financial Data

Table 5-2 summarizes the DOA's actual expenditures for 1999 through 2001. Additionally, the budgeted expenditures are presented for 2002. Expenditures for 1999 and 2000 are audited amounts. Expenditures for 2001 are unaudited and were agreed to the City's general ledger at December 31, 2001.

Table 5-2: DOA's Financial Data

Expenditure	1999	2000	2001	2002
Salaries and Wages	\$641,809	\$693,247	\$695,765	\$891,159
Employee Benefits	162,588	183,737	191,244	231,108
Training and Professional Dues	1,715	1,848	0	1,750
Contractual Services	198,451	492,182	15,108	515,578
Materials and Supplies	11,417	21,958	8,033	5,621
Maintenance	515	1,268	300	1,500
Inter-Departmental Service Charges	195,837	(6,409)	24,005	80,600
Total Expenditures	\$1,212,332	\$1,387,832	\$934,455	\$1,727,316

Source: Modified Mayor's Estimate 2002 from February 25, 2002

As shown in **Table 5-2**, the DOA's total annual expenditures have fluctuated significantly in the past several years. Expenditure levels for payroll related expenditures remained fairly consistent from 1999 through 2001. The DOA is projecting an increase in total expenditures for 2002 from 2001 levels of approximately 85 percent. Notable variances in expenditures are a result of the following factors:

- In the 2002 budget, there are significant increases in expenditures for salaries and wages and employee benefits primarily due to the 27th pay period;
- The large fluctuations in contractual services expenditures over the past three years and as budgeted for 2002 are due to professional services fees associated with the implementation of PeopleSoft and the identification and resolution of difficulties encountered in fixing the customization of the Ceridian payroll application;
- The significant increase in inter-departmental service charges for the 2002 budget was due to prior years' under-payment of telephone exchange, printing and reproduction, and data processing charges to the internal service funds; and
- The average salary budgeted for 2002 is \$44,557.

Performance Measures

- Assess the DOA's payroll processing function;
- Assess the DOA's non-payroll expenditure procedures; and
- Review the organizational issues of the DOA.

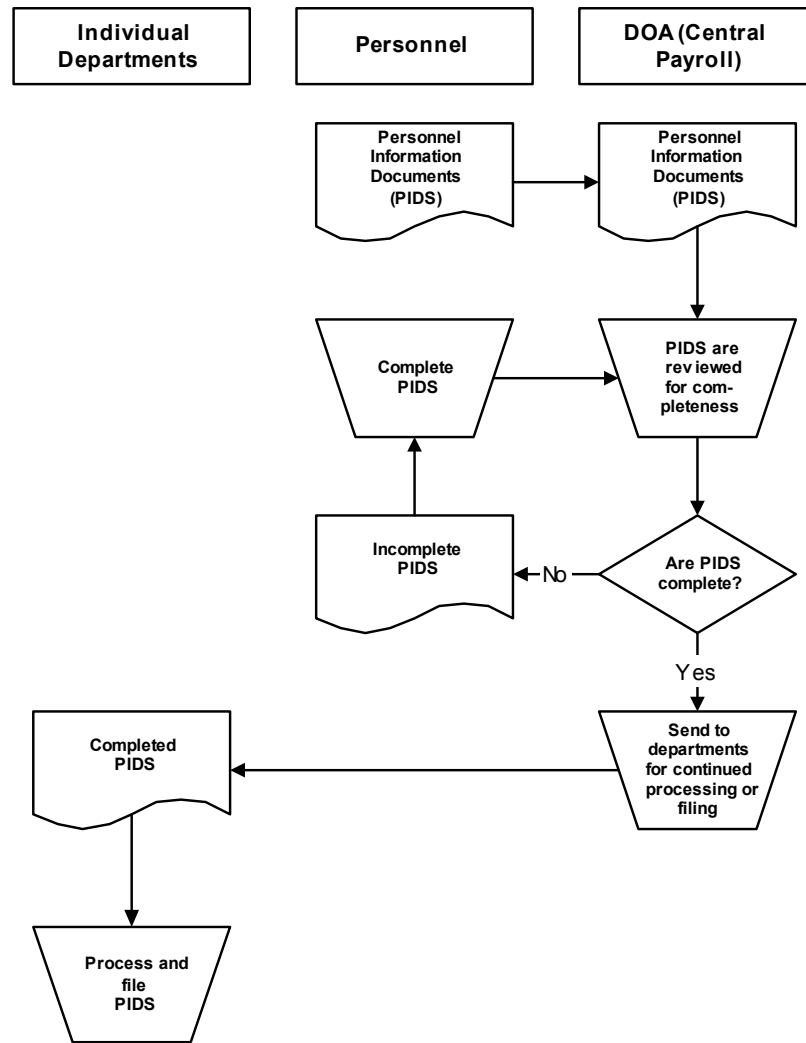
Findings / Commendations / Recommendations

Current Processing of the City's Payroll Function

Personnel Function

- F5.1 The payroll processing function is managed by the DOA. The DOA inputs and maintains limited personnel information and is responsible for the collection and transmission of payroll information to Ceridian. Ceridian is a service organization utilized by the City to process the City's payroll.
- F5.2 Employee personnel information is maintained on the payroll database. Access to this database is limited to authorized users via user identifications (ID) and passwords. Changes to employee records must be requested via Personnel Information Documents (PIDs); however, PIDs are not used for changes in deduction information. PIDs are four-part forms used to record personnel information prior to processing. The original copy of the PID is sent from each department/ division to Personnel for review of completeness and accuracy. The approved PID is forwarded to DOA for input into the payroll application. After updating the information, the DOA prints a new PID and forwards it to the applicable department. Changes to personal information (address, marital status, etc.) require approval signatures by the originating departments' payroll clerk and Commissioner or Division Head. Additions of new employees or changes to existing pay rates require the approval signatures of the department payroll clerk, Commissioner, Director, Personnel Director, and the Mayor. Changes to employee information are input by authorized individuals within the Central Payroll section of the DOA. Proper user IDs and passwords are required to access the system before any change can be made. All changes are maintained in the Payroll Division by pay period for record retention. A change report is generated when changes are input into Ceridian application. The hard copy of the report listing the changes made to the personnel information is kept on file by the Central Payroll Supervisor for three months.
- F5.3 **Chart 5-2** depicts the Personnel Information Documentation Process.

Chart 5-2: Personnel Information Document Process



Payroll Processing

F5.4 All departments throughout the City, except for the Police Department, utilize KRONOS for their time keeping and tracking work and leave hours. The Police Department utilizes KMAN for their time keeping and tracking work and leave hours. All payroll information from the various departments throughout the City must be submitted to the Information Control Analyst by Monday or Tuesday of the week preceding the pay date.

- F5.5 From KRONOS, the payroll clerks in each department produce an Hours Summary report or a Punch Detail Report. From KMAN, the payroll clerk produces a 1030 report. These reports include the payroll information entered by the departments for their employees. The payroll clerks review the information contained in these reports for errors and complete a Payroll Certification form which is signed by the preparer and verified and signed by the Commissioner or the Division Head. These signatures “certify” the correctness of the payroll information being submitted. The Information Control Analyst receives the original certification form. The Principal Clerk reviews and approves the form based on the budgetary information provided by the Office of Budget & Management.
- F5.6 In the 2000 financial audit, performed by the Auditor of State (AOS), it was noted that payroll certification forms were not completed or filed properly by the divisions and/or departments and the DOA. In response to this recommendation, during 2001, the DOA implemented a citywide policy requiring all divisions and/or departments to include their signed payroll certification forms with other payroll information submitted to the DOA.
- F5.7 In DOA, the KRONOS and the KMAN payroll data is converted (translated) to Ceridian. A schedule is utilized by the Information Control Analyst to account for payroll information received from the various departments. Edit (exception) reports from Ceridian systems are produced and reviewed by the Information Control Analyst. The edit reports are utilized to identify discrepancies for active employees that did not charge any hours worked during the pay period and for inactive employees that charged hours worked during the pay period. When discrepancies are noted, the Information Control Analyst contacts the department payroll clerk to research and resolve the issues. If necessary, a Time Correction form and/or a Benefit Balance form is completed and the corrections are input into the system by the Information Control Analyst.
- F5.8 Also, in the 2000 financial audit, it was noted that divisions and/or departments were not reviewing payroll reports and/or registers for accuracy. In response to these weaknesses, the DOA implemented a procedure during 2001, requiring all city divisions and/or departments to obtain and review payroll reports and/or registers for accuracy. The representatives from the divisions and/or departments are required to document by signature, that they have obtained the reports and/or registers from the DOA. AOS verified the documentation that these reports and/or registers were obtained by the divisions and/or departments from the DOA and no exceptions were noted.
- F5.9 An exception report is also produced which identifies discrepancies in available leave (benefit) hours for employees. This report can be utilized to identify employees whose leave time charged for the pay period exceeds their available balance. The Information Control Analyst contacts the payroll clerks of the effected departments to research and resolve the issues. The department payroll clerks determine the available leave balance the employee has and if an employee does not have a sufficient leave balance, they are not paid for those

- hours. A Time Correction and Benefit Adjustment form is utilized which indicates the resolution of the identified discrepancies. The Information Control Analyst makes the necessary corrections to the applicable employees' leave hours (attendance files, sick, vacation, etc.) and updates the Ceridian file (HED file).
- F5.10 Once payroll has been gathered, "prepared", and all known corrections are entered into the system, the information is transferred to Ceridian via telephone lines. This usually occurs on the Thursday of the processing week. If the entire file is not received or if there was an error in receiving the file, Ceridian contacts the City. On Friday of the processing week, Ceridian prepares paper and electronic copies of various payroll reports and the payroll checks. The electronic versions of these items are transmitted to the Data Base Administrator via telephone lines. The Data Base Administrator translates the information into a readable format and verifies the accuracy of the information processed by Ceridian. Any errors noted are communicated to Ceridian that day and the necessary corrections are made and verified. The paper copies of these items are delivered to the Commissioner or the Operations Supervisor in the DOA via courier. These reports include a "payroll register", deduction reports, direct deposit report, tax reports, a Ceridian Exception report, and the checks. The checks are forwarded to Treasury for safeguarding until distribution on the "pay date". The payroll clerks for the various City departments retrieve the payroll register and reports that are applicable to their department and verify the accuracy and completeness of the information received. All discrepancies are noted on the payroll approval form with action taken by the Payroll Clerk. Ceridian pays all tax related deductions, such as federal, state, local, and FICA taxes. All other deductions are paid directly by the City based on the deduction reports prepared and provided to the City by Ceridian.
- F5.11 Any checks issued outside of the system are designated as "express checks". These are "manual" checks; however, they are still generated on the system and are processed similar to vendor payments via paper vouchers. Express checks are used for nonroutine items such as: shorted hours (department payroll clerk completes a Payroll Voucher form), separation pay, or reissued checks (notice received from Treasury). There are also special payrolls for items such as longevity and first shift firefighters overtime.
- F5.12 Civil Service employees are paid every two weeks and are classified in the 500 category for payroll processing. All elected officials and board members are paid twice per month and are classified in the 501 category for payroll processing. Those officials and employees in the 501 category are paid on the 15th and the last day of the month.
- F5.13 The major responsibilities in the City's current payroll system is heavily reliant on the departmental payroll clerks. Timekeeping, the tracking of leave hours, and the proof-reading of reports are performed at the departmental level. Record keeping is also performed at the departmental level, however, departments and divisions throughout the City do not

consistently maintain the necessary records. Finally, all payroll costing center journal entries are entered into PeopleSoft by the Division of Financial Reporting and Control (FRC).

R5.1 PeopleSoft originated as a Human Resources application, however, other modules were subsequently developed. Since the City has invested in PeopleSoft for their financial information system and the City is now familiar with the system panels and screens, the City should further pursue PeopleSoft human resource and payroll modules.

Secondly, regardless of which human resource and payroll modules are selected, a process involving the summarization of the costing centers should fully interface with the PeopleSoft general ledger system. Presently, the payroll costing information is manually entered into the PeopleSoft general ledger system as journal entries.

Ceridian Payroll Processing

F5.14 The DOA gathers and updates personnel and payroll information from all City departments and transmits the information to Ceridian for processing. Ceridian is a service organization used by the City to process the payroll for all City officials and employees. Ceridian also prepares the City's payroll checks, payroll direct deposit transfers and the City's federal, state, local, and FICA tax filings.

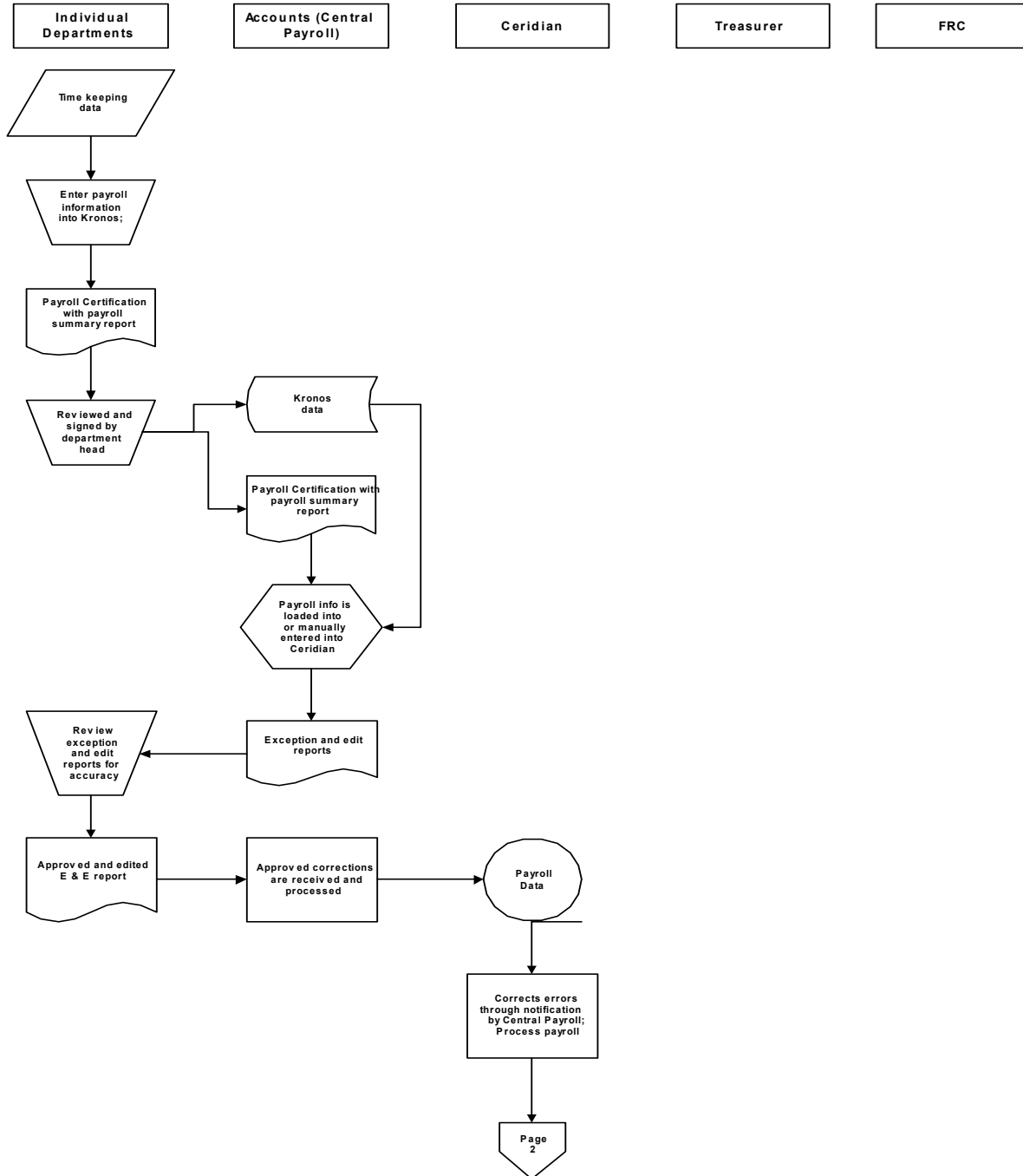
F5.15 Commencing October 2001, the City established a "Positive Pay" program with Bank One, the payroll clearinghouse. Under this program, Bank One will not honor a check unless it is included on the approved lists of checks or the check is a payroll voucher check issued through the payroll process. Certain criteria is electronically reviewed for each check issued and the system will accept or reject the check presented for payment/ deposit. If the bank rejects a check, an appropriate official from Bank One will notify the Commissioner or the Operations Supervisor.

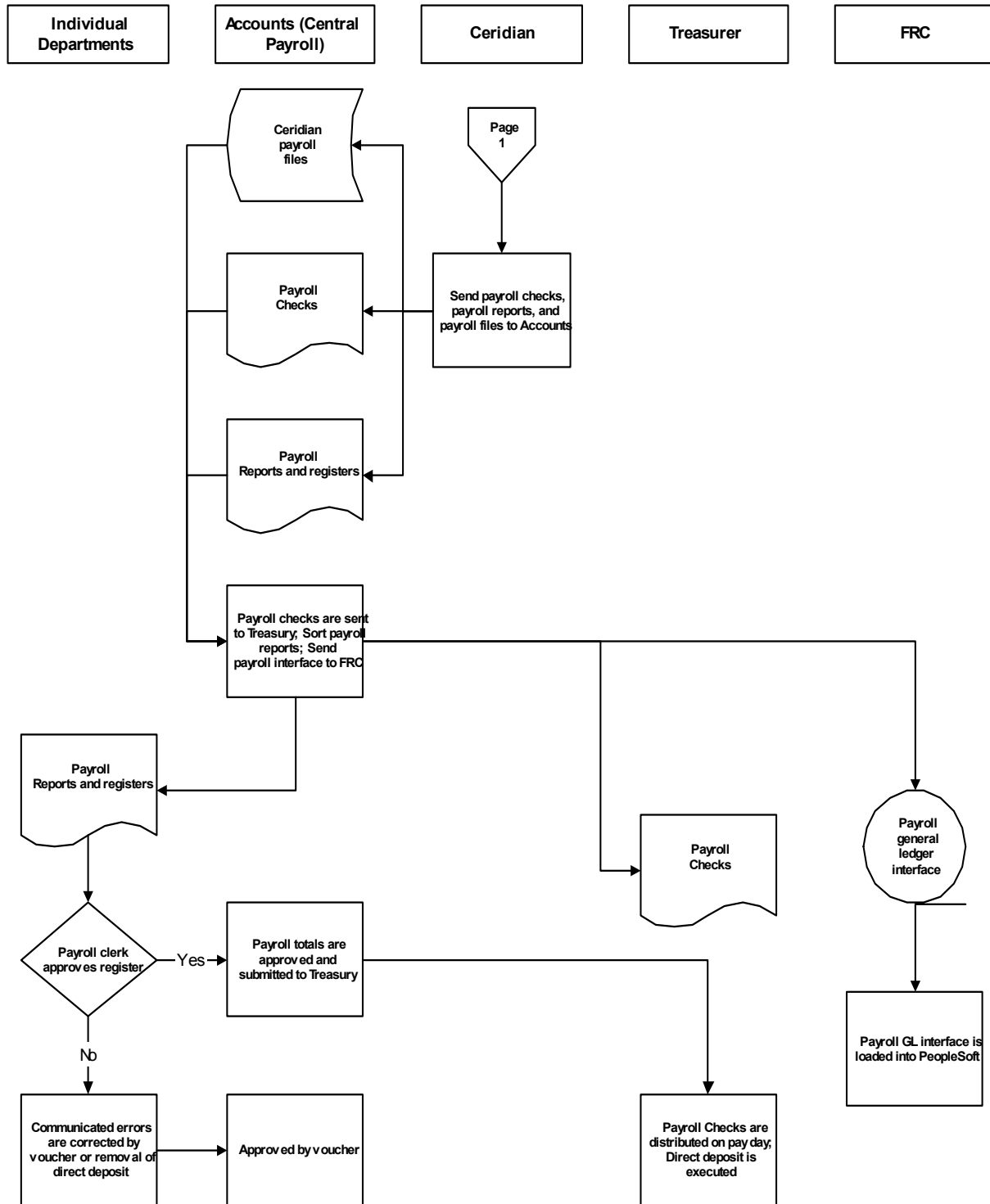
F5.16 The Ceridian system, used for processing the City's payroll is approximately ten years old. In addition, procedures for establishing user-level access security is time-consuming. From 1999 through 2001, the City has spent \$404,575, \$806,306, and \$512,967 respectively. This yearly total includes all processing and any costs associated with the identification and resolution of difficulties encountered in the customization of the Ceridian payroll application.

F5.17 The City's contract with Ceridian has expired and both parties are presently working on the option year of the prior contract. As such, the DOA went out for bid on a new payroll application. The new application will be payroll only and will not be used as a comprehensive citywide Human Resource database. Three bids were received from PeopleSoft, ADP, and Ceridian (further information on the bid process appears in the Information Systems Services report).

F5.18 **Chart 5-3** depicts the current payroll process.

Chart 5-3: Payroll Process





R5.2 The City should consider implementing a system where they process all aspects of payroll. As such, the City should develop a fully automated payroll system. When implemented, all functions currently being performed by Ceridian, except the printing of the checks, would be performed by the DOA. With an automated system, the departments would electronically submit their payroll to DOA and all manual entry, especially at the department level, would be eliminated. This procedure would increase efficiency and eliminate the man hours presently being used. As part of this system, proper segregation of duties for the input/maintenance of personnel and payroll information should be developed and implemented. All payroll information would then be maintained by the DOA. However, all pertinent supporting documentation for the payroll process, such as personnel information, hourly wage, and departmental leave forms, would remain with the City's Personnel Department. The DOA would input the information, but the controls would remain with the Personnel Department.

As a comparison, the Cleveland Municipal School District (the District) processes the payroll for their approximately 13,000 employees. To accomplish this process, the District employs 17 full-time employees and two temporary employees (the DOA has six full-time equivalent payroll employees). Of the seventeen full-time employees, there is one Manager and one Supervisor to oversee and monitor the processing of payroll. Of the two temporary employees, one temporary employee provides assistance with payroll processing functions, while one temporary employee provides assistance on special projects and also assists with the payroll processing functions.

Expenditure Procedures

Voucher Payment Process

F5.19 The DOA's procedures for authorizing and processing vendor payments are as follows:

When the goods or services are received by the originating department/division, a receiving Tally Sheet is prepared by that department/division acknowledging receipt of the goods or services. Invoices are usually received by the DOA. In the event the department/division receives the invoice, the original invoice is usually forwarded to the DOA. When payments are processed by the DOA, source documents (e.g., purchase requisitions and purchase orders) are matched with the Voucher form, Tally Sheet form, and/or Payment Request form, and the invoice(s). In addition, the DOA can view purchase order information on-line. This process of matching documents occurs daily. When payment information is entered into the system, the system prompts the clerk when the data being entered is incorrect (e.g., incorrect type of data entered in a data field, a required data field is left blank, and incorrect chart-field combinations).

The Commissioner runs a “query (edit) report” which includes the name, voucher number, amount, and operator (account). The report is given to the Accountant Clerk II’s in DOA for review. Vendors are assigned to the DOA accountants alphabetically (i.e., vendors with names beginning with A through D are assigned to one accountant; vendors with names beginning with E through H are assigned to another accountant, etc.). As part of their review, the accountants verify the voucher payment information is accurate and the listing for the run is complete. They also identify the items that are to be excluded from the run. After any necessary changes are made, the Commissioner runs a second edit report and produces a Trial Payment Register which is reviewed by the Senior Clerk to ensure all necessary corrections were made.

- F5.20 The warrants (checks) are run once or twice per week, depending on the volume of payments to be made. After the Trial Payment Register is verified as accurate, the Commissioner or the Operations Supervisor prompts the system to generate the checks and provide authorization to the Treasury. The checks and the check register are produced by the Treasury Division (the Treasury). Treasury is responsible for mailing the checks and remittances to the appropriate vendor.
- F5.21 In the 2000 financial audit, it was noted that invoices were not paid in a timely manner by the DOA. In response to an AOS recommendation, during 2001, the DOA implemented a procedure requiring all payments to be made within thirty days of the receipt of accurate and complete tally sheets and vouchers. The validation of the receipt of these items by the DOA is to be indicated via a date stamp.
- F5.22 In the 2000 financial audit, it was noted that duplicate payments were made by the DOA. In 2001, the City made duplicate payments to vendors exceeding four million dollars. In response to an AOS recommendation, the DOA has implemented procedures to prevent duplicate payments. While improvements were made, risk still exists due to the following factors. These factors include the possibility of human error, the lack of training, the override of existing control procedures, and internal control failures in the supervision and review process.

Wire Transfers

- F5.23 The DOA’s procedures for authorizing wire transfers are as follows:

The procedures for wire transfer payments to vendors are the same as for other purchases until the time of payment. After the Commissioner or the Operations Supervisor produces the second edit report (Trial Payment Register), a memorandum is faxed or manually delivered to the Treasury. This memo or fax serves as the authorization to wire funds for the approved vendor payments.

The Treasury is not to make a wire transfer until it has been authorized by the DOA. In the 2000 financial audit, it was noted that vendor wire transfers were made without the proper authorization of the DOA and that authorization forms were not completed properly and completely.

In response to an AOS recommendation, the DOA implemented procedures during 2001 requiring three employees, including a member of the management of the DOA, to review and approve all wire transfers. Secondly, only original authorizing documentation will be accepted by DOA. Finally, wire vendors must provide a hard copy for any change to banking information.

R5.3 The control procedures for wire transfers appear adequate to detect errors and ensure posting to the database in a timely manner. The DOA should take the necessary steps to ensure that procedures are properly followed and that controls are not circumvented. The DOA and the Treasury should coordinate their efforts to resolve the issue of unauthorized or incorrect wire transfers. In addition, the City should consider periodically assigning the Division of Internal Audit to run tests of all forms of electronic transfers and of the internal controls necessary to insure compliance and avoid costly errors.

Ultimately, when purchasing becomes fully automated, the receiving department will help expedite vendor payments and add efficiency. At that time, the receiving department will be capable of initiating the wire transfer and the DOA and Treasury will only approve.

Organizational Issues

File Room

F5.24 The DOA maintains a file room for the City's vendor payment supporting documentation for vouchers. Vouchers are filed manually according to procedures established by the Commissioner. This method of filing this information makes it difficult and time consuming to locate a specific voucher.

In the 2000 financial audit, it was noted that several vouchers and contracts could not be easily located by the DOA. In response to an AOS recommendation, during 2001 and 2002, the DOA renovated the file room, however, this problem has not been fully addressed.

R5.4 The DOA should consider the benefits of electronic imaging as a means of storing and refiling documents. The use of electronic imaging would greatly reduce the time spent locating and refiling documents and would reduce the likelihood that important City documents are misplaced or misfiled. Once scanned, the original documents could be filed as a permanent record and used only in the event of a computer systems failure. Employees

throughout the City could be granted access to the system to review these records, rather than requiring them to physically review the documents in the file room.

Organizational Structure

F5.25 The DOA has a “flat” organizational structure whereby all employees report to a set supervisor (i.e., the Operations Manager or the Central Payroll Supervisor). This system has been operating under the present Commissioner, because accountability was only disbursed to the Operations Manager, the Central Payroll Supervisor, and herself. This system does not allow for an internal control process. The Commissioner can override all transactions, or fail to review the work of the two supervisors reporting to her. Finally, one supervisor has total autonomy for all payroll expenditures, while another manager has total autonomy for all non-payroll expenditures.

R5.5 The DOA should consider an organizational structure whereby lower level employees within the DOA report to other employees directly above them in the hierarchy, rather than having all employees within the job function report to the overall supervisor of that function. Under the current structure, all employees within the DOA whose job responsibilities are for the approval and processing of vendor payment authorizations currently report to the Operations Supervisor rather than to the level of employee directly above them. In addition, all employees within the DOA whose job responsibilities are for the approval and processing of the City’s payroll currently report to the Central Payroll Supervisor rather than to the level of employee directly above them. If the proper hierarchy of employees based on their job responsibilities is developed and established, the routine supervisory responsibilities of the Operations Supervisor and the Central Payroll Supervisor would be delegated to the appropriate level. This would enable the supervisors to more effectively dedicate their time to the overall supervision of their departmental function, to address issues as they arise, to assist the Commissioner with any projects or assignments as deemed necessary, and to make “spot checks” of procedural operations and document their internal control observation.

Auditor

F5.26 The DOA maintains a position of Auditor. However, the job responsibilities for this position are for verifying the accuracy of the other employee’s work, rather than an assessment of operations, review of internal controls, or issuing internal reports.

R5.6 The DOA should retitle this position to more clearly reflect this employee’s job responsibilities.

Conclusion Statement

The DOA is responsible for the authorization and processing of vendor payments, the authorization of wire transfers, and the gathering and processing of payroll information for the City.

In line with payroll, the City outsources their processing, but the contract has expired. As such, the City should explore the benefits of implementing the PeopleSoft human resource and payroll modules. This implementation would be in line with the City adapting a system where they process all aspects of payroll. As such, the City would develop a fully automated payroll system. When implemented, all functions currently being outsourced, would be performed by the DOA. With an automated system, the departments would electronically submit their payroll to DOA and all departmental manual entries would be eliminated. This procedure would increase efficiency and eliminate man hours presently being used.

Current procedures established for receiving, translating, reviewing, and verifying the output received from the payroll processor are reliant on the various City departments to provide a level of verification of the output prior to the distribution of pay checks, pay stubs, and direct deposit wire transfers. This internal control strengthens a process that distributes over \$350,000,000 annually, yet relies on only four to six DOA processors.

The procedures established by the DOA for processing and authorizing the City's vendor payments and wire transfers were reviewed. The DOA has established a level of internal controls for processing and authorizing the vendor payments, however, these controls are dependent on the DOA supervisor and Commissioner as the main level of internal control. Due to the high volume of vendor payments, the City should consider using their Division of Internal Audit to make an operational review of this process.

Finally, the DOA has an established organizational structure that is "flat" in nature. All the employees within a job function currently report to the supervisor of that job function, rather than having a hierarchy of responsibility and accountability. A traditional hierarchy would promote accountability, improve internal controls, and promote employee growth.

Office of Budget & Management and Sinking Fund Commission

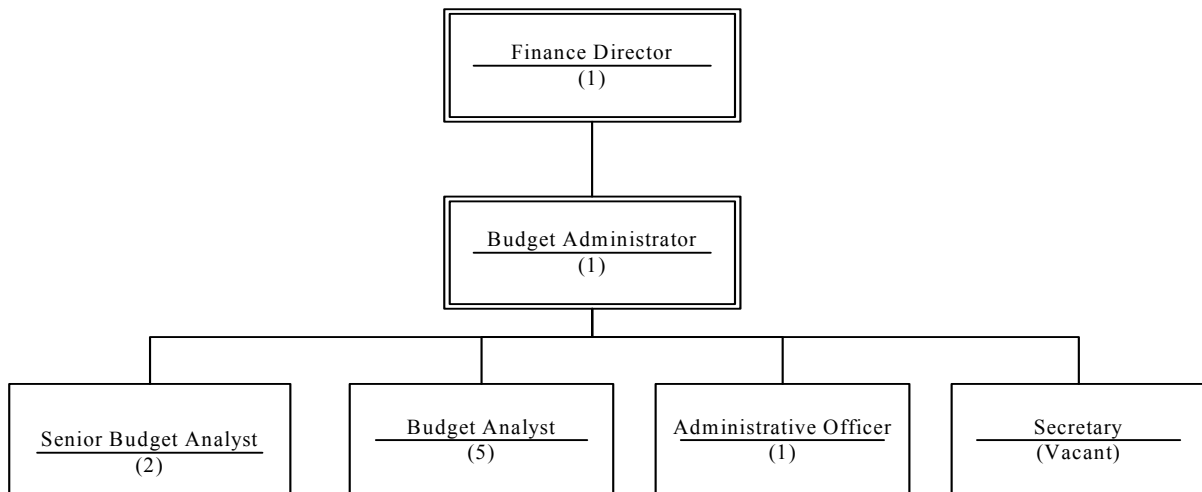
Background

This section summarizes the operations of the City of Cleveland’s (the City) Office of Budget & Management (OBM) and the Sinking Fund. Before fiscal year 2000, OBM was responsible for preparing and monitoring the City’s operating and capital budgets, generating monthly revenue and expenditure reports, preparing projections of the City’s current and future financial and capital needs, and providing management support to other City departments. Currently, OBM remains responsible for preparing and monitoring the City’s budgets, but OBM no longer generates budget reports, prepares forecasts, or provides management support to other City departments. The Sinking Fund is responsible for ensuring that certain covenants made by the City in the General Bond ordinance, the Sinking Fund ordinance, and the indentures governing the Enterprise Fund debt are met by making funds available for disbursement on a timely basis for payment of debt service with any funds not required for immediate payment of debt service to be invested by the City’s various trustees, under the direction of the Sinking Fund.

Organizational Chart

Chart 6-1 depicts OBM’s organizational structure and staffing levels as of January 24, 2002.

Chart 6-1: OBM’s Organizational Chart



Organizational Function

OBM was established in 1965 to provide budget analysis and management consulting services to all City departments. Although OBM is ideally responsible for performing the following functions, the personnel within the department are not fulfilling many of these responsibilities that are generally associated with OBM operations on a consistent and timely basis:

- Preparing and monitoring the annual Mayor's Estimate;
- Preparing the annually appropriated Restricted Income Tax and multi-year General Obligation Bond budgets;
- Creating an annual capital budget to identify the City's current capital needs and priorities in accordance with the citywide capital plan;
- Preparing a three-year financial plan which identifies the City's future financial abilities and requirements;
- Conducting management studies in conjunction with the operations of various City departments;
- Conducting program and policy studies to maintain the City's ability to provide cost-effective service delivery; and
- Identifying opportunities for operating efficiencies through capital investments in City facilities or equipment.

The Sinking Fund Commission (the Commission) consists of the Mayor, Finance Director and the City Council President. An assistant secretary, who reports to the Finance Director, is appointed by the Commission to conduct the business of the Commission. The assistant secretary is responsible for ensuring the proper disbursement of funds through maintenance of accurate records of bank accounts and other schedules of cash and investments. The following lists key responsibilities of the Commission:

- Collecting funds from the Cuyahoga County Auditor and the City's Enterprise Funds to pay debt service requirements;
- Maintaining detailed statements of the City's outstanding debt obligations until their maturity;
- Acting as the citywide coordinator for debt service and issuance activities; and
- Maintaining bank accounts for both General Obligation and Enterprise Obligations of the City.

Summary of Operations

The annual operating budget cycle begins in March with the passage of the current year budget. Once the operating budget is passed, OBM is responsible for monitoring the current year budget on a monthly basis. The purpose of monitoring the budget is to identify any deviations in either revenues or expenditures from the original estimates developed in the budget preparation process.

OBM analyzes all variances to determine if they are permanent differences or the result of timing issues. OBM meets with departments who have these types of variances to discuss appropriate actions to be taken to bring the budget into balance.

OBM prepares the annual appropriation ordinance, which is passed by City Council, to establish the legal spending limits of each division into two categories: personnel expenses and other expenses. Budget adjustments are performed by OBM and can only be made within a division and then within each category. Further legislation is needed in order to move budget authority from “personnel” to “other” or vice versa, or between divisions. At least one of these transfer ordinances is submitted in the last quarter of the year. For funds with additional revenue over the stated amount in the original budget, a supplemental appropriation ordinance is prepared to permit an increase in the budget.

In June, the City begins preliminary work to prepare the next year’s operating budget. OBM, with the help of City management, studies and quantifies various factors, such as contract negotiations, legal requirements, inflation and economic fluctuations, that could potentially have an impact on future revenue and expenditure levels. Historically, OBM created a three-year plan, which established an inflation factor for every revenue and expenditure type and then applied these factors to current year budget figures to arrive at budget estimates for the two succeeding years.

The second year of the three-year plan results in the tax budget document for the next year. By state law, each municipality is required to submit an estimate of revenues and expenditures for the next calendar year to the County Budget Commission. City Council must approve the tax budget by July 20th prior to submitting it to the County. The City generally requests an extension to assure the most recent data is used for forecasting. The County uses the tax budget to establish tax levy amounts for the coming year.

Based upon target levels established from the tax budget, OBM uses departmental input into the budget process. OBM provides each departmental director with a budget request booklet (both as an excel spreadsheet on a computer disk and a hard copy) for the upcoming year with the total estimated expenditures (appropriations) allotted for the department. OBM distributes the budget requests in August and requires them to be returned back to OBM by the beginning of September. Each divisional manager is responsible for allocating its funds according to stated priorities. A critical component of the budget request is the “Funding Impact Statement,” which describes how the funding level would affect services.

The budget requests provide the basis of program delivery anticipated in the coming year. A summary of the impacts is presented to the Mayor for their input and acceptance or rejection. The Mayor and Finance Director meet to determine the basic assumptions to be used in the production of the Mayor’s Estimate and appropriation ordinance. The City Charter requires the operating budget to be submitted to City Council by February 1st.

The Sinking Fund's assistant secretary is responsible for maintaining detailed statements of the City's outstanding debt obligations until their maturity. The Commission performs its duties as outlined in the covenants of the General Bond Ordinance and Sinking Fund Ordinance. The Commission acts as the citywide coordinator of all debt service and issuance activities. This includes the sale of all general obligation, and enterprise bonds and notes. In addition, the Commission deposits on behalf of itself and the Enterprise Funds, all such moneys and investments derived from ad valorem property taxes, restricted income taxes, enterprise reimbursements, proceeds of renewal notes and bonds or refunding bonds, or any other moneys to be applied to the payment of debt charges. The assistant secretary also maintains bank accounts for both general obligation and enterprise obligations of the City.

The City issues its general obligation bonds in connection with its overall capital improvement program. The City's Enterprise Funds develop their own capital improvement programs and issue revenue debt that is necessary to assist with the implementation of capital improvements. The assistant secretary works directly with each Enterprise Fund when issuing revenue debt.

Staffing

Table 6-1 displays OBM's actual staffing levels from 1999 through 2001, and OBM's budgeted staffing levels for 2002.

Table 6-1: OBM's Staffing Levels

Position Title	Actual 1999	Actual 2000	Actual 2001	Budgeted 2002
Budget Administrator	1.0	1.0	1.0	1.0
Senior Budget & Management Analyst	3.0	1.0	2.0	2.0
Budget Analyst	4.0	4.0	5.0	5.0
Private Secretary	1.0	1.0	0	0
Secretary	1.0	1.0	0	2.0
Administrative Officer	0	1.0	1.0	1.0
Total	10.0	9.0	9.0	11.0

Source: Mayor's Estimate and budget administrator

As indicated in **Chart 6-1**, all OBM employees report directly to the budget administrator. OBM consists of nine full time equivalents (FTEs) with the secretary position vacant. The budget administrator wants to expand the department to eleven FTEs by filling the secretary position vacancy and adding an additional secretary in the 2002 budget, as shown in **Table 6-1**. The budget administrator wants to increase OBM's support staff in order to reduce the time the budget analysts are spending on performing clerical functions and increase the time budget analysts spend performing ongoing monitoring and analysis. The following position descriptions are based on

interviews with the budget administrator and individual job descriptions. Each employee assists one another and all of the staff members perform several functions.

The budget administrator is the head of OBM and is responsible for overseeing the daily operations of the department. The following list outlines the budget administrator's key responsibilities:

- Carry out the budgetary process by monitoring and analyzing the City's operating budget;
- Assign each analysts specific City departments in which the analyst is responsible for preparing and managing that department's operating budget;
- Attend budget meetings and hearings with the Finance Director and each department director to discuss and make appropriate modifications to the budget requests;
- Prepare and monitor forecasts of existing and future costs to determine appropriate methodologies to satisfy City staffing requirements and goals;
- Prepare the Mayor's Estimate, revenue manuals, and expenditure reports, and provides input into the CAFR;

- Ensure daily budget processes are performed to confirm availability of funds for purchase requisitions and to set aside, encumber, pre-encumber required funds for specific uses;
- Review requests for legislation and approving transfer ordinances;
- Ensure all City grants have a budget ; and
- Review all departments' personnel request form to determine whether the department has a sufficient budget to fund the employee.

The senior budget analysts and the budget analysts have similar job duties. However, the senior budget analysts are responsible for completing any special management projects and providing training and support to new employees. All OBM analysts are responsible for preparing and monitoring various City departments' operating budgets by editing, proofing, and reviewing budget requests. The analysts are also responsible for reviewing all purchase requisitions received from their assigned departments to ensure proper coding and the availability of funds. Additional responsibilities include preparing forecasts, monitoring grant expenditures, reviewing budget adjustments, and running ad hoc reports.

The capital budget analyst, who is classified as a budget analyst, is responsible for preparing and monitoring the City's capital budget. The capital budget analyst prepares a list of capital requests made by City departments during the operating budget process and sends the list to the Mayor for review and approval. Once the Mayor returns an approved list of capital projects, the capital budget analyst is responsible for establishing a capital budget and tracking capital expenditures related to those capital projects. The capital budget analyst does not prepare any forecasts or provides any input into the City's capital improvement plan.

The administrative officer is responsible for providing budgetary support to all OBM employees in accordance with the administration of OBM's activities. Specific duties include logging documents, such as purchase requisitions that come through the department, filling public records requests, monitoring inventory control, and ensuring record retention policies are followed. The administrative officer also performs other support functions as directed by the budget administrator.

The secretary position, which is currently vacant, is responsible for performing clerical activities, such typing letters or reports for OBM. Other job responsibilities include answering phones and performing any other clerical functions as directed by the budget administrator.

Financial Data

Table 6-2 summarizes OBM's actual expenditures for 1999 through 2001 and budgeted expenditures for 2002 as presented in the Mayor's Estimate.

Table 6-2: OBM's Financial Data

Expenditure	Actual 1999	Actual 2000	Actual 2001	Budget 2002
Salaries & Wages	\$392,101	\$490,102	\$486,927	\$499,504
Employee Benefits	\$76,279	\$130,539	\$131,949	\$146,049
Training & Professional Dues	\$2,946	\$291	\$2,525	\$4,200
Contractual Services	\$1,833	\$13,111	\$1,516	\$5,450
Materials & Supplies	\$9,820	\$2,747	\$4,095	\$8,800
Maintenance	\$0	\$22	\$0	\$1,500
Inter-departmental Service Charges	\$24,090	\$24,165	\$36,321	\$16,010
Total	\$507,069	\$660,977	\$663,333	\$681,513

Source: Mayor's Estimates 2002

As shown in **Table 6-2**, OBM's total annual expenditures increased approximately 30 percent in 2000 from 1999, with 2001 expenditure levels remaining fairly constant from 2000 levels. OBM is projecting a 2.8 percent increase in expenditures for 2002 from 2001 levels. Notable variances in expenditures are a result of the following factors:

- Salaries and wages expenditures increased approximately 25 percent from 1999 to 2000 due to the implementation of a higher salary schedule for all employees. As a result, expenditures for employees' wages increased by approximately 22 percent. In addition,

OBM paid approximately \$14,000 in separation payments and approximately \$27,000 in overtime costs in 2000 due to employee turnover.

- The 71 percent increase in employee benefits from 1999 to 2000 was the result of a significant increase in payments to the public employees' retirement system.
- Contractual Services significantly increased in 2000 from 1999 resulting from the implementation of the PeopleSoft system.
- Inter-departmental service charges comprise funds allocated to the data processing unit, the telephone exchange, and printing and reproduction, which are Internal Service Funds.

Performance Measures

OBM's utilization of the PeopleSoft system was assessed throughout the performance audit. In addition, the following performance measures were used to analyze the operations of OBM and the Sinking Fund:

- Review key aspects of the City's budgeting policies and procedures and compliance to the Ohio Revised Code (ORC);
- Assess skill sets of employees that make up the department;
- Assess OBM's processes for preparing and monitoring the operating and capital budgets;
- Assess OBM's processes for performing financial planning activities and providing management support to other City departments; and
- Assess the Sinking Fund's internal controls over debt covenants and account maintenance.

Findings / Commendations / Recommendations

Budgetary Process and Compliance

F6.1 OBM is responsible for coordinating the City's budgetary processes. The operating budget, also called the Mayor's Estimate, is the spending plan for the fiscal year. The operating budget process consists of activities that encompass the development, implementation and evaluation of a plan for the provision of services. The mission of the operating budget process is to help decision makers make informed choices about the level of services that will be provided to citizens. The budget administrator established a formal operating budget calendar, as depicted in **Table 6-3**, to establish specific dates and activities that need to be completed by OBM and other City departments to ensure compliance to all budgeting laws.

Table 6-3: 2002 Operating Budget Calendar

Date	Activity
Friday, August 3, 2001	Distribute 2002 budget request booklet
Tuesday, September 4, 2001	Completed budget request booklets due to OBM
Weeks of October 5 - 15	Finance Director to meet with departments to discuss budget submission
Friday, November 2, 2001	Presentation of 2002 Financial Plan to Mayor with recommendations on balancing budget
Monday, November 5, 2001	Temporary Budget Presented to Mayor
Weeks of November 6 - 20	Mayor and Finance Director discuss final budgets with departments
Monday, November 19, 2001	Finalize budget and include Mayor's recommendations
Monday, December 3, 2001	Submit appropriation ordinance and Mayor's Estimate to Council
December 17 - 28	Print Mayor's Estimate
February 1, 2002	Per City Charter, the Mayor's Estimate must be presented to City Council
Late February / Early March	Budget Hearings
Friday, March 29, 2002	Passage of Budget by City Council
1st Monday in May 2002	Fiscal officer certification's deadline

Source: OBM's budget administrator

The calendar depicted in **Table 6-3** is based on requirements set forth in the Ohio Revised Code (ORC) and the City Charter. The City does not have the next year's budget adopted and in place before year-end. Instead, the Mayor submits an appropriation budget, called the "Mayor's Estimate," to City Council by February 1st of each year (not December 3rd). City Council holds various budget hearings over a two-week period that covers portions of the budget. The public is permitted to attend the budget hearings and provide input related to the budget requests. The Finance Director and the finance committee chairperson hold a meeting to review and revise, if necessary, the formal Mayor's "Budget Estimate" document. The original Mayor's "Budget Estimate" document along with any corrections, revisions, and changes are accumulated by OBM into a permanent appropriation document. City Council adopts a temporary appropriation measure for the first three months of the year and adopts a permanent appropriation measure for the fiscal year by April 1st. As a result, the City operates under a temporary budget for the first three months of the fiscal year until the budget has been formally adopted. The Cuyahoga County Auditor must certify that the City's appropriation measure does not exceed the amounts set forth in the County Budget Commission's certificate of estimated resources.

According to the City's Charter Section 38, provides, in part as follows:

"The fiscal year of the City shall begin on the first day of January. On or before the fifteenth day of November in each year the Mayor shall prepare an estimate of the expense of conducting the affairs of the City for the following year and shall submit such estimate to Council no later than February 1 of said following year."

In contrast to the City, the cities of Cincinnati and Columbus consistently prepare the next year's operating budget before the end of the current fiscal year. Cincinnati prepared its 2002 operating budget by November 2001 and formally adopted it on December 19, 2001. According to Columbus's City Charter, Columbus must present the next year's operating budget to Council by November 15th, which is significantly earlier than Cleveland's requirement of presenting the operating budget to City Council by February 1st. Columbus adopted its 2002 operating budget during the third week of January 2002.

R6.1 OBM should create a new timeline in which the City's operating budget is prepared and adopted before December 31st of each year. This timeline should be presented to the Mayor and Council and discussed as to its applicability. The City should also consider changing the City Charter to clarify that the City's operating budget should be finalized before the beginning of a new fiscal year.

The budget administrator should be responsible for ensuring that the budget preparation time line is followed by all participants in the budget process. According to the National Advisory Council on State and Local Budgeting (NACSLB), a government should adopt a budget that meets all statutory requirements prior to the beginning of the fiscal year. Therefore, the City should prepare and adopt the next year's operating budget by the end of the current fiscal year. The City's current practice of operating under a temporary budget for the first three months of the fiscal year is not a good financial management practice. The timely adoption of a budget would permit the City to proceed with implementing programs and services that further the achievement of goals.

The City should ensure that department and divisional managers are consulted when revisions are made to their budgets at any time during the budget preparation process. Discussions will inevitably be necessary regarding the decisions that need to be made. Clear and acceptable processes must be in place to ensure that issues can be more satisfactorily addressed and options can be considered to reach a consensus about budget decisions.

- F6.2 The City maintains budgetary control on a non-GAAP basis at the function level (personnel and related expenditures, other expenditures, debt service and capital outlay) within each division. Lower levels within each character are accounted for and reported internally. Lower levels are referred to as the program or object level. Estimated expenditure amounts must be encumbered prior to release of purchase orders to vendors for finalization of other contracts. Encumbrances that would exceed their available function level appropriation are not approved or recorded until City Council authorizes additional appropriations or transfers.

However, the City's 2000 financial audit reported weaknesses related to budgetary control, which resulted in the City receiving several noncompliance citations. The following issues were cited as budgetary control weaknesses in the 2000 financial audit:

- Adequacy of Internal Service Fund
- No Temporary Appropriation Ordinance
- Lack of monthly budget reports
- Lack of fund balance reports
- Establish reserve balance account
- Timely certification of unencumbered balances
- Compare actual revenue to estimated amended tax certificates
- Compare appropriations to expense
- Making appropriations in excess of total estimated revenue
- Periodic reconciliation of unencumbered balances
- Timely charge backs

- Accounting treatment for the new stadium
- Accounting treatment for capital projects and grant receivables

As a result of the noncompliance citations, the budget administrator and the Finance Director created an audit findings compliance plan to outline corrective action, the City has taken or plans on taking to prevent budgetary control weaknesses from occurring in subsequent audits. The plan was modeled after the State Compliance Supplement, which is used by the State Auditor's Office in performing budgetary compliance testing.

The budget administrator uses program compliance worksheets to track and evaluate compliance measures for all audit findings and recommendations. The compliance plan places emphasis and priority on the following control processes to help prevent repeat audit findings:

- Develop a comprehensive, "proactive," written compliance plan
- Use of related ORC sections as a base for compliance
- Conduct OBM staff meetings to ensure dissemination and understanding of requirements and regulations
- Create a budget and action plan time line
- Use an OBM "tickler file" to ensure scheduled compliance dates are met
- Conduct timely, monthly analysis

Since the creation of the compliance plan, OBM has addressed all audit issues, except issues with the Internal Service Fund. During the 2002 budget process, the current administration is addressing the financial audit's recommendation to analyze the user charges for the Internal Service Fund and adjust future user charges accordingly.

F6.3 OBM is responsible for reviewing all purchase requisitions to ensure the account coding is correct and that funds are available. Once OBM determines if the coding is correct and funds are available, the budget analyst and the budget manager initial the purchase requisition and send it to Financial Reporting and Control (FRC) to be entered into the accounting system. In previous years, OBM was only responsible for examining purchase requisitions that affected the General Fund. The policy was changed by the Finance Director in 2000 when the City was experiencing problems with the coding of funds and accounts within the PeopleSoft system. To correct the problem, the Finance Director required all purchase requisitions to be reviewed by OBM to ensure all the requisitions had the proper account codes. As a result, more paperwork is being sent to OBM for the budget analysts to process, which prevents them from monitoring the budget more closely and preparing forecasts.

The budget analysts within the cities of Cincinnati and Columbus do not review purchase requisitions. Instead, both cities have controls within the accounting system to prevent departments from inputting incorrect account codes into the system. In addition, if a department's budget did not have sufficient funds to pay for a purchase, the accounting system would not allow the purchase to be entered into the system.

- R6.2** Purchase requisitions should no longer be sent to OBM to ensure proper account coding and availability of funds. Department and divisional managers should be responsible for ensuring purchase requisitions have the proper account codes and that funds are available. Each divisional manager should know the proper account codes for their department and how transactions are processed. In addition, divisional managers should be able to monitor the department's budget to determine if funds are available for purchases. According to the budget administrator, if department managers have access to the PeopleSoft system, they are able to directly view their department's budget. As a result, department managers with PeopleSoft access should be able to determine if sufficient funds are available in the budget before a purchase requisition is created. Furthermore, the purchasing department should have controls in place to ensure proper account coding and the availability of funds for purchase requisitions before requisitions are processed. By shifting the responsibility of monitoring purchase requisitions to the departmental level and the purchasing department, OBM would have more time to prepare forecasts and monitor the budget.
- F6.4 City departments are required to complete a personnel request form and submit it to OBM before an employee is hired or replaced. OBM uses the form to determine whether or not the department had sufficient funds in its budget to pay for an additional employee. In addition, OBM analyzes the department's staffing levels to determine if an additional employee is necessary. After the department's budget is analyzed, OBM makes a recommendation on whether the department should hire or replace an employee. However, according to the budget administrator, some City departments have not completed a personnel request form and submitted it to OBM before an employee is hired or replaced.
- R6.3** The Finance Director should require all department managers to follow the City's policy of completing a personnel request form and submitting it to OBM before hiring or replacing an employee. New employees should not be added to the City's payroll system without OBM's approval. By ensuring this policy is followed, the City would be in a better position to monitor and control staffing levels and personnel expenditures within departments. In addition, department managers would have a better understanding of what budget and other types of implications are involved with hiring and replacing employees.

F6.5 The City received the Government Financial Officers Association's (GFOA) Distinguished Budget Award from 1984 through 1998 but has not applied for the award since 1998. However, OBM has included the submission of the 2003 budget to the GFOA as part of its 2002 performance measures. The award program was established to recognize exemplary budget documentation by state, provincial, and local governments as well as public universities and colleges. Entities participating in the program submit copies of their operating budget for review. Each budget document is evaluated using a comprehensive evaluation checklist and those that are adjudged proficient receive the award.

Since the program was first established in 1984, participation has grown from 113 to 912 governments. During 2001, approximately 925 governments submitted budgets to the program. Several entities, such as the City of Cincinnati, that have submitted their budgets for consideration have found the GFOA's review comments and recommendations to be beneficial in helping them improve bond ratings and provide more useful information to decision makers and citizens.

R6.4 The City should reapply for the GFOA Distinguished Budget Award. Winning awards fosters financial accountability and it helps improve bond ratings, making it cheaper to issue debt. In addition, preparing the operating budget based on criteria supported by a recognized professional organization like the GFOA, demonstrates to the public that the City is preparing a high quality operating budget that will meet the needs of decision makers and citizens.

Organizational Issues

F6.6 The current budget administrator, who began working in the department in May 2001, is in charge of overseeing OBM's operations. Since 1996, OBM has been overseen by four budget administrators and has experienced significant turnover in the budget analyst position. As a result, policies and procedures have changed periodically and the experience level in the budget analyst position has significantly decreased. These issues have been further complicated by the implementation of the PeopleSoft system as it relates to OBM activities and to several employees not receiving appropriate and relevant computer training to complete their job responsibilities. In addition, complications from the PeopleSoft system have caused more clerical work, such as reviewing purchase requisitions being performed by the budget analysts instead of preparing forecasts and monitoring the budget. Therefore, crucial OBM activities, such as preparing and monitoring the operating budget, are being performed by other City personnel or not being performed at all.

Currently, OBM is not performing all the functions that should be performed by a division responsible for providing budgetary analysis and management consulting services to other City departments. The following outlines the functions OBM is currently performing:

- Preparing and monitoring the operating budget;
- Preparing the tax budget and submitting it to the County;
- Assisting department's with grant management;
- Reviewing purchase requisitions for accuracy of account codes and availability of funds; and
- Performing other clerical functions, such as document processing and filling public records request.

Once the City's operating budget is adopted in late March, OBM does not begin preparing the next fiscal year's operating budget until August. During the months of April through July when OBM is not working on preparing the next fiscal year's operating budget, OBM is performing more clerical functions, such as reviewing purchase requisitions, than providing budgetary analyses and management consulting services to other City departments. According to the budget administrator, the budget analysts spend approximately 30 percent of their time performing clerical functions.

R6.5 The budget administrator should ensure OBM is performing appropriate functions that a division responsible for providing budgetary analysis and management consulting services to other City departments. For example, the budget administrator should ensure that the budget analysts are consistently preparing revenue and expenditure forecasts (See **R6.16**), conducting quarterly meetings with department managers about spending levels (See **R6.13**), and conducting management studies that provide useful recommendation to other City departments for areas of improvement (**R6.17**). Furthermore, the budget administrator should ensure OBM has adequate time to provide budget analysis and management consulting services to all City departments by eliminating clerical functions, such as reviewing purchase requisitions from the department's responsibilities (See **R6.2**). The budget administrator should also ensure OBM is providing sufficient budgetary and management information to City departments in a timely manner.

The budget administrator should also take the necessary steps to retain experienced employees by ensuring that all current and future employees receive the necessary amount of computer training to complete their assigned job duties. The training should cover all the available computer functions applicable to OBM in order for employees to gain a basic understanding of each function within OBM.

F6.7 Since the City allocates scarce resources to programs and services through the budget process, it is important that the City employs qualified personnel to prepare and monitor the operating and capital budgets. Therefore, since the budget administrator is responsible for the preparation and monitoring of the City's budget process, the budget administrator should possess the following qualifications:

- A minimum of a Bachelor's degree in Finance, Accounting, Business/Public Administration or related field;
- A Certified Public Accountant (CPA) license and/or a Master's of Business Administration (MBA) should be preferred;
- A minimum of seven years professional level budget analysis and planning experience; and
- Communicates clearly and concisely both verbally and in writing in formal and informal settings.

The budget administrator should also possess demonstrated competencies in the following areas:

- Analysis and Problem Solving: uses active listening, oral and written communication skills to recognize and then evaluate operating budget related issues. Identifies and collaborate with appropriate parties in developing recommended options to resolve issues;
- Interpersonal Skills: adapts to and works effectively with diverse settings and situations, builds and models professional behaviors; and
- Leadership: demonstrates the ability to coach, and inspire and motivate staff in their roles and responsibilities.

R6.6 The City should determine if the current budget administrator possesses the necessary budgetary management skills to function as the budget administrator or if the desired skills could be obtained through additional training. By ensuring the budget administrator is appropriately overseeing the responsibilities associated with an OBM, the City should be able to improve its processes for preparing and monitoring the operating and capital budgets and enable the City to become a more fiscally accountable entity.

F6.8 The budget administrator is the only management position within OBM. In contrast, the City of Cincinnati employs two budget supervisors who are responsible for assisting the budget administrator in managing the preparation and monitoring of the operating and capital budgets.

The capital budget analyst is classified as an OBM employee; however, this position does not report to the budget administrator. Instead, the capital budget analyst reports to the Finance Director. This arrangement was created by a former Finance Director and has not been changed by the acting Finance Director. However, the budget administrator does include the capital budget analyst in all OBM employee meetings.

The capital budget analyst is the only employee within OBM that is dedicated to preparing and monitoring the capital budget. However, the capital budget analyst does not have the necessary training to adequately prepare and monitor the City's capital budget. In previous years, OBM employed a capital budget manager and used the budget analysts to work with department managers and the City's Planning Commission to prepare and monitor the City's capital budget (See **R6.14**). However, currently, OBM employs one capital budget analyst who is only responsible for establishing project codes and tracking expenditures charged to those projects and is not responsible for preparing the City's capital improvement plan.

R6.7 The City should consider hiring an experienced operating budget manager and an experienced capital budget manager, who would be responsible for assisting the budget administrator in the preparation and monitoring of the operating and capital budgets. In addition, the operating budget manager would be responsible for ensuring the budget analysts are preparing revenue and expenditure forecasts, creating quarterly spending plans for department managers, providing adequate grant management assistance to other City departments, and conducting management studies that provide recommendations on how the City could improve operations. The capital budget manager should be responsible for working with the City's department managers and the City's Planning Commission to prepare and monitor the City's capital budget in accordance with the City's capital improvement plan. In addition, the capital budget manager should be responsible and involved in identifying funding sources for projects.

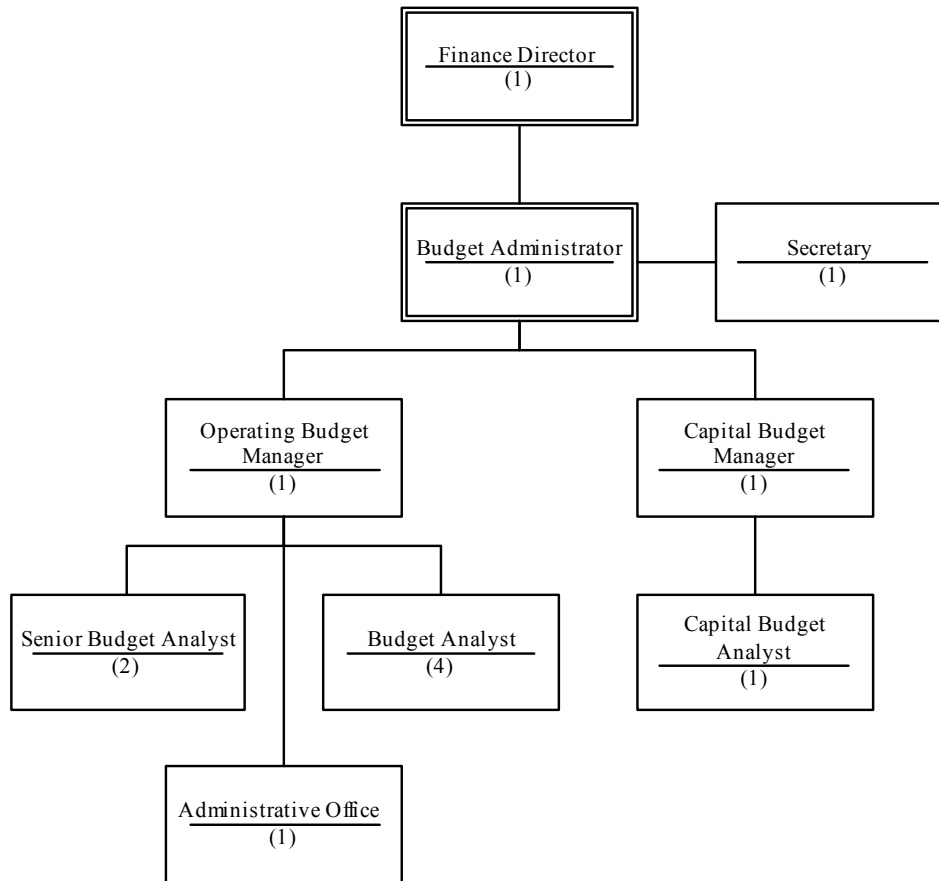
The operating budget manager and the capital budget manager should possess the following qualifications:

- A Bachelor's degree in Finance, Accounting, Business/Public Administration or related field or equivalent experience;
- A minimum of five years professional level budget analysis and planning experience; and
- Communicates clearly and concisely both verbally and in writing in formal and informal settings.

The City should consider formally reorganizing the organizational structure of OBM to separate the operating budget function from the capital budget function. The budget administrator should be responsible for overseeing the operating budget manager and the capital budget manager. **Chart 6-2** graphically depicts the proposed organization.

Financial Implication: Hiring an operating budget manager and a capital budget manager would cost the City approximately \$50,000 per position or \$100,000 annually.

Chart 6-2: Revised OBM Organizational Chart



F6.9 The cities of Cincinnati and Columbus's budget staff perform similar functions as OBM. Budget staff within each city are responsible for preparing and monitoring the operating and capital budgets. However, the cities of Cincinnati and Columbus use different procedures for completing the capital budget and the budget analysts perform additional activities, such as preparing departmental spending plans (See **R6.13**) and conducting management studies (See **R6.17**).

OBM consists of nine full time equivalents (FTEs) with the secretary position vacant. The budget administrator wants to expand the department to eleven FTEs by filling the secretary position vacancy and adding an additional secretary position. **Table 6-4** presents the current staffing levels for the budget function within the cities of Cleveland, Cincinnati, and Columbus.

Table 6-4: Budget Staffing Analysis

Position	Cleveland	Cincinnati	Columbus	Peer Average ¹
Budget Administrator	1.0	1.0	1.0	1.0
Budget Supervisor	0	2.0	0	N/A
Senior Budget & Management Analyst	2.0	8.0	0	N/A
Budget Analyst	4.0	2.0	5.5	3.8
Capital Budget Analyst	1.0	1.0 ²	1.5 ³	1.3
Secretary/Clerical Support	0	1.0	1.0	1.0
Administrative Officer	1.0	2.0	0	N/A
Grant Management Personnel ⁴	0	0	6.0	N/A
Total	9.0	17.0	15.0	16.0

Source: Finance Departments of Cleveland, Cincinnati, and Columbus

¹ The peer average does not include Cleveland.

² Two senior budget analysts in Cincinnati spend 50 percent of their time each coordinating the capital budget. Other analysts spend approximately 5-10 percent of their time providing input to the capital budget.

³ The City of Columbus has one full-time person dedicated to the capital budget. One budget analyst spends 50 percent of his time completing the capital budget.

⁴ The City of Columbus employs 6.0 FTEs within its budget office to complete all grant management functions. Five FTEs are dedicated to managing the City's existing grants, while one FTE is dedicated to pursuing additional grants that the City may be eligible to receive.

As shown in **Table 6-4**, Cleveland’s total budget staffing level is approximately 44 percent below the peer average. Cleveland dedicates fewer budget employees to complete the City’s capital budget in comparison to the peers. However, Cincinnati and Columbus’s capital budget preparation process is more involved than Cleveland’s capital budget process (See **R6.14**).

Table 6-5 presents the citywide FTEs per budget analyst for Cleveland, Cincinnati, and Columbus.

Table 6-5: City FTE per Budget Analyst Position

	Cleveland	Cincinnati	Columbus	Peer Average
Total City FTEs	9,154	6,570	8,272	7,421
Budget Analysts ¹	6.0	10.0	5.5	7.8
City FTE per Budget Staff FTE	1,526	657	1,504	1,081

Source: Finance Departments of Cleveland, Cincinnati, and Columbus

¹ Budget analysts for Cleveland and Cincinnati includes senior budget analysts and budget analysts

As shown in **Table 6-5**, Cleveland employs approximately 23 percent more FTEs and has a higher ratio of city FTEs per budget staff compared to the peer average. Although, when compared to Columbus, Cleveland has a similar ratio of city FTEs per budget staff, Columbus employs 6.0 FTEs to complete the grant management function of the City. In contrast, Cleveland does not employ separate grant management personnel within OBM. Cleveland’s budget analysts are responsible for working with departments who receive grants to ensure that the grants are appropriately accounted for in the department’s budget. OBM also reviews grant applications for any matching fund requirements before the department is allowed to apply for them. If OBM approves the grant application, it is sent to the Law Department for processing. However, OBM does not research grant opportunities for other City departments to pursue. Instead, departments are responsible for pursuing grant opportunities that are applicable to their needs. See the **Financial Reporting and Control** section of this performance audit for more information regarding the City’s grants management personnel.

R6.8 After OBM begins making progress toward fulfilling all the preparation and monitoring activities of the operating and capital budgets, the City should consider filling the budget administrator’s request for filling the secretary position vacancy. By filling the secretary position vacancy, OBM could shift more clerical work currently being performed by the budget analysts to the secretary. As a result, the budget analysts would have more time to conduct more budgetary analyses on the operating and capital budgets. Once the clerical

functions are either shifted to the secretary position or eliminated from OBM's list of responsibilities (See **R6.5**), OBM should conduct a workload analysis to determine if OBM requires any additional clerical support staff.

Financial Implication: Filling the secretary position vacancy would cost the City approximately \$25,200 annually.

F6.10 The budget administrator is responsible for hiring and retaining employees. According to the budget analyst job descriptions, candidates must meet the following minimum qualifications:

- Possesses a Bachelor's Degree in Business Administration, Accounting or related field;
- Requires two year full-time experience in government finance and accounting or any equivalent combination of education, training and experience; and
- Possesses knowledge in computer software applications.

The budget administrator is currently updating job descriptions for all positions within OBM. In addition, the budget administrator is working on improving the department's operations by creating a formal policy and procedure manual, implementing a mentoring program, and conducting weekly staff meetings.

F6.11 The budget administrator is working on updating the formal policy and procedure manual that outlines activities that need to be performed by the department. This type of a procedure manual helps employees unfamiliar with certain OBM's activities to become fully trained and understand all of the steps required to adequately perform the department's activities. However, the budget manger has not finalized all the necessary information to be included in the policy and procedure manual.

R6.9 The budget administrator should ensure that a formal policy and procedure manual that outlines all the department's responsibilities is completed and distributed to all current and future employees. The budget administrator should delegate the task of completing the manual to the senior budget analysts. If OBM created a procedure manual outlining the department's activities, new employees and current employees could become more familiar with these activities and gain a basic understanding of what is required to perform these activities. The manual should explain and describe where the staff needs to go to obtain information and what needs to be done with that information. Furthermore, a procedure manual would also be a useful reference for OBM to use when employees who perform the majority of those activities are on vacation or leave.

F6.12 OBM has a formal mentoring program for new staff members. Currently, new employees are paired with an experienced employee who acts as their mentor for the first fourteen days of employment. During the mentoring program, new employees begin to learn OBM's policies and procedures. The mentor shows the new employee what is expected of them daily. However, OBM's 2002 training budget is only \$4,200 as shown in **Table 6-2**. According to Governmental Auditing Standards, accounting professionals should have an average of 40 hours of continuing professional education (CPE) per year.

R6.10 The budget administrator should consider expanding the mentoring program for new staff from 14 days to the first 30 days of employment to establish a formal sponsorship program. To accomplish this, the budget administrator should develop a formal, written document that outlines the topics to be discussed and states that the training should be conducted during the first 30 days of employment. In addition, the budget administrator should make sure formal, continuing training plans are in place that are consistent with Governmental Auditing Standards regarding the amount, type, and frequency of CPE. By following these standards, the budget administrator would be able to ensure the budget staff obtain the knowledge, skills and other competencies. A survey of 40 organizations showed that \$25 per CPE hour was a reasonable estimate of cost for budgeting purposes. Based on the revised organizational structure presented in **Chart 6-2**, OBM would require 10 budget staff requiring 40 CPEs annually. As a result, the minimum budget for training would be \$10,000 annually.

During the sponsorship program, the new employees should be paired with another employee who can act as a mentor during this time period. To ensure that the different mentors pass along the same type of information to the new employees, current efficient procedures must be documented by the budget administrator and passed along to the other current employees so that inefficient policies do not get passed along to the new employees. A successful mentoring program can lay down the essential framework that a new employee will need to be productive in their new position.

Operating and Capital Budgets

F6.13 The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services. Several essential features characterize a good budget process. A good budget process:

- Incorporates a long-term perspective;
- Establishes linkages to broad organizational goals;
- Focuses budget decisions on results and outcomes;

- Involves and promotes effective communication with stakeholders; and
- Provides incentives to government management and employees.

These key characteristics of good budgeting make clear that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals.

F6.14 Currently, OBM does not formally assess the financial impact of the local economy, such as identifying area business that may close or reduce operations, on the City's total revenue. According to NACSLB practices, a large unexpected variance in a major revenue source is usually a major problem. The better the ability of a government to predict these changes, or at least their direction, the less disruptive these changes will be. In addition, improved estimation of these revenues will enhance the confidence of stakeholders in the overall revenue projection. Governments should regularly collect and evaluate information about trends in community condition, the external factors affecting it, opportunities that may be available, and problems and issues that need to be addressed. The budget administrator uses the following sources for information to develop assumptions that are incorporated into the tax budget:

- Prior years' information;
- IRS calendar year return projections;
- Economic indicators;
- Unemployment data;
- Ohio's economic profile;
- United State Bureau of the Census for changes in population;
- President of the United State's Tax Budget to determine how the federal budget will affect Ohio;
- Federal Reserve Board's plans to reduce interest rates; and
- Worker Adjustment and Retraining Notifications (WARN) to determine projected layoffs in the local area.

R6.11 Although the budget administrator has identified several resources to develop assumptions that should be incorporated into the tax budget, OBM has not used the information to create a formal analysis that shows the financial impact of the assumptions on the City's revenues. OBM should be responsible for developing assumptions based upon information obtained through empowerment zones and potential tax abatements that may provide additional revenue to the City. In addition, OBM should evaluate and understand the effect of potential changes to revenue sources that are a result of area businesses closing or reducing

operations. OBM should work with the Income Tax Department to determine what percentage of revenue the business is contributing toward total revenue and how the loss of revenue from that business will affect the level of services provided to citizens. In addition, OBM should assess the impact of a loss of a particular business will have on other area businesses and the subsequent impact on the City's income tax and property tax revenues.

- F6.15 As mentioned in **Table 6-3**, OBM provides each departmental director with a budget request booklet (both as an excel spreadsheet on a computer disk and a hard copy) for the upcoming year with the total estimated expenditures (appropriations) allotted for the department. The budget analysts estimate each department's appropriation by first analyzing how much money is available based on the tax budget and then by examining the department's prior year budget. The budget analysts also factor in any known special issues into the department's appropriation level. Once OBM sends the budget request booklets to the City's departments, it is each departmental director's responsibility to allocate the total appropriation budget to the various division(s) within the department.

Each budget request booklet includes detailed expenditure line item categories that can be selected as estimated expenditures for the upcoming year. The budget request booklets are to be completed (on either an excel spreadsheet or handwritten) and signed by the head of the division and returned to OBM. The budget request booklets are assigned to a budget analyst, who is responsible for reviewing the request for accuracy and reasonableness and converting the information into a budget spreadsheet. Under the City's former accounting system, FAMIS, the budget analysts used a budget preparation module to convert each department's budget request into a budget. Once information was compiled into the budget preparation module, OBM could create a citywide operating budget. Currently, the budget analysts must convert the information into an excel spreadsheets and send them to the budget administrator to review and compile into the citywide operating budget. As a result, compiling the City department's budget requests using spreadsheets instead of a budget preparation module has caused OBM to spend much more clerical time preparing the City's operating budget than in previous years.

After OBM receives all the City departments' budget requests, the Finance Director, budget administrator and each department director along with the applicable division head meet to discuss the budget requests and make modifications where applicable. The Finance Director takes many factors into consideration, such as fixed costs and debt service requirements, when analyzing the budget requests. After the Finance Director presents and discusses the revised budget requests with the mayor, a second budget meeting is held between each department director, the Finance Director and the mayor to discuss the budget requests. The budget administrator only attends the second budget meeting if needed. During the meeting,

modifications are suggested and appropriate revisions are made, prior to the accumulation of each department's budget request in the Mayor's "Budget Estimate" document. This document is prepared by OBM, using a desk-top publishing program (Ventura), which is separate and distinct from the PeopleSoft system. The budget spreadsheets prepared by the budget analysts links directly into Ventura to create the Mayor's "Budget Estimate" document. In previous years when OBM used the budget preparation program in the FAMIS system, OBM did not have to link spreadsheets to a desk-top publishing program to create the Mayor's "Budget Estimate" document. Instead, the budget preparation program could produce this document without further manipulation of the budget data.

The City purchased a budget preparation module for the PeopleSoft system, but the City chose not to implement it because other cities who implemented the module have had problems. No one within OBM has seen a demonstration of the PeopleSoft budget preparation module to assess the module's capabilities.

R6.12 The City should consider implementing a budget preparation module to help OBM convert the City department's budget requests into the City's operating budget in a more efficient manner. A budget preparation module would reduce the amount of time spent preparing excel spreadsheets for City departments' budget requests. In addition, the module would automatically perform the necessary calculations thereby reducing the number of errors, unlike spreadsheets where the budget analysts have to prepare the formulas and calculations. Furthermore, a budget preparation module could assist OBM in producing the Mayor's "Budget Estimate" document more efficiently. By using a budget preparation module, the budget analyst would have more time to spend working on other functions, such as monitoring and conducting budget analyses on a continuous basis.

OBM should assess the PeopleSoft system's budget preparation module to ascertain if the module's capabilities meet OBM's needs. The budget administrator and the senior budget analysts should either attend a demonstration conducted by PeopleSoft or view a demonstration provided by another city that uses the module. If the City decides to implement the module, an appropriate amount of training should be provided to all OBM employees.

F6.16 OBM does not provide City departments with monthly budget-to-actual or budget-to-projected actual comparisons of revenues, expenditures, and fund balance. In previous years, OBM used to examine each department's expenditures and revenues on a monthly basis. OBM would provide each department director with a monthly report showing expenditures and revenues and the status of the department's budget. The budget analysts would meet with or call the departments to discuss the report, if necessary. However, OBM

no longer provides departments with monthly budget reports because of problems with running reports on the PeopleSoft system. Instead, Financial Reporting and Control (FRC) is responsible for distributing monthly budget-to-actual reports and all other management reports to City departments. Budget-to-actual reports are crucial to monitoring each City department's budgetary performance. Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider action that may be needed if major deviations in budget-to-actual results become evident. It is also an essential input in demonstrating accountability.

In addition to distributing monthly reports, the budget analysts used to develop spending plans for each department to provide management with useful information on how much money is projected to spent during the month. For example, if a department spent a specific amount of money by June and OBM projected them to have spent less by the same time frame, the budget analyst would want to know why the department spent more than projected. As a result, the budget analyst and the departmental manager would meet and discuss strategies on how the department could curtail spending without negatively affecting services provided.

R6.13 Since monitoring the City's operating budget is one of OBM's primary responsibilities, OBM should conduct formal, quarterly budget meetings with each department manager. The budget analysts should review the department's expenditure-to-date information with the department manager to identify all current and future issues that may affect the budget. The budget analysts should use the expenditure-to-date information to compare it to budgeted expenditures. In addition to monitoring budget-to-actual results, the budget analysts and the department managers should evaluate reasons for deviations. These factors are important in assessing the significance of variations, including whether they are expected to be temporary or longer-term in duration. Furthermore, monitoring the budget on a regular basis is becoming increasingly important due to the slowing economy and the City's proposed budget reductions. Therefore, during the quarterly budget meetings, the budget analysts should provide departments' with spending plans and create "what if" scenarios about a department's spending activities. If it is determined that a department is at risk for overspending their budget, the budget analysts and the departmental manager should discuss strategies to take to ensure the department does not exceed its budget. It is essential that all information distributed to management is prepared on a routine, widely-publicized basis.

F6.17 There is one capital budget analyst within OBM responsible for preparing and monitoring the City's capital budget funded through the General Fund. The Enterprise Funds prepare and monitor their own capital budgets since they provide their own funding sources for capital projects. When City departments that are funded through the General Fund prepare

budget requests for the City's operating budget, they are also required to prepare a separate section specifically for capital projects that they are planning to implement within the next five years. The capital requests include a description of what the capital project is and a breakdown of how much the project will cost.

Currently, the City is not preparing a capital improvement plan. As a result, there is no correlation between the City's capital budget and the City's capital improvement plan. In previous years, the capital budget analyst was responsible for preparing and updating the City's capital improvement plan and working with City management and the City's Planning Commission to prioritize which capital projects should be implemented. OBM's capital budget analyst was not aware that the City had a citywide capital improvement plan. Currently, when City departments remit capital requests to OBM during the operating budget process, the capital budget analyst compiles the capital requests into one master list. The capital list is then forwarded to the Mayor to determine which capital projects the City will undertake. The City's Planning Commission reviews capital requests from City departments and makes a recommendation on whether or not to implement the project. After the City Planning Commission approves which capital projects will be implemented, the capital budget analyst establishes a project budget to monitor expenditures charged to that project. The capital budget analyst was not aware how the City Planning Commission determines which capital improvement projects will be implemented.

In contrast, the capital budget analysts within the cities of Cincinnati and Columbus are responsible for preparing the city's capital improvement plan and the city's capital budget. Cincinnati and Columbus have a formal capital improvement process in which only capital projects that are identified in the city's capital improvement plan are implemented. As a result, the capital budget coincides with the capital improvement plan. In addition, Cincinnati and Columbus have more staff within the finance department that are responsible for preparing and monitoring the capital budget. Cincinnati's budget analysts spend approximately five to ten percent of their time providing information for the preparation and monitoring of the city's capital budget and capital improvement plan. Similarly, Columbus employs 1.5 FTEs to prepare the city's capital budget and capital improvement plan and uses other budget analysts to provide assistance.

R6.14 OBM should be responsible for preparing the City's capital budget in conjunction with the City's capital improvement plan. The capital budget should include all capital projects that the City plans on implementing and not just projects funded by the General Fund. The financial staff within the Enterprise Funds should work with OBM to create a citywide capital budget that coincides with the citywide capital improvement plan. In addition,

OBM's budget analysts should provide assistance to the capital budget process by providing information regarding the capital projects that their responsible departments are planning.

The City's Planning Commission and the OBM should coordinate their efforts and be jointly responsible for updating the capital improvement plan on an annual basis to accommodate changes in the City's goals and needs. OBM should ensure that only projects identified and prioritized in the capital improvement plan are implemented. By prioritizing capital improvements according to criteria that are embedded in the City's mission and goals, the capital improvement plan could also create a more understandable investment decision making process, improve linkages between capital investments and the City's long term vision and goals, and build citizen confidence by making more efficient use of available resources.

Financial Planning Activities

F6.18 In the past, OBM prepared a three-year plan that consisted of the current year's budget and the next two years' projected budgets. The purpose of the three-year plan was to project the City's current and future financial and capital needs and resources. The plan identifies the City's future financial abilities and requirements. In recent years, OBM has not been required to prepare a three-year plan because of changes in emphasis of Finance Directors. However, a senior budget analyst within OBM did prepare a three-year plan last year, but the third year was not analyzed or reviewed by City management during the budget process.

The second year of the three-year plan lays the foundation for the City's tax budget document for the next year. The tax budget document is a useful document for several reasons. First, it gives a preliminary glimpse of the necessary expenditures required to fund current service levels in the coming year along with an estimate of the revenues available to support those needs. As a result, it identifies problem areas to be addressed as the budgetary cycle progresses. Second, because the tax budget is a legal requirement, each municipality by necessity must begin thinking about the coming year's budget early in the prior year.

R6.15 The budget administrator should ensure that OBM's three-year plan is prepared and updated on a consistent basis and used during the budget process. The three-year plan should be used to project the City's current and future financial and capital needs and resources. In addition, the plan should directly link to decisions made regarding the City's operating and capital budgets.

F6.19 When the three-year plan was prepared on a consistent basis, several assumptions were used to forecast expected revenues and expenditures. To project future expenditures and revenues, OBM examined the City's labor union agreements, healthcare and fringe benefit costs, the state of the economy, and estimated income tax revenue. The NACSLB and the GFOA support the practice of forecasting revenues and expenditures in the budget process. Forecasting revenues and expenditures in the budget process allows a government to establish a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals. Revenue and expenditure forecasting does the following:

- Provides and understanding of available funding;
- Evaluates financial risk;
- Assesses the likelihood that services can be sustained;
- Assesses the level at which capital investment can be made;
- Identifies future commitments and resource demands; and
- Identifies the key variables that cause change in the level of revenue.

R6.16 The budget analysts should be responsible for preparing revenue and expenditure forecasts for their assigned department to include in the City's operating budget process. Once the analysts complete the forecasts, the senior budget analysts should be responsible for compiling them to include in the final budget document. The budget administrator should be responsible for reviewing and approving the budget analysts' forecasts.

The department forecasts should extend at least two years beyond the budget period and should be regularly monitored and periodically updated by the budget analysts. The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process. It should also be referenced in the budget document. To improve future forecasting, the variances between previous forecast and actual amounts should be analyzed by OBM. The variance analysis should identify factors that influence revenue collections, expenditure levels, and forecast assumptions.

F6.20 Before 1996, OBM was responsible for conducting management studies in conjunction with the operations of various City departments. In addition, OBM used to conduct program and policy studies to maintain the City's ability to provide cost-effective service delivery. However, currently OBM is not performing these functions. According to the budget administrator, OBM does not have the necessary time or the skill level in the budget analyst position to complete this function. However, the budget administrator believes that OBM should have the resources to conduct different types of studies, including management studies, and make appropriate recommendations as a result. The budget administrator feels

that OBM should not be held accountable for operational results, or lack thereof, but rather the quality and timeliness of the studies. The actual decision to act on a study should be the responsibility of individual department management and City administration.

In contrast, the budget analysts within the cities of Cincinnati and Cleveland are responsible for conducting various management studies requested by city management. Cincinnati's budget analysts have conducted studies regarding the city's take home car program and overtime usage by management. Both Cincinnati and Columbus's budget analysts conduct studies on how well departments are meeting their internal performance measures established by management. Cincinnati prepares a performance measure report at mid-year and year-end that tracks each department's progress in meeting the established performance goals. The results are published in Cincinnati's operating budget. Columbus's budget analysts are responsible for working directly with departments to help management achieve performance goals. During the course of this performance audit, City department management was requested to submit performance measures for 2002. OBM plans to monitor and incorporate each department's performance measure results into ongoing, analytical status reports distributed throughout the year.

R6.17 The Finance Director should require OBM to begin conducting management program and policy studies of various City departments in 2002. However, before OBM performs this function, the Finance Director should ensure that OBM is performing crucial budgeting activities, such as preparing forecasts, budget variance analyses, a continuous three-year plan, and other budget monitoring activities. After these activities are reestablished and adequately being performed, OBM should be responsible for conducting management studies to help improve the City's operations by making useful recommendations to department managers. In addition, OBM should be responsible for monitoring each City departments' progress toward meeting their established performance measures.

Sinking Fund Operations

F6.21 The Sinking Fund is the bond retirement fund of the City required by the ORC and further detailed in the City's Sinking Fund Ordinance. The Sinking Fund was established by the City Charter in the early 1930s. Currently, the Sinking Fund consists of a single employee, an assistant secretary, who has several years of experience within many levels of City government. The assistant secretary is responsible for ensuring the proper disbursement of funds through maintenance of accurate records of bank accounts and other schedules of cash and investments. **Table 6-7** summarizes the City's bond ratings for general obligation bonds, notes and certificates of participation as of December 31, 2001.

Table 6-7: City's Bond Ratings

	Moody's Investor Service	Standard & Poor	Fitch Investors
General Obligation Bonds	A1	A+	A
Airport Surplus Revenue	MIG-1	SP-1	N/A
Waterworks Revenue Notes	Aa3	AA-	N/A
Cleveland Public Power Revenue Bonds	A2	A-	N/A
Airport Revenue Bonds	A3	A	N/A
Certificate of Participation (Series 1992)	Baa1	A-	N/A
Certificate of Participation (Series 1997)	A2	A-	N/A
Parking Revenue Bonds	Aaa	AA	AA

Source: Sinking Fund

F6.22 According to the City's General Bond Ordinance and the Sinking Fund Ordinance, the Sinking Fund must deposit the moneys and investments in all accounts in the Sinking Fund in trust with an Escrow Agent for the benefit of holders of bonds and notes of the City payable from accounts in the Sinking Fund. The assistant secretary is responsible for directing the City's trustees to invest funds that are not required to be used for the payment of debt service. The City's Treasurer does not have any responsibilities in investing funds on behalf of the Sinking Fund. The Sinking Fund's bond covenants contain a list of authorized investments that the City is permitted to use. The assistant secretary, with the help of the trustee, is responsible for choosing which investment instruments to use. The assistant secretary does not conduct any formal cash flow analyses that would provide useful information in deciding which investment instruments would provide the most investment revenue for the City. In addition, the assistant secretary does not monitor the Sinking Fund's rate of return on investments on a monthly basis. However, the assistant secretary does consider when debt service payments need to be made to determine the length of time funds should be invested.

R6.18 The City's Treasurer should be responsible for working with the assistant secretary to ensure funds not required for immediate debt service payments are being invested appropriately. The Treasurer, with the assistance of the assistant secretary, should strive to match investments with anticipated cash flow requirements to ensure the City can meet ongoing financial obligations. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the investment portfolio should continue to be invested in readily available funds to ensure appropriate liquidity is maintained to meet ongoing obligations.

The assistant secretary should meet with the Treasurer and Finance Director on a regular basis to inform them about the availability of funds that could be invested that are not required for immediate payment of debt service. In addition, the Treasurer should monitor the Sinking Fund's investment portfolio's rate of return on investments and share the information with the assistant secretary. See the **Division of Treasury section** of this performance audit for more information regarding the investment responsibilities of the Treasurer.

F6.23 The assistant secretary does not use an official checklist that summarizes the City's compliance with the bond covenants' key requirements. Although the assistant secretary receives negative assurance that the banks are receiving money, there is no formal documentation regarding the City's compliance to its bond covenants. However, the assistant secretary does discuss the Sinking Fund's bond covenants with the City's financial auditors during the audit process, which tests for the City's compliance.

R6.19 The Sinking Fund should create a formal compliance checklist that can be used to monitor the City's compliance with the bond covenants. Although the City has not been cited for noncompliance during the financial audit process, the Sinking Fund should formally document its activities on a compliance checklist. The compliance checklist should be reviewed monthly by the Finance Director.

F6.24 Financial condition is assessed by comparing a city's results with those for similar-sized cities. Two important indicators that assess a city's financial condition are total net general bonded debt and net bonded debt per capita. **Table 6-8** compares Cleveland's total net general bonded debt and net general bonded debt per capita to the cities of Cincinnati and Columbus.

Table 6-8: Comparison of Total Net General Bonded Debt and Net Bonded Debt Per Capita

	Cleveland		Cincinnati		Columbus		Peer Average ¹	
	Net General Bond Debt	Net Bond Debt Per Capita	Net General Bond Debt	Net Bond Debt Per Capita	Net General Bond Debt	Net Bond Debt Per Capita	Net General Bond Debt	Net Bond Debt Per Capita
1991	\$227,926,068	\$451	\$126,303,395	\$347	\$244,850,000	\$384	\$185,576,698	\$366
1992	\$241,612,606	\$478	\$128,737,521	\$354	\$246,355,000	\$380	\$187,546,260	\$367
1993	\$262,983,000	\$520	\$128,416,636	\$353	\$284,363,000	\$437	\$206,389,818	\$395
1994	\$287,643,000	\$569	\$125,291,191	\$344	\$440,734,000	\$668	\$283,012,595	\$506
1995	\$270,921,000	\$536	\$121,543,637	\$334	\$437,143,000	\$657	\$279,343,319	\$496
1996	\$283,205,000	\$560	\$114,646,410	\$332	\$468,379,000	\$694	\$291,512,705	\$513
1997	\$293,692,000	\$581	\$113,189,887	\$327	\$483,657,000	\$706	\$298,423,444	\$517
1998	\$300,082,000	\$594	\$112,490,050	\$325	\$521,937,000	\$749	\$317,213,525	\$537
1999	\$304,650,000	\$603	\$112,420,155	\$334	\$579,761,000	\$830	\$346,090,578	\$582
2000	\$310,370,000	\$649	\$152,076,405	\$459	\$645,115,000	\$907	\$398,595,703	\$683

Source: Cleveland, Cincinnati, and Columbus's 2000 Comprehensive Annual Financial Report

¹The peer average does not include Cleveland.

As shown in **Table 6-8**, Cleveland had more net general bonded debt and a higher net bonded debt per capita than the peer average for 1991 through 1994. In contrast, for 1995 through 2000, Cleveland had less net general bonded debt than the peer average. However, with the exception of 2000, Cleveland's net bonded debt per capita exceeded the peer average for all years presented.

Conclusion Statement

Currently, OBM is not fulfilling many of these responsibilities that are generally associated with OBM operations on a consistent and timely basis. Instead, personnel within OBM perform more clerical functions, such as reviewing purchase requisitions for proper account coding and availability of funds. In previous years, OBM was responsible for preparing and monitoring the operating and capital budgets and providing budget information and management support to City departments. OBM should return to being responsible for preparing and monitoring the operating and capital budgets and providing budgetary and management support to City departments. In addition, the clerical duties that OBM is currently performing should be eliminated and transferred to the appropriate departments. If OBM implements several procedural changes and best practices identified throughout this performance audit, OBM would be able to return to its original mission and fulfill its intended purpose.

The budget administrator established a formal operating budget calendar to establish specific dates and activities that need to be completed by OBM and other City departments to ensure compliance to all budgeting laws. However, the City is not meeting the deadlines set forth in the calendar. In addition, the City is not preparing and adopting the operating budget before the beginning of their fiscal year. In contrast, the cities of Cincinnati and Columbus prepare their operating budgets before January 1st.

The City should consider hiring a new operating budget administrator and a capital budget administrator who are responsible for preparing and monitoring the operating and capital budgets. The City should ensure that the budget administrators possess the necessary skills and experience to adequately perform their assigned duties.

The City purchased a budget preparation module for the PeopleSoft system; however, the module was not implemented. As a result, OBM compiles the City department's budget requests using spreadsheets, which has caused OBM to spend additional clerical time preparing the City's operating budget than in previous years. By using a budget preparation module, the budget analyst would have more time to spend working on other functions, such as monitoring and conducting budget analyses on a continuous basis. OBM should assess the PeopleSoft system's budget preparation module to ascertain if the module's capabilities meet OBM's needs.

The City no longer has a formal capital budget process in which the City's capital budget coincides with the City's capital improvement plan. Instead, OBM's capital budget analyst works in isolation from other City personnel who have capital improvement responsibilities. The capital budget administrator should coordinate efforts with all personnel who have responsibilities related to capital

improvements and be jointly responsible for updating the capital improvement plan on an annual basis to accommodate changes in the City's goals and needs. The capital budget administrator should also ensure that only projects identified and prioritized in the capital improvement plan are implemented.

OBM no longer prepares a three-year plan that consisted of the current year's budget and the next two years' projected budgets. The purpose of the three-year plan was to project the City's current and future financial and capital needs and resources. The plan identifies the City's future financial abilities and requirements. The budget administrator should ensure that OBM's three-year plan is prepared and updated on a consistent basis and used during the budget process. The three-year plan should be used to project the City's current and future financial and capital needs and resources. In addition, the plan should directly link to decisions made regarding the City's operating and capital budgets.

The Sinking Fund is responsible for directing the City's trustees to invest funds that are not required to be used for the payment of debt service. The City's Treasurer does not have any responsibilities in investing funds on behalf of the Sinking Fund. The Treasurer should be responsible for working with the assistant secretary to ensure funds not required for immediate debt service payments are being invested appropriately. The Treasurer should prepare cash flow analyses of potential authorized investment opportunities that the Sinking Fund could invest and review the analyses with the assistant secretary and the Finance Director.

Risk Management

Background

Risk Management, for the City, is defined in the Mayor's Estimate (Budget) as a separate program to be managed by the Finance Department as part of Finance Administration. A description of the risk management function provided by the 2002 Mayor's estimate is presented in **Table 7-1**.

Table 7-1: Description of Risk Management Function

Program Name:	Risk Management
Objective:	To protect the fiscal integrity of the City by assuring the availability of financial resources in the event of a claim against the City.
Activity:	Maintain adequate loss records and utilize those records in the development of adequate cash reserves.
	Purchase adequate property and casualty insurance to protect the City's assets in the event of a loss.
	Manage contracts with insurance consultants hired to assist in the selection of insurance carriers.
	Provide advice regarding specific insurance questions.

Source: Mayor's Estimate 2002 from February 1, 2002

The City's major risk exposures include:

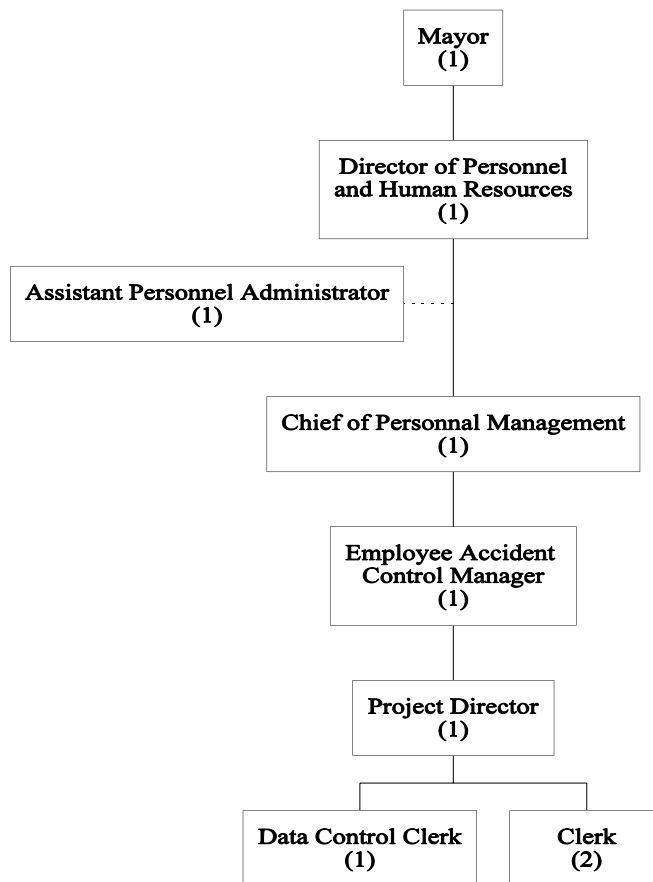
- Property and Casualty;
- General Liability;
- Employee Health Coverage;
- Workers' Compensation; and
- Employee Bonding.

Currently, there is no Risk Manager employed by the City and the Mayor did not budget for this position in 2002. All liability claims are processed through the Law Department and the Law Director is final authority for legal claims paid by the City. In accordance with Codified Ordinance Chapter 155, City Council has final authority for moral claims paid by the City following review by the Moral Claims Commission. The Department of Personnel and Human Resources handles employee health coverages and workers' compensation. Currently, responsibility for employee bonding rests with the Finance Department, primarily the Division of Accounts.

Organizational Chart and Staffing

Chart 7-1 depicts the current reporting relationship and staffing for the portion of the Department of Personnel and Human Resources involved in City’s **Workers’ Compensation Coverage**.

Chart 7-1: Department of Personnel and Human Resources - Employee Accident Control (Workers’ Compensation Function) Organizational Chart



Currently, the Employee Accident Control Manager position is vacant.

Chart 7-2 depicts the current reporting relationship and staffing for the portion of the Department of Personnel and Human Resources involved in City’s **Employee Health Coverage**.

Chart 7-2: Department of Personnel and Human Resources - Employee Health Coverage Function Organizational Chart

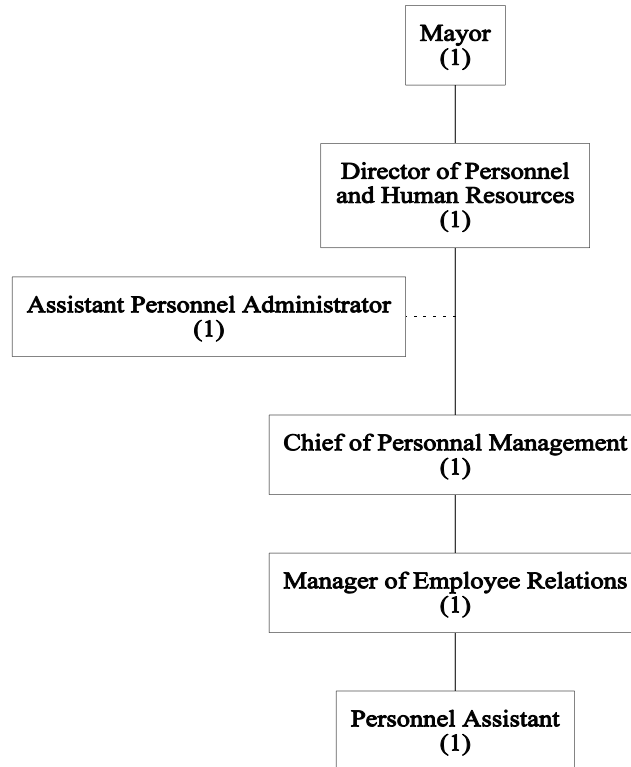
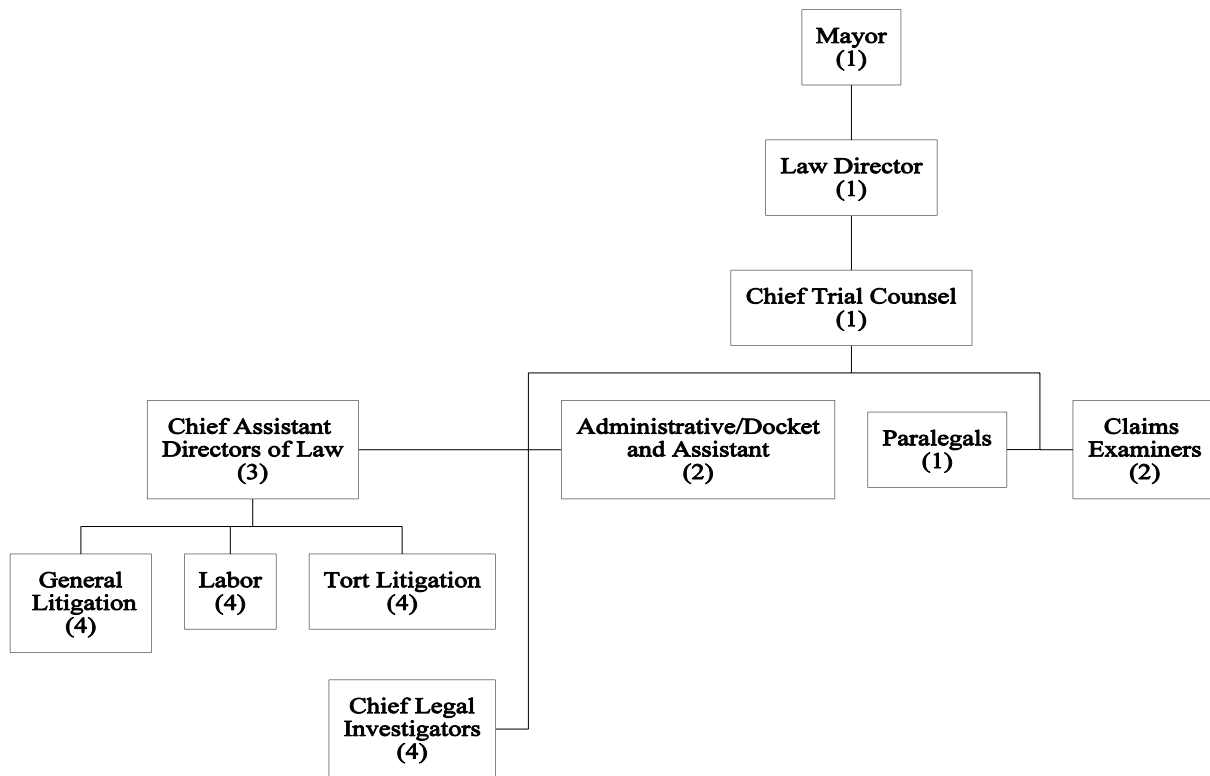


Chart 7-3 depicts the current flow of Liability Claims and Lawsuits through the **Law Department** of the City.

Chart 7-3: Department of Law - General Liability Insurance Organizational Chart



Currently, one Chief Legal Investigator and one Claims Examiner positions are vacant.

The City does not have a designated organizational structure pertaining to Property and Casualty Insurance. The City does have liability policies for three Enterprise Funds, (Airport, Cleveland Public Power, and Cleveland Browns Stadium.) Other than coverages maintained by parties which lease City property and required contractor coverages, no other property and casualty insurance exists within the City. Employee bonding requirements for public officials flow through the Finance Department, specifically the Division of Accounts.

Summary of Operations

The City's Risk Management has been classified into five specific categories.

The five categories are:

- 1) Property and Casualty Insurance - The City has three commercial insurance policies covering property. These properties are the Airport, Cleveland Public Power, and the Cleveland Browns Stadium. Other than coverages maintained by parties which lease City property and required contractor coverages, no other City owned property is insured in any event.
- 2) Liability Insurance - the City classifies two types of liability risk - legal and moral claims.

Lawsuit Process:

- A lawsuit is filed against the City;
- Lawsuit is forwarded to the Law Director for acknowledgment;
- Chief Trial Counsel reviews lawsuit;
- Lawsuit is assigned to an Assistant Director of Law and lawsuit information forwarded to the Legal Investigators to review and evaluate the appropriate documentation for City defense; and
- Law Director assesses the probability of lawsuit outcome.

Claims Process:

- Letter of complaint received at the City;
- Complaint forwarded to the Law Director for acknowledgment;
- Complaint referred to Claims Adjusters (where applicable);
- Claims Adjuster reviews applicable documentation (e.g. insurance and medical records, collateral information, medical attention statements);
- Claims Adjusters formulate claims file for each case;
- Claims Adjuster evaluates claim and makes recommendations and possible estimates if applicable; and
- Law Director makes determination of claim for denial or approval.

NOTE: Municipalities have certain immunities pursuant to the State Law that may exonerate them from certain moral claims. The Charter has established a Moral Claims Commission that reviews moral claims twice a year. The Commission is made up of five members; the Law Director, two Council Members, the Chief Claims Examiner, and the Director of Utilities. The Chief Trial Counsel indicated the Committee reviews about 200 moral claims every year.

- 3) Health Insurance - the City provides the choice of five plans for its employees. These plans are provided by four different insurer's through commercial insurance. Negotiated contract and labor agreements (including benefits) are approved by Council through Ordinance. The City's Human Resources Department is currently reporting two rates and five plans for health insurance due to pending Union negotiations. Until the ratification of the negotiations are complete, approximately 2,000 employees will be covered under the old rates.
- 4) Workers' Compensation - The City participates in the State of Ohio Workers' Compensation Program. The City hired Integrated Consulting Services LTD., as the Third Party Administrator, (TPA), to monitor worker's compensation claims for medical and lost time.
- 5) Employee Bonding - Section 171.11 of the Codified Ordinance states, "the Director of Finance, at City cost, shall procure and maintain in effect at all times bonds or policies of insurance in such form as shall be approved by the Director of Law, protecting the City from loss by reason of burglary, robbery, theft, forgery, counterfeiting or by fraudulent or dishonest acts by City employees engaged in the handling of money or other property of the City." Additional Codified Ordinance requirements for the bonding of required positions are as follows:

Section 171.12 - Type and amount of insurance coverage required;

Section 171.13 - Purchase of insurance;

Section 171.14 - Bond approval and premium payment;

Section 171.15 - Bond of the Mayor;

Section 171.16 - Bonds of Directors, President of Council, Commissioner of Accounts and City Treasurer;

Section 171.17 - Bond of the Bailiff of Municipal Court;

Section 171.18 - Filing bonds and insurance; record;

Section 171.19 - Lists of bonded employees;

Section 171.20 - Appointing officer responsible for bonding; and

Section 171.21 - Appointments not effective until bonding.

Findings / Commendations / Recommendations

Types of Coverage Maintained by the City for its Major Risk Exposures

Property and Casualty

F7.1 **Table 7-2** presents the commercial insurance coverages maintained by the City for risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for certain proprietary funds at December 31, 2000. The year 2000 is used for comparison purposes as it was the last year audited for both the City of Cleveland and the comparison entities.

Table 7-2: Commercial Insurance Coverages Maintained by City at December 31, 2000

Type of Coverage	Policy Period	Annual Premium	Coverage	Liability Limit
AIRPORTS:				
<i>COMPREHENSIVE GENERAL LIABILITY:</i>				
Great American Insurance Co.	10/10/00 to 10/10/01	\$103,000	Bodily injury and property damage including airport operations hazard, products-completed operations hazard, contractual hazard, non-owned aircraft hazard, liquor liability hazard and hangar keepers liability.	\$20 million annual aggregate. Self-insured retention of \$100,000.
Underwriters at Lloyd's of London	10/10/00 to 01/10/01	\$60,000	Excess liability coverage.	\$180 million annual aggregate, excess to 50 million primary coverage.
<i>PROPERTY DAMAGE AND EARNINGS:</i>				
Arkwright Mutual Insurance Co.	02/06/98 to 2/06/03	\$118,284	Property damage, gross earnings, demolition, and increased cost of construction. Earthquake and Flood. Debris removal. Extra expense, service interruption bodily injury, EDP Media, property damage/bodily injury (automatic coverage or errors and omissions), transit and expediting expense.	\$391,084,000 \$100 million annual aggregate. 25% of value or \$5 million. \$1million w/ deductibles of \$100,000 per occurrence and \$500,000 annual aggregate.
<i>VEHICLE LIABILITY</i>				
St. Paul Mercury Insurance	07/03/00 - 07/03/01	\$47,740	Bodily injury or property damage arising out of the ownership, maintenance, operation and use of all owned, non-owned, leased and/or hired vehicles.	\$1 million per occurrence; \$1,000 deductible per accident with annual aggregate deductible of \$10,000. Uninsured motorist \$50,000 per vehicle.

CLEVELAND PUBLIC POWER:				
<i>PROPERTY COVERAGE</i>				
Type of Coverage	Policy Period	Annual Premium	Coverage	Liability Limit
Lloyd's of London (property coverage)	08/29/00 - 08/29/01	\$117,188	Blanket real and personal property special form coverage for insured perils; newly acquired location; fire brigade charges and extinguishing services. Pollutant removal	\$82,093,565 per occurrence; \$250,000 deductible for turbines, \$100,000 deductible for one location; \$5,000 deductible for three locations. \$50,000 per occurrence.
Lloyd's of London (boiler and machinery covered)	08/29/00 - 08/28/01	included above	Comprehensive coverage including production machinery (including breakdown) Water damage; Expediting expenses; Hazardous substance; Ammonia contamination	\$20,000,000 per accident; \$250,000 deductible for turbines/generators. \$25,000 per occurrence. 20,000 KVA or larger, \$10,000 per occurrence for transformer under 20,000 KVA. \$100,000 per accident for all.
Cleveland Browns Stadium:				
<i>GENERAL LIABILITY</i>				
American Guarantee and Liability Co.	04/23/00 - 04/23/01	\$75,600	Commercial general liability coverage, wrap program; products/completed operations coverage; personal & advertising injury coverage. Fire damage Medical expense Builder's risk property coverage Earthquake coverage, flood coverage	\$30,000,000 per occurrence. \$50,000 any one fire \$5,000 any one person. \$210,000,000 limit \$25,000 deductible \$5,000,000 limit \$100,000 deductible

Source: City of Cleveland 2000 Comprehensive Annual Financial Report (CAFR).

F7.2 The Finance Department is currently not involved in obtaining or reviewing these coverages. Coverage on the Cleveland Browns Stadium is obtained, per the requirements of the lease agreement with the Cleveland Browns, by the Department of Parks, Recreation, and Properties. Coverages maintained by the Airports and Cleveland Public Power are obtained by the Utilities Divisions.

For all other risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, the City does not carry commercial insurance coverage and City considers itself to be generally self insured.

F7.3 **Table 7-3** illustrates the major risk exposures for the City and the current coverages maintained.

Table 7-3: Areas of Risk Within the City and Type(s) of Coverage Maintained

Type of Coverage	Current Insurance Coverage
Airport (including vehicles)	Comprehensive General Liability Property Damage and Earnings Vehicle Liability
Cleveland Public Power	Property (including boiler & machinery)
Cleveland Browns Stadium	General liability Fire Damage Builders' Risk Property Coverage Earthquake Coverage, Flood Coverage
Property (including buildings) for loss due to flood, earthquake, fire, damage and/or destruction, accidents, illnesses, and theft	None ¹
General Liability	None ¹
Commercial liability	None ¹
Data Processing Equipment (including software)	None ¹
Parking Garages (including buildings)	None ¹
Aviation Liability (police, fire, and EMS)	None ¹
Paramedics Liability	None ¹
Inland Marine	None ¹
Heavy Duty Machinery and Vehicles	None ¹

Source: 2000 City CAFR and inquiry with various City Departments

¹ The City is self insured for these risks except for policies maintained for the Airports, Cleveland Public Power, and Cleveland Browns Stadium.

F7.4 **Table 7-4** compares the City to Cuyahoga and Hamilton Counties for the type of coverage maintained for the major risk areas presented in **Table 7-3**. "No" signifies that the entity is self insured for this exposure.

Table 7-4: Comparison of 2000 Insurance Coverages of Cuyahoga and Hamilton Counties with the City of Cleveland

Type of Coverage	City of Cleveland	Cuyahoga County	Hamilton County
General Liability	No ²	No	Yes
Commercial Liability	No ²	No	Yes
Vehicle Liability (bodily injury & physical damage)	No (Airport only)	Yes	Yes
Property Coverage including buildings and contents	No ²	Yes	Yes
Liability for Board of Elections	N/A	Yes	Yes
Monies and Securities Policy	No	Yes	Yes
Aviation Liability	Yes	No	Yes
Stadium Coverage	Yes	N/A	Yes
Inland Marine	No	No	Yes
Amount of Buildings, Structures and Improvements (amount in 000's)	\$503,756 ¹	\$387,745 ¹	\$374,163 ¹

Source: 2000 CAFR's from each entity

¹ These are amounts reported in the General Fixed Asset Account Group and do not include amounts reported in Proprietary Funds.

² The City is self insured for these risks except for policies maintained for the Airports, Cleveland Public Power, and Cleveland Browns Stadium.

F7.5 The City has a policy to collect for property damage to City assets where commercial insurance coverage is not maintained. To support these collection efforts, the City retained David Douglass & Associates Co., L.P.A., for the collection of past due accounts for several years prior to 2000. Douglass & Associates charged a collection fee of approximately 30% per gross collections. In August of 2000, the City elected to retain Graves Horton, L.L.C., for past due account collections for Damaged City Property Reimbursed Revenues at a collection fee of approximately 19% per gross collections. Each of the collection firms overlapped services during 2000. **Table 7-5** shows the Damaged City Property Reimbursed Revenues from 1999 through 2001.

Table 7-5: Damaged City Property Reimbursement Revenues for the Years 1999 through 2001

Firm	Year	Gross Collections	Paid to Firm	Net Collections to City
Douglas & Associates	1999	\$302,525	\$90,757	\$211,768
Douglas & Associates	2000	\$134,640	\$31,209	\$103,431
Graves Horton	2000	\$61,542	\$9,826	\$51,716
Total	2000	\$196,182	\$41,035	\$155,147
Graves Horton	2001	\$139,931	\$22,342	\$117,589

Source: Financial Reporting and Control.

F7.6 As shown in **Table 7-3**, the City maintains commercial property and casualty coverages for the Airports, Cleveland Public Power, and Cleveland Browns Stadium. All other City property and casualty exposures are self insured. The City does not track the cost of property and casualty claims paid. This data would allow them to perform analyses as to the cost effectiveness of their decision to remain self insured for these exposures. As shown in **Table 7-5**, net collections to the City have been decreasing.

R7.1 As part of an overall risk management program, the City should track their property and casualty insurance costs to help determine the most cost effective method of safeguarding City assets. Additionally, where the City determines that self insurance is the most cost effective means of coverage, they should aggressively collect all amounts due to the City for damages and continue to track all related costs.

Liability Insurance

F7.7 The City does determine the total liability claims paid out for the calendar year and provides an estimate of the claims payable at fiscal year end. However, the City's Law Department does not track the total costs associated with their liability self insurance program nor do they calculate and report "Incurred But Not Reported" claims (IBNR) at fiscal year end. Additionally, the City does not maintain cash reserves to cover self insurance liabilities which overstates the City's cash position. **Table 7-6** presents the total costs associated with liability claims paid in 2001. Legal and Investigative Salaries and benefits have been estimated based on annual salaries for those employees involved in the process and the average cost of benefits per gross payroll. By tracking only actual liability claims paid, the City is only accounting for 62 percent of total cost associated with these claims.

**Table 7-6: Estimate of Total Cost of Liability Claims
Paid by City in 2001**

Liability Claims Paid	\$3,481,668
Legal and Investigative Salaries Associated with Liability Claims Paid	1,019,846
Employee Benefits Associated with Legal and Investigative Salaries	<u>265,160</u>
Total Costs Associated with Self Insurance Liability Claims Paid	<u>\$4,766,674</u>

R7.2 The City should track all of their liability insurance costs, including the legal and investigative costs associated with the claims' payments. Also, the City should maintain adequate cash reserves to cover, at a minimum, their claims' payable and average incurred but not reported claims.

Health Benefits

F7.8 The City is currently using two separate insurance rates for single and family coverages due to pending Union negotiations. Until the ratification of the negotiations are complete, approximately 2,000 employees will be covered under the old rates. **Table 7-7** depicts the old and new monthly rates for the five offered contracts through two insurance carriers for single and family coverage. The new health rates went into effect on October 1, 2001 through March 31, 2003. The current monthly employee contribution rates are \$25 for single and \$50 for family coverage. The rates as presented in **Table 7-7** are inclusive of both employer and employee contributions.

Table 7-7: Health and Dental Monthly Rates for the City of Cleveland (Old and New)

Insurance Carrier		New Rate	Old Rate
Super Med Plus:	Single	\$214.11	\$220.18
	Family	542.44	557.88
Super Med Select:	Single	226.30	233.58
	Family	573.41	591.90
HMO Health:	Single	227.65	235.94
	Family	578.23	599.28
Kaiser:	Single	203.82	224.54
	Family	542.09	597.24
*Comprehensive Major Medical Plan:	Single	No New Rates	155.85
	Family		394.50
Dental Full-Time Employees:	Single	16.36	16.36
	Family	45.79	45.79
*Dental Part-Time Employees:	Single	No New Rates	11.51
	Family		32.23

Source: Manager, Employee Relations/Benefits, Dept. of Personnel & Human Resources

* Comprehensive medical and dental plans are offered to part-time school guards only.

F7.9 **Table 7-8** illustrates the total 2001 health and dental payments by employees and City contributions.

Table 7-8: 2001 Health and Dental Payments and Contributions

<u>Insurance Provider</u>	<u>Amount Paid in 2001</u>
Medical Mutual of Ohio	\$32,417,577
HMO Health Ohio	1,481,671
AETNA Health Plan of Northeastern Ohio	4,790,147
Kaiser Permanente	<u>11,044,667</u>
	<u>\$49,734,062</u>

Source: Bob Dolan in FRC Data Processing

Workers' Compensation

F7.10 **Table 7-9** depicts information regarding the 2001 Workers' Compensation Premium Rates for the specified Ohio cities. Included also are the corresponding Experience Modifiers (EM's) which represent a figure that allows comparison of actual to expected claim costs with all other cities in Ohio. An EM of 1.0 reflects expected or average actual claim costs. An EM under 1.0 (credit rated) reflects lower than expected claim costs and an EM over 1.0 (penalty rated) reflects higher than expected claim costs.

For all of the following cities except Toledo, two manual classifications are assigned by the Ohio Bureau of Workers' Compensation (BWC) which are: 9431 for City Employees and 9439 for Emergency Services Employees.

Table 7-9: Comparison of 2001 Workers' Compensation Rates and Experience Modifiers for Comparable Ohio Cities

City	Rate (per \$100 of reported payroll)	Experience Modifier (EM)
Dayton 35705102	9431: \$2.0546 9439: \$17.0992	1.62*
Cleveland 31805502	9431: \$5.5503 9439: \$47.5029	1.54
Columbus 32505302	9431: \$4.0719 9439: 34.6411	1.32
Toledo 34805502	9431: \$1.1253 Not Assigned	.85*
Cincinnati 33105302	9431: \$2.1159 9439: \$17.6627	.57

Source: The Ohio Bureau of Workers' Compensation

* In 2001, Dayton and Toledo participated in BWC's Retrospective Rating Program. In this program the employer agrees to pay the cost of claims for 10 years in exchange for a discount on their EM. The EM shown above does not take into account the discount given.

R7.3 The City is employing the services of a Third Party Administrator to monitor worker's compensation claims for medical and lost time. This function should be performed by the City's Division of Employee's Accident Control and Workers' Compensation. Additionally, as part of an overall risk management program, the City should consider implementing citywide safety programs to help improve their experience modifier and lower their Workers' Compensation premium.

Employee Bonding

F7.11 Codified Ordinances 171.14 to 171.21 outline the bonding requirements for the City. Currently, there is no position or City Department responsible for monitoring applicable bonded positions and amounts. The City has not complied with the following procedures set forth by the aforementioned Ordinances:

- Per Codified Ordinance 171.15, the Mayor is to be bonded before entering into his/her duties. The Mayor's bond was not executed as of the beginning of her term in January 2002;
- Per Codified Ordinances 171.16 and 171.17, bonds, for designated officials, shall be obtained prior to their entering the duties of their office. As of April 5, 2002, all but one of the required bonds had been obtained, but nine of these bonds were not executed prior to the designated official entering into the duties of their office;
- Per Codified Ordinance 171.18, bonds and other like instruments of indemnity or guaranty required by ordinance are to be filed with the Commissioner of Accounts. Prior to April 5, 2002, the Commissioner of Accounts could not confirm that all the current bonds and other like instruments of indemnity or guaranty required by ordinance have been filed; and
- Per Codified Ordinance 171.19, the Mayor, Secretary of the Sinking Fund, and Director of Finance shall certify to the Civil Service Commission a list of bonded employees per position and offices, the incumbents of which are required to be bonded by or pursuant to the terms of Codified Ordinance 171.14, together with the amount of the bond required in each case. As of April 5, 2002, evidence of compliance was not found.

R7.4 The City should assign the responsibility for securing employee bonds and monitoring the bonding activity to the Finance Director. Once the Risk Management department is fully operational, the Risk Manager should be entrusted to insure full compliance with all applicable City Codified Ordinances.

Risk Management

F7.12 David N. Ammons, in “*Performance Benchmarks in Local Government Risk Management*”, suggests the following in regards to risk management:

- Prudent steps which can be taken to minimize a local government’s risk which include efforts to:
 - Spot any practices or conditions that increase the likelihood of loss;
 - Influence improvements whenever practical; and
 - Minimize the financial ramifications when losses do occur.
- Aggressive risk management programs:
 - Examine local government workplaces to ensure they are safe;
 - Promote safe practices in the operation of government vehicles and equipment;
 - Encourage employee participation in practices which enhance wellness; and
 - Endorse operating procedures that reduce vulnerability to liability claims.
- Outstanding Risk Managers:
 - Make prudent insurance decisions, keeping loss exposure as well as premiums in mind as they seek to minimize the cost of risk;
 - See that their own operations function efficiently;
 - Investigate accidents promptly and thoroughly;
 - Handle claims quickly;
 - Keep their coverages up to date; and
 - Aggressively protect the local government’s resources, defending against inappropriate claims and collecting for damage to local government property from responsible parties or their insurers whenever possible.

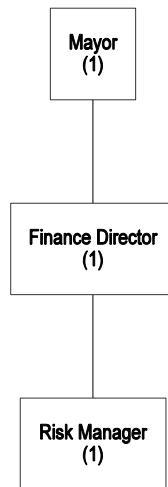
R7.5 As described in **Table 7-1**, the Finance Department has a Risk Management Function whose objective is to protect the fiscal integrity of the City by assuring the availability of financial resources in the event of a claim against the City. Additionally, per review of the Mayor’s Estimates from 2000 through 2002, a Risk Manager position exists to perform the Risk Management Function, but the position has not been filled since 1999 and was not budgeted for in 2002. Though not budgeted for, the salary schedule for the Risk Manager ranged from \$27,326 to \$82,334.

The City needs to hire a qualified Risk Manager who at minimum should perform the following:

- Maintaining adequate loss records and utilizing those records in the development of adequate cash reserves;
- Performing a cost analysis and if prudent, purchase adequate property and casualty insurance to protect the City’s assets in the event of a loss;
- Managing contracts with insurance consultants hired to assist in the selection of insurance carriers; and
- Providing advice regarding specific insurance related questions.

Although the lower end of the current salary range for the risk manager is unrealistic, the upper end of the salary scale should allow the City to obtain a qualified Risk Manager. See **Chart 7-4** for the Risk Management reporting structure.

Chart 7-4: Department of Finance - Risk Management Organizational Chart



R7.6 We recommend that the City establish a Risk Management Committee (RMC) consisting, at minimum, of the Mayor, Finance Director, Law Director, and Risk Manager. The RMC should perform the following functions on quarterly basis:

- Review Risk Manager's compliance with City Ordinances regarding bonding and insurance;
- Review Risk Manager's analysis of City risk exposures;
- Maintain records of claims paid, claims under evaluation, potential claims not asserted, and insurance costs;
- Review Risk Manager's cost analysis of risk costs;
- Review City's cash position to insure there are adequate resources available where the City maintains self insurance; and
- Review programs developed and implemented by Risk Manager to reduce City's risk costs.

Conclusion Statement

The City has not had the Risk Management function over the past several years. The Mayor's Estimate (Budget) calls for a Risk Management function and describes the objective and activities of the program. The Mayor's Estimate also provides for a Risk Manager, but this position has not been filled since 1999 and the 2002 Mayor's Estimate does not even budget for this position.

Currently, the City is self insured for Property and Casualty and Liability coverages with the exception of certain commercial coverages obtained for the Airports, Cleveland Public Power, and the Cleveland Browns Stadium. The City provides Health Insurance Benefits to its employees through commercial coverages.

The Law Department is handling the liability self-insurance coverages for the City and the Department of Personnel and Human Resources is responsible for Employee Health Coverages and Workers' Compensation. The Director of Finance is responsible for Employee Bonding.

The City needs to re-establish the Risk Management function in the Finance Department and retain the services of a qualified Risk Manager who will make prudent insurance decisions, keeping loss exposure as well as premiums in mind as they seek to minimize the cost of risk and develop programs to reduce the City's risk exposure.

A Risk Management Committee, which would meet quarterly, should be established to monitor the Risk Manager's activities and to help ensure the the City's assets are adequately protected in the most cost effective manner.

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Internal Audit

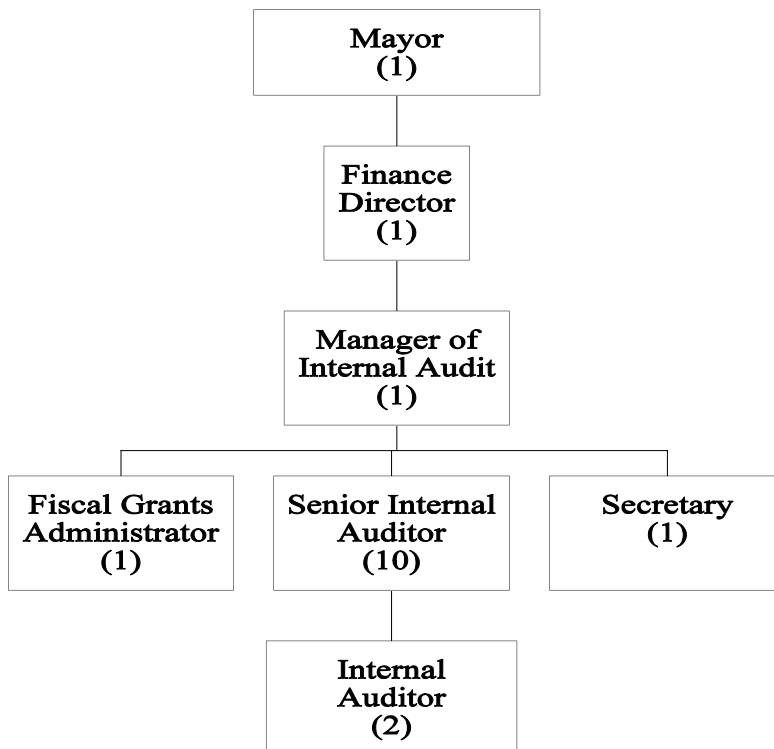
Background

This section summarizes the operations of the City of Cleveland’s (the City) Division of Internal Audit (DIA). The DIA is responsible for executing audits of City divisions, departments, and other operations which promote efficient and effective operations, safeguarding of assets, compliance with laws, regulations, and contracts, and the reliability and integrity of financial and operational information.

Organizational Chart and Staffing

Chart 8-1 depicts the current reporting relationship and staffing for DIA.

**Chart 8-1: Division of Internal Audit Organizational Chart
(Full-Time Employees)**



Currently the following positions within the DIA organizational structure are vacant:

- Fiscal Grants Administrator;
- Two Senior Internal Auditors; and
- One Internal Auditor.

Organizational Function

The Manager of Internal Audit reports administratively and functionally to the Director of Finance. The Mayor, City Council, Finance Director, and any other Commissioner or Director with specific concerns provide input to the Manager of Internal Audit for developing audit priorities and projects. Prior to issue, internal audit reports are reviewed by the Manager of Internal Audit, the head of the department subject to audit, the Director of Finance, and the Mayor. Primary purpose, duties, and responsibilities of the Manager of Internal Audit include the following:

- Administers internal audit activity through independent review and evaluation of City operations based on significance and assessed risk associated with the activity;
- Determines and establishes DIA internal structure and maintains audit staff capable of accomplishing internal audit functions;
- Develops a comprehensive and practical program of audit coverage;
- Accomplishes the audit program in accordance with acceptable audit standards;
- Issues recommendations for improving systems, procedures, and internal controls;
- Provides senior management with reports on audit coverage and results of audit activity;
- Reviews and approves purpose, scope, and audit approach of each project;
- Budgets, schedules, and supervises all audit projects;
- Reviews and edits all audit reports with audit staff in charge of project; and
- Provides training, counseling, and guidance to staff auditors to ensure professional audit standards are maintained.

The Senior Internal Auditors report to the Manager of Internal Audit and supervise two Internal Auditors. The responsibilities of the Senior Internal Auditors include the following:

- Plans and conducts audit projects under guidance of Internal Audit Manager;
- Assists external auditors;
- Supervises internal auditors;
- Assists in training;
- Prepares audit reports; and
- Performs other duties as required.

Internal Auditors report to an assigned Senior Internal Auditor. Responsibilities include the following:

- Performs required audit procedures on assigned audit projects under guidance of Senior Internal Auditor;
- Assists Senior Internal Auditor in preparation of audit reports; and
- Performs other duties as required.

The Fiscal Grants Administrator reports directly to the Manager of Internal Audit. The responsibilities include the following:

- Prepares grant applications and proposals for all city departments;
- Ascertains departmental needs, staffing levels, budgets, and other pertinent information for the development of successful grant proposals;
- Develops and implements policies and procedures for grant administration;
- Reviews all grant applications for conformity with City grant policies, procedures, and A-133 requirements;
- Develops, submits, and tracks relevant grant-related legislation;
- Monitors and evaluates grant-funded programs throughout the life of the grant to ensure compliance; and
- Collects and maintains federal and state mandated data applicable to each grant and prepares required reports.

Summary of Operations

The DIA's purpose, as defined in their Internal Audit Procedure Manual, is to promote efficient and effective operations, safeguarding of assets, compliance with laws and regulations, and reliability and integrity of financial and operational information. The DIA furnishes City Divisions/Departments with analysis, examination, recommendations, and other pertinent information concerning activities reviewed or audited.

The internal audit schedule is developed based on risk factors and divisions/departments requests, which are ranked on a priority listing from one to five. The following criteria are used in determining the ranking:

- Overall risk to the entire organization;
- Divisions/Departments having more than 50 percent (or over \$1 million) of revenues from sales and charges, fines and forfeitures, licences and permits, etc.;
- Request by top administration due to concerns;
- Previous unfavorable audit results warranting follow-up review; and
- No previous audit performed and risk assessment indicates audit should be performed.

Participation in the annual financial audit of the City with the designated external accounting firm is given a priority one ranking.

An overall internal audit plan is prepared annually for the DIA by the Manager based on the above mentioned risk criteria assigned to City divisions, departments, and other operations and input from top administration and City Council regarding special areas of concern. The DIA reports to the Director of Finance. Internal audit reports are submitted to the Mayor, auditee, City Council, and other applicable persons or institutions.

The DIA is concerned with any area of City activity and through the scope of its audit function is responsible for the following activities:

- Review and assess the adequacy and effectiveness of internal controls;
- Review and test compliance with City, state, and federal laws and internal policies and procedures;
- Evaluate the timeliness, reliability, and usefulness of City records and reports;
- Determine extent to which City assets are accounted for and safeguarded from loss; and
- Serve as coordinator of external audits where required.

The DIA conducts the following types of audits:

- Financial related audits which include testing of:
 - Reliability and integrity of financial and operational information;
 - Compliance with laws, regulations, and contracts; and
 - Safeguarding of assets;
- Operational audits which include review of any part of an organization's operating procedures and methods for the purpose of evaluating efficiency and effectiveness; and
- Special Audits.

Financial Data and Statistical Data

Table 8-1 shows DIA actual expenditures for fiscal years ending December 31, 1999, 2000, and 2001. Additionally, the preliminary budgeted expenditures are presented for fiscal year ending December 31, 2002. Expenditures for 1999 and 2000 are audited numbers. Expenditures for 2001 are unaudited and were agreed to the City's general ledger at December 31, 2001.

Significant expenditure increases for salaries and wages and employee benefits from 1999 to 2000 because of the reorganization of the DIA to its current expanded organizational structure in April 2000.

The increase in salaries and wages in the 2002 budget was due to several internal audit employees only working part of the year in 2001. Additionally, 2002 has 27 pay periods.

The significant increase in employee benefits expenditures in the 2002 budget was due to the deletion of a low cost health insurance plan which the City had offered in 2001 and several internal audit staff switching to family rather than single health insurance coverage.

The significant increase in inter-departmental service charges in the 2002 budget was due to prior year under-payments to the internal service funds for telephone exchange, printing and reproduction, and data processing charges.

**Table 8-1: Actual Expenditures for 1999, 2000 and 2001
and Budgeted Expenditures for 2002**

	1999 Actual Expenditures	2000 Actual Expenditures	2001 Actual Expenditures	2002 Budgeted Expenditures
Salaries and Wages	\$119,147	\$372,547	\$431,910	\$578,890
Employee Benefits	21,845	68,592	88,004	154,608
Training and Professional Dues	191	1,323	979	19,500
Contractual Services*	219,731	148,529	216,150	490,000
Materials and Supplies	484	4,606	2,452	14,183
Inter-Departmental Service Charges	2,397	10,685	5,898	70,484
Total Expenditures	\$363,795	\$606,282	\$745,393	\$1,327,665

Source: Mayor's Estimate 2002 from February 1, 2002

* These expenditures are for a major portion of the annual external financial audit and are not actual costs related to the internal audit function.

Performance Measures

- Assessing the DIA's reporting structure in line with codified ordinances, professional standards, and recommended best practices;
- Assessing the DIA's education and training needs, and salary structure; and
- Assessing the Department of Internal Audit's ability to create initiatives that are cost efficient and proactive.

Findings / Commendations / Recommendations

Reporting Structure and Standards

F8.1 Based on a review of the City Charter and Codified Ordinances, the DIA is organized under Section 127.27 of the City’s Codified Ordinances. This ordinance calls for the establishment of a Division of Continuous Audit within the Department of Finance. This Division is to “consist of an Auditor, who shall be a certified accountant”. The current Manager of Internal Audit possesses a Bachelor of Science degree in Business Administration with a minor in Computer Science and is not a Certified Public Accountant.

“In addition to such Auditor there shall be such assistants as the Director of Finance shall deem necessary.” Per the ordinance, the Division will audit the accounts of several departments of the City and the expenses will be paid by the Department of Finance, except for the Department of Public Utilities, which will be charged for the expenses of such audits. **See R8.3** which recommends that the Manager of Internal Audit obtain either a Certified Public Accountant or Certified Internal Auditor designation.

F8.2 The City’s DIA was compared to the internal audit functions of Wayne County, Michigan (the City of Detroit is within this county) and San Jose, California. **Table 8-2** compares the standards adopted and followed in the performance of the internal audit functions and the existence and frequency of external peer reviews as of February 2002.

Table 8-2: Comparison of Internal Audit Functions for Standards Followed and External Assessment

	DIA	Wayne Co., MI	San Jose, CA
Standards Followed	Adopted Institute of Internal Auditors (IIA) - Standards for the Practice of Internal Auditing in January 2002	Government Auditing Standards	Government Auditing Standards
External Assessment	No	Yes - Every Three Years	Yes - Every Two Years

Source: DIA; Office of the Auditor, City of San Jose, CA; Auditor General, Wayne County, MI

R8.1 The DIA should ensure that Institute of Internal Auditors (IIA) Standards are fully implemented for all internal audits performed and should seek an external assessment (quality assurance review) by a qualified, independent reviewer by January 2003. The DIA should obtain an external assessment every three years thereafter.

F8.3 **Table 8-3** compares the DIA to the internal audit functions of Wayne County, Michigan and San Jose, California for entity size based on total revenues and expenditures, reporting structure, and staffing structure and levels.

**Table 8-3: Comparison of Internal Audit Functions
Entity Size, Reporting Structure, and Staffing Structure and Levels**

	DIA	Wayne Co., MI	San Jose, CA
Entity Size	Revenues: \$1,220,030,000 Expenditures: 1,155,363,000	Revenues: \$1,864,022,158 Expenditures: 1,863,187,482	Revenues: \$1,286,686,000 Expenditures: 1,324,521,000
Reporting Structure	Manager of DIA appointed by the Mayor and the reports to the Director of Finance.	Auditor General appointed by County Commissioners and reports to County Commissioners.	Appointed by City Council and reports to City Council’s Finance and Rules Committees.
Staffing (including vacant positions)	<ul style="list-style-type: none"> ● 1 Manager; ● 10 Senior Internal Auditors (2 vacant); ● 2 Internal Auditors (1 vacant); ● 1 Fiscal Grants (vacant) Administrator; and ● 1 Secretary. 	<ul style="list-style-type: none"> ● 1 Auditor General; ● 1 Deputy Auditor General; ● 3 Audit Managers; ● 2 Supervisory Auditors; ● 3 Senior Auditors; ● 6 Staff Auditors; ● 1 Office Manager; and ● 1 Legislative Assistant. 	<ul style="list-style-type: none"> ● 1 City Auditor; ● 4 Supervising Auditors; ● 5 Senior Auditors; ● 4 Auditor II; ● 2 Auditor I ● 1 Executive Assistant; ● 1 Network Tech.; and ● 2 Office Specialists.

Source: DIA; Office of the Auditor, City of San Jose, CA; Auditor General, Wayne County, MI

F8.4 The current organizational structure in the DIA consists of a Manager, ten Senior Internal Auditors, and two Internal Auditors. Presently two Senior Internal Auditor positions and one Internal Auditor position are vacant. The current organizational structure does not allow for growth within the division, therefore promoting DIA staff movement to other City divisions/departments for advancement. Additionally, the structure does not promote an appropriate level of audit supervision as required by IIA Standards for the Professional Practice of Internal Auditing. Peer entities reviewed showed at least four levels with the internal audit function with majority of audit staffing at the entry level. **See Table 8-3.**

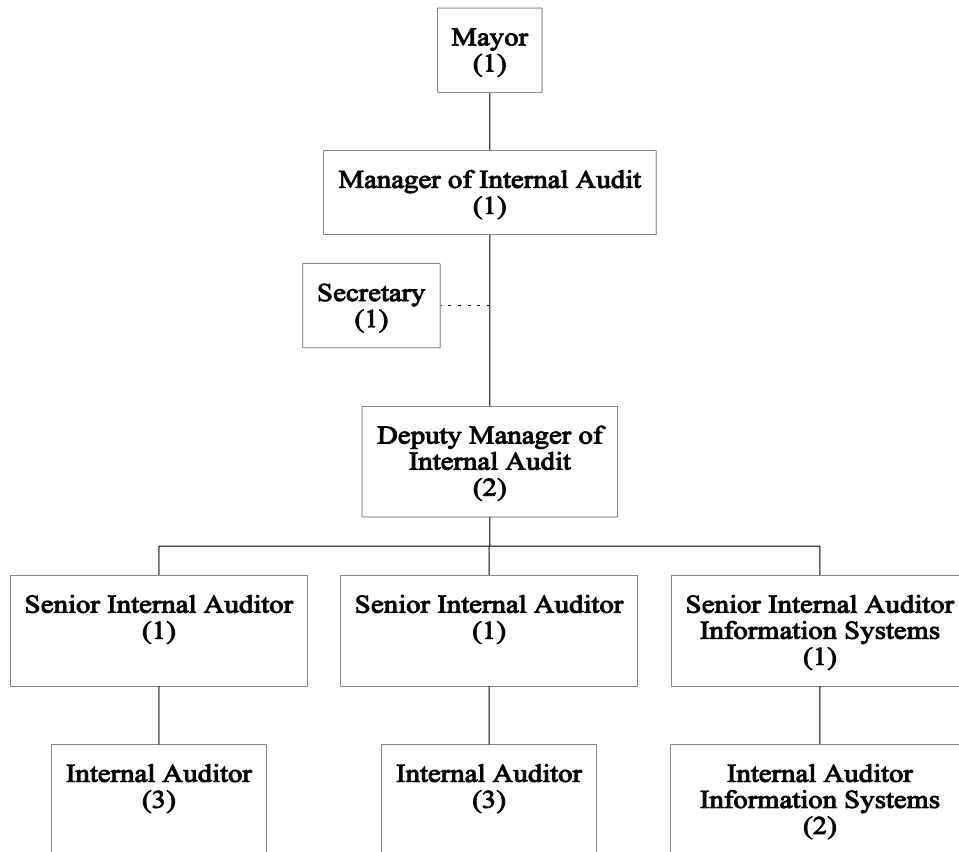
F8.5 The IIA Standards for the Professional Practice of Internal Auditing indicate that the organizational structure of an internal audit function should be sufficient to permit the accomplishment of its audit responsibilities. Internal auditors should be independent in conducting their internal audit responsibilities. Independence results when the internal audit function is free from direction or constraint by the managers of the organization. The internal audit should also be responsible to an individual in the organization with sufficient authority to promote independence and to insure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit objectives. The independence of the internal audit function may be compromised when auditing another area that reports directly to the Director of Finance.

R8.2 The DIA should be restructured to provide an appropriate level of audit supervision as required by IIA Standards for the Professional Practice of Internal Auditing and to allow for growth within the division to help in retaining experienced personnel. This would require the following:

- The creation of two Deputy Manager of Internal Audit positions;
- Reducing the number of Senior Internal Auditor positions from ten to three; and
- Increasing the number of Internal Auditor positions from two to eight.

The organizational structure of the DIA should be changed so that it reports directly to the Mayor rather than the Director of Finance. The scope and activities of the DIA should be approved by the Audit Committee. The new model is presented as **Chart 8-2**.

Chart 8-2: Recommended Division of Internal Audit Organizational Chart



R8.3 The City should adequately amend the Codified Ordinances to define the DIA's function, the requirement to adhere to IIA Standards, reporting and staffing structure, and the qualifications and required certifications of the Manager of Internal Audit and all other internal audit personnel. The Manager of Internal Audit, should be a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) or be required to obtain one of these certifications within a reasonable and agreed upon time frame. Both the CPA and CIA examinations are offered twice a year and a reasonable time frame would be 24 months.

F8.6 The current organizational structure of the DIA, as seen in **Chart 8-1**, includes a Fiscal Grants Administrator whose duties include preparing grant applications and proposals for all city departments, ascertaining departmental needs in relation to grants, developing policies and procedures for grant administration, monitoring and evaluating grant-funded programs, maintaining mandated grant data, and preparing required grant reports.

The IIA Standards for the Professional Practice of Internal Auditing, Statement of Responsibilities of Internal Auditing, states that designing, installing, and operating systems are not internal audit functions. The Fiscal Grants Administrator's position includes these responsibilities. Therefore, the activities of the Fiscal Grants Administrator position are not in line with the functions of the DIA.

R8.4 The City should move the Fiscal Grants Administrator position from DIA to the Division of Financial Reporting and Control where the position's responsibilities and duties would be more applicable to that division's function. The Grant Administrator will work with liaisons from applicable City agencies (i.e. JTPA, CDBG) and coordinate accounting for all grant activities. This position is explained in more detail in the Financial Reporting and Control section of this report.

F8.7 Currently, the DIA audit staff does not retain individuals who possess expertise in information systems auditing or risk management. Due to the size and complexity of the City's computer operations and information systems and its extensive risk exposures, the DIA should retain in-house expertise in these areas.

R8.5 The DIA should hire at least two information systems auditors, with at least one being a Certified Information Systems Auditor (CISA), due to the size, complexity, and problems the City is experiencing with its various computer information systems, **see Chart 8-2**. Additionally, the DIA should take steps to obtain risk management expertise, either through the hiring of an auditor with this discipline or developing an existing staff member.

Education and Training Needs and Salary Structure

F8.8 **Table 8-4** compares the DIA to the internal audit functions of Wayne County, Michigan and San Jose, California for division head qualifications, all audit personnel certifications/advanced degrees, and the ratio of certifications/advanced degrees to audit personnel.

Table 8-4: Comparison of Internal Audit Functions: Division Head Qualifications and Certification/Advanced Degrees to Audit Personnel

	DIA	Wayne Co., MI	San Jose, CA
Division Head Required Qualifications	Manager of DIA - B.S. or B.A. in accounting, business administration, public administration, or related field; Minimum of 5 years experience in private or public sector auditing; MBA, MPA, CPA, or CIA desirable ¹	Auditor General - CPA with five years' experience in auditing governmental bodies	City Auditor - CPA with B.S. or B.A. in accounting or related field; 8 years professional work in accounting, auditing, fiscal management or budget control work of which 3 years at management and policy making level
Current Audit Staff Size and Certifications/Advanced Degrees	*Audit Staff Size - 10 CPA - 1 MPA - 1 MA- 1	*Audit Staff Size - 16 CPA - 5 CIA - 1 CFE - 2 CGFM - 5 MSF - 2	*Audit Staff Size - 16 CPA - 3 CIA - 5 CISA - 3 CFE - 3 CMA - 1 CGFM - 7 MBA - 2 MPA - 4 MPP - 1 MA - 2 CRO - 1 CGAP - 1
Ratio of Certification/Advanced Degrees to Audit Staff	0.30	0.94	2.06

Source: DIA; Office of the Auditor, City of San Jose, CA; Auditor General, Wayne County, MI

¹ This description extracted from internal audit manual.

* Some Audit Staff maintain multiple certifications/advanced degrees.

F8.9 The DIA has only two of ten audit staff members with any related certification or advanced degree. This is only 0.3 related certifications/advanced degrees per audit staff. The two peer entities reviewed in **Table 8-4** showed 0.94 and 2.06 related certifications/advanced degrees per audit staff. IIA Standards for the Professional Practice of Internal Auditing requires that the internal auditing department possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

F8.10 Per review of the DIA's actual expenditures for 1999, 2000, and 2001; budgeted expenditures for 2002; and discussions with the Manager of Internal Audit, the DIA does not have a tuition reimbursement program.

R8.6 The DIA should develop a tuition reimbursement program to promote learning which is above and beyond the minimal requirements of an audit staff member’s job. The course material should be related to the DIA goals and objectives. The following are possible guidelines for a tuition reimbursement program:

- A course must be offered by accredited colleges or universities or an approved certification review course;
- All courses must be approved by the Manager of Internal Audit;
- A maximum dollar amount of tuition reimbursement should be established (per employee). Presently, the State of Ohio, Office of the Auditor of State employees are allowed a maximum reimbursement of \$2,500 in a twelve month period;
- Reimbursement (less cost reimbursements from other sources) should be made after the successful completion of the course (a grade of C or better); and
- Repayment of reimbursement must be made if the audit staff member does not remain an employee of the DIA for at least one year after reimbursement.

F8.11 **Table 8-5** compares the DIA to the internal audit functions of Wayne County, Michigan and San Jose, California for standards followed, required continuing professional education (CPE) hours, and actual CPE’s attained.

**Table 8-5: Comparison of Internal Audit Functions
Standards Followed, Required CPE’s and Actual CPE’s**

	DIA	Wayne Co., MI	San Jose, CA
Standards Followed	Adopted IIA - Standards for the Practice of Internal Auditing in January 2002	Government Auditing Standards	Government Auditing Standards
Required CPE Hours	None, however IIA Standards state that internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.	<ul style="list-style-type: none"> ● A minimum of 80 hours of CPE’s every 2 years; ● At least 24 hours directly related to government environment and government auditing; and ● At least 20 hours must be completed in any one year of the 2 year period. 	<ul style="list-style-type: none"> ● A minimum of 80 hours of CPE’s every 2 years; ● At least 24 hours directly related to government environment and government auditing; and ● At least 20 hours must be completed in any one year of the 2 year period.
Actual CPE Hours Attained	Average of 15.2 CPE’s per audit staff member in 2001.	Required hours obtained.	Required hours obtained.

Source: DIA; Office of the Auditor, City of San Jose, CA; Auditor General, Wayne County, MI

F8.12 Total expenditures for Training and Professional Dues for the fiscal years 1999, 2000, and 2001 were \$191, \$1,323, and \$979 respectively as shown in **Table 8-1**. Within these expenditures, there were no specific line item expenditures for professional organization dues or for the initial or annual licensing cost for applicable professional certifications. The DIA's 2002 budget allocates \$1,500 for professional dues and \$7,500 for training.

R8.7 IIA Standards for the Professional Practice of Internal Auditing state that internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development. However their standard regarding "Continuing Professional Development" does not require or suggest any number of CPE hours annually.

The DIA should develop and budget for a training program and adopt the Governmental Auditing Standards regarding the amount, type, and frequency of continuing professional education to help ensure the knowledge, skills, and other competencies of audit staff. See **Table 8-5**. A survey of 40 audit organizations showed that \$25 per CPE hour was a reasonable estimate of cost for budgeting purposes. Based on the recommended organizational structure presented in **Chart 8-2**, the DIA would have 14 audit staff requiring 40 CPE annually. The minimum budget for training would be \$14,000.

Also, the DIA should develop and budget for a program which will pay for applicable certifications and professional memberships. By obtaining professional certifications and belonging to professional organizations, audit staff employees have the opportunity to improve professional knowledge and improve performance. The following are possible guidelines for this program:

- A listing of allowable certifications and professional memberships;
- Number of certifications and professional memberships which will be paid for each audit staff; and
- Dollar amount to be paid based on audit staff level. Presently, AOS employees are allowed a maximum allocation of between \$200 and \$500 for professional memberships within in a fiscal period, depending on staff level. Additionally, AOS will pay for the initial certification and annual licensing costs of no more than two professional certifications.

F8.13 Per **Table 8-4**, the DIA possesses limited specialization within its audit staff. This may prevent the DIA from performing more complex audits of construction contracts, utilities, airports, and other proactive issues within the City. Additionally, any internal audit function, no matter how aggressively they recruit staff with particular expertises or provide avenues for advanced training and education to their existing audit staff, can possess all disciplines necessary to perform many complex audits. Additionally, per **Table 8-1**, the DIA did not make any expenditures for the acquisition of outside expertise for FY 1999 through 2001. Also, this was not budgeted for by the DIA in 2002.

R8.8 The DIA should establish an expenditure line item within their budget for the utilization of outside expertise to assist the DIA in performing complex and proactive audits where they do not maintain, internally, the required disciplines such as risk management, information technology, federal programs, and specialized vendor contracts. As the DIA recruits staff with particular expertises and provides avenues for advanced training and education to their existing audit staff, the level of expertise they will need to acquire from the outside will be reduced.

F8.14 The DIA has access to every PeopleSoft module used by the City but its access is restricted to inquiry only. No data is ever input or manipulated by internal auditors. Aside from training received during the PeopleSoft implementation, there has been little additional training received by the DIA on the PeopleSoft applications which limits their ability to effectively utilize the system and ultimately audit off the system.

R8.9 The DIA needs extensive training regarding the PeopleSoft applications, especially in the areas of query, Crystal reporting, and security. Most DIA audit staff have laptop computers. The DIA should obtain audit software for the DIA staff laptop computers to help increase audit effectiveness and efficiencies.

F8.15 **Table 8-6** compares the DIA’s salary structure for audit staff positions to the State of Ohio, Office of the Auditor’s (AOS) salary structure for similar audit staff positions.

Table 8-6: Comparison of Internal Audit Staff Annual Salary Ranges and Average Annual Salaries

DIA		AOS	
Internal Auditor (IA)	Range: \$19,785 to 49,523	Assistant Auditor II (AAII)	Range: \$33,460 to \$44,735
Senior Internal Auditor (SIA)	Range: 23,647 to \$56,409	Auditor-in-Charge (AIC)	Range: \$39,499 to \$65,395
Current Ave. IA Salary	\$36,046	Ave. AAII Salary	\$39,098
Current Ave. SIA Salary	\$42,180	Average AIC Salary	\$52,447

Source: DIA; State of Ohio, Office of the Auditor

F8.16 The current DIA salary ranges for Senior Internal Auditors (SIA) and Internal Auditor (IA) are \$23,647 to \$56,409 and \$19,785 to \$49,523 respectively. The high end of these ranges are low for SIA’s and high for IA’s when compared to the AOS salary structure for similar audit staff positions. **See Table 8-6**

R8.10 The City should consider raising the starting salaries for the IA and the SIA positions and the high end of the salary range for SIA position in order compare more favorably to the AOS salary structure for similar positions. The increase in starting salaries should be coupled with higher minimum grade point average requirements and a higher level of professional accomplishments.

Proactive Planning

F8.17 **Table 8-7** compares the DIA to the internal audit functions of Wayne County, Michigan and San Jose, California for current and long range internal audit plans.

Table 8-7: Comparison of Internal Audit Functions for Preparation of Current and Long Range Audit Plans

	DIA	Wayne Co., MI	San Jose, CA
Current Internal Audit Plan (1 Year) Prepared	For 2001 - Yes For 2002 - Only a 6 month plan has been prepared.	Yes	Yes
Long Range Internal Audit Plan Prepared	No	Yes - Two Year Strategic Plan	Yes - Five Year Action Plan

Source: DIA; Office of the Auditor, City of San Jose, CA; Auditor General, Wayne County, MI

F8.18 The Manager of Internal Audit annually prepares an audit plan for the DIA for the fiscal year. This plan includes identified projects for the period based on risk criteria assigned to City divisions, departments, and other operations and input from top administration and City Council regarding special areas of concern. The audit plan also includes an allocation of hours for the DIA to assist the external auditors in the annual year-end financial audit of the City. The current plan for 2002 has only been prepared for a six month period.

Currently, a significant portion of internal audit hours are spent auditing issues after problems have been discovered and assisting divisions and departments in developing controls and procedures to prevent the issues from reoccurring. Also, follow-up procedures concerning both external and internal audit comments consumes considerable internal audit staff hours. Many of the follow-up procedures should be performed by the respective departments the findings were written for.

R8.11 The Manager of Internal Audit should prepare both a current and a five year long range audit plan. The current audit plan should be prepared for the entire upcoming fiscal period and should be completed prior to the beginning of that fiscal period. The elements of the current plan should include:

- Only 80 percent of available internal audit hours scheduled, with the remaining 20 percent of hours retained for emergency or unknown projects;
- A risked based approach should be employed in determining projects;
- Input from top Directors, Controller, key administrators, and City Council regarding special areas of concern should be actively sought by the Mayor and prioritized by the Manager of Internal Audit;
- Proactive projects may include;
 - Major construction contracts;
 - Vendors at the airport;
 - Electronic funds transfers;
 - Treasurer's investments;
 - Unfunded liabilities;
 - Parking contracts;
 - Cash collection points and depositing;
 - Cash management;
 - Information technology systems and controls;
 - Hotel/Motel tax remittances; and
 - Risk management (i.e. insured versus uninsured) issues.

The long range plan should include the elements noted for the current audit plan and should also include projects which have less risk and would not be considered an immediate priority and higher risk areas which should rotated or revisited periodically.

F8.19 The DIA does not calculate cost savings (including increased revenues) generated per their internal audit function nor do they calculate the ratio of the dollar savings versus internal audit costs. Review of the internal audit function for the City of San Jose, California showed that their internal audit department maintained a target ratio of four dollars in cost savings (including increased revenues) versus internal audit costs.

R8.12 The DIA should track cost savings (including increased revenues) and compare these amounts annually to internal audit costs in order to monitor the effectiveness of the internal audit function and to help determine audits and other projects that are proactive, effective, and justify the cost benefit relationship. Industry standards suggest a 10:1 ratio of dollar savings to internal audit costs.

Conclusion Statement

The Division of Internal Audit has not been functioning as a true oversight organization. Many of the audit projects performed have been in response to situations identified by sources outside Internal Audit, which include media and external audit reports. The purpose of this performance audit is to provide Internal Audit with a series of recommendations in the areas of reporting and organizational structure, audit standards, and planning, which will allow them to move from being reactive to a proactive audit force within the City.

Internal Audit needs to fully implement the Institute of Internal Auditors - Standards for the Professional Practice of Internal Auditing and make significant changes in its reporting and organizational structure. The first change should be removing Internal Audit from reporting to the Department of Finance and having them report directly to the Mayor. This reporting change will create true independence in Internal Audit and remove them from the Director of the financial functions they will audit. Also, Internal Audit must be subject to an external assessment of their work, policies, and procedures in order to lend credibility to the functions and procedures they perform. This external peer review should take place within the next twelve months. Subsequently, this review can be every three years thereafter.

The level of professional expertise within Internal Audit should be increased. One recommendation is to develop and fund a training program which provides at least forty hours of applicable continuing professional education hours annually. Secondly, an aggressive recruiting program must be undertaken to staff Internal Audit with auditors possessing accounting backgrounds and applicable certifications, especially in internal audit and information systems. Finally, Internal Audit should include in their budget, an allocation for tuition reimbursement and applicable professional certifications and memberships of the staff.

Finally, Internal Audit must issue a five year plan for internal audit projects. This plan, created with input from City Directors, Commissioners, and the Mayor, must be aggressive, professional, and cost-efficient.

Division of Purchases and Supplies

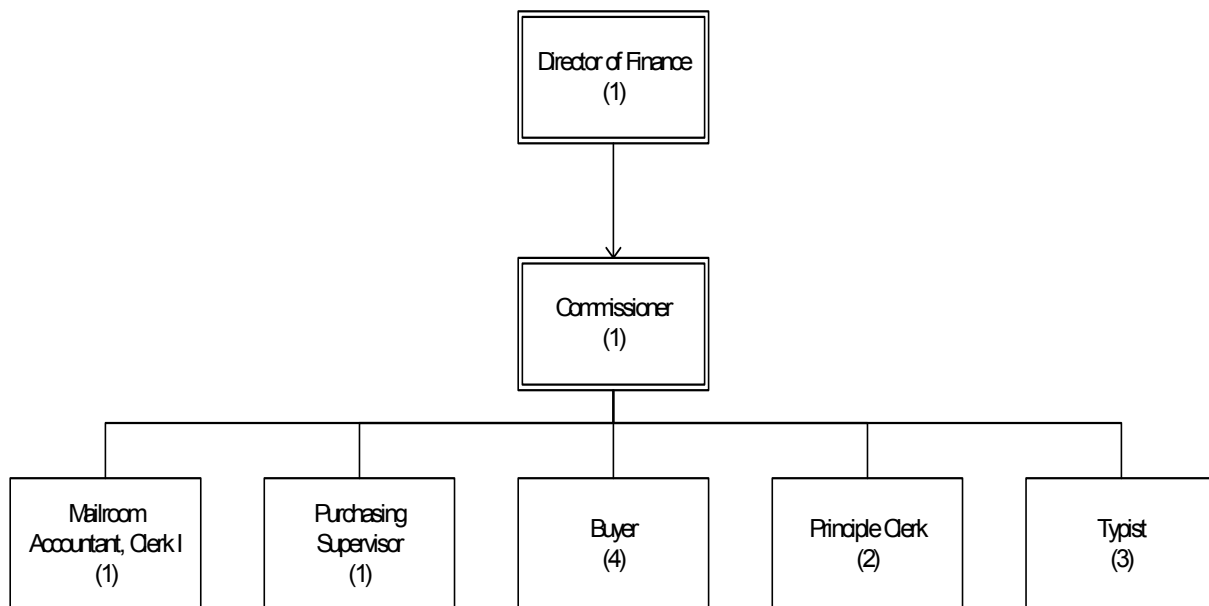
Background

This section focuses on the City of Cleveland’s (City) Division of Purchases & Supplies (DPS).

Organizational Chart

DPS’ organizational structure is depicted in **Chart 9-1**.

Chart 9-1: Division of Purchases and Supplies



Source: Commissioner of Purchases & Supplies as of January 16, 2002.

Organization Function

DPS operates under Chapter 17 (Department of Finance) of the City's Charter. It follows sections 181 (Purchases and Supplies) and 185 (Construction and Improvement Contracts) of the City's Codified Ordinances. Also, any Ohio Revised Code (ORC) section, that is not specifically addressed by the City's codified ordinances, applies to DPS operations.

The responsibilities of the DPS are to procure goods and services required by City Departments and to manage the supply chain effectively to ensure that goods and services are obtained in a timely manner. The DPS is divided into two sections - general purchasing and the storeroom (mail room). General purchasing is the central office through which the City's purchases and sale of surplus materials are conducted. The storeroom processes mail for the various operating Divisions of the City. The functions performed by the Division of Purchases & Supplies include:

- Interfacing with suppliers in direct procurement of materials;
- Disposing of surplus equipment/supplies;
- Providing a mailing facility for City departments;
- Processing contracts including requests for legislation, advertisement of bids, issuance of addenda, preparation of bid specifications, bid openings & review, and completion of contracts; and
- Processing of purchase orders.

Summary of Operations

DPS uses the purchasing module of PeopleSoft software that runs on an Oracle-based operating system. **Chart 9-2** shows the current purchasing flow. Although the purchasing module has an electronic requisition feature, City departments continue to complete a manual purchase requisition. This is primarily due to the fact that not all City departments have access to the new integrated financial package.

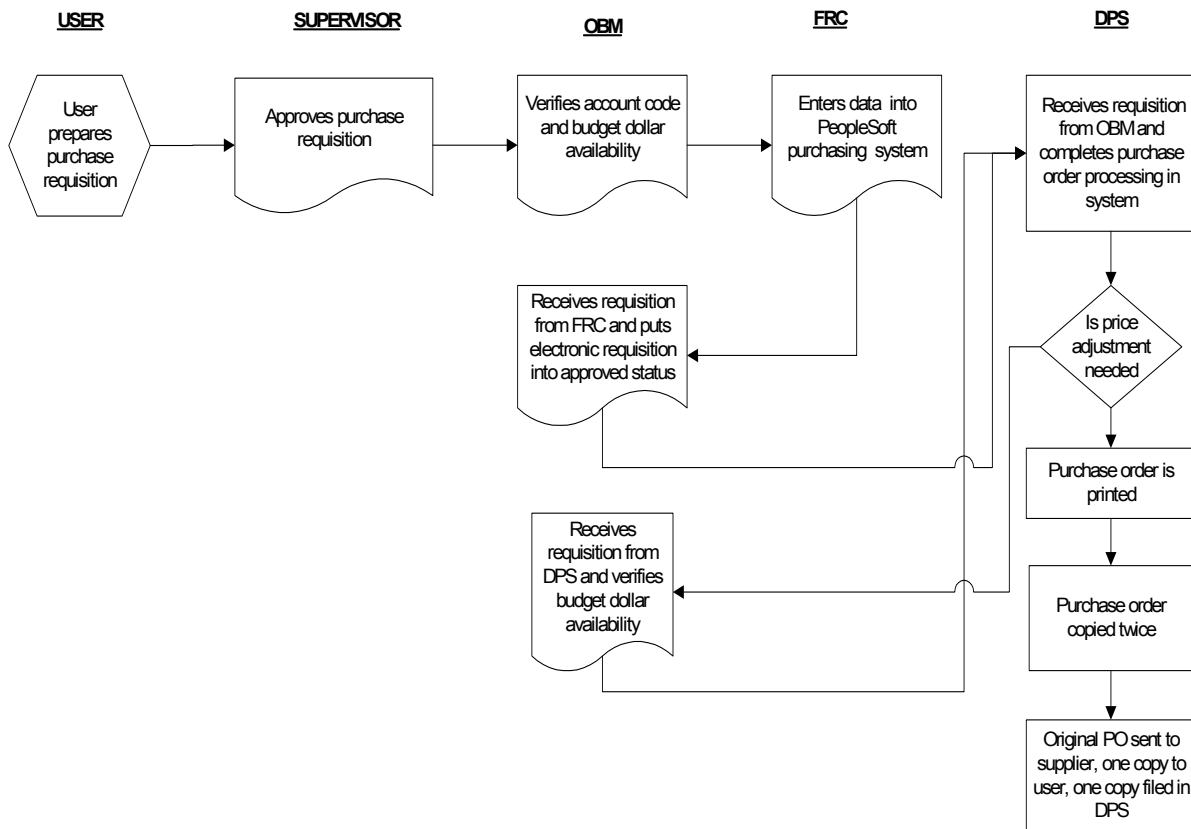
If a user department identifies a one-time need, it can be obtained without DPS involvement if the cost is less than \$200. An office voucher is prepared and sent to the Division of Accounts for payment processing. For all other needs, a multi-purpose, manual purchase requisition is prepared, approved, and sent to the Office of Budget and Management (OBM) where the account code is verified and the budget is checked for funds availability. The requisition is then sent to Financial Reporting and Control (FRC) where data is entered into the purchasing module to create an electronic purchase requisition. The manual requisition is then sent back to OBM for further review. After overnight batch processing, OBM reviews each electronic requisition again, approves them and then sends them to DPS so purchase orders can be built in the system. The manual requisitions are also sent to DPS.

If the requested item/service needed costs less than \$1,000, DPS does not have to obtain bids provided the Director of Finance’s prior approval is obtained. If the Mayor’s prior approval is obtained, bids are not required from \$1,000 up to \$10,000. Any request over \$10,000 requires City Council ordinance approval to proceed. The only exception to this is an emergency situation. The commissioner must obtain the approval of the Director of Finance, Mayor, City Council President and Finance Committee Chairman. Followup reporting to City Council is required.

If bids are required, DPS posts invitations to bid on the DPS bid board and mails them to suppliers. Once the bids are received, they are publicly opened, evaluated and purchase orders issued. If there is a change in price, OBM is notified so a final budget check can be done.

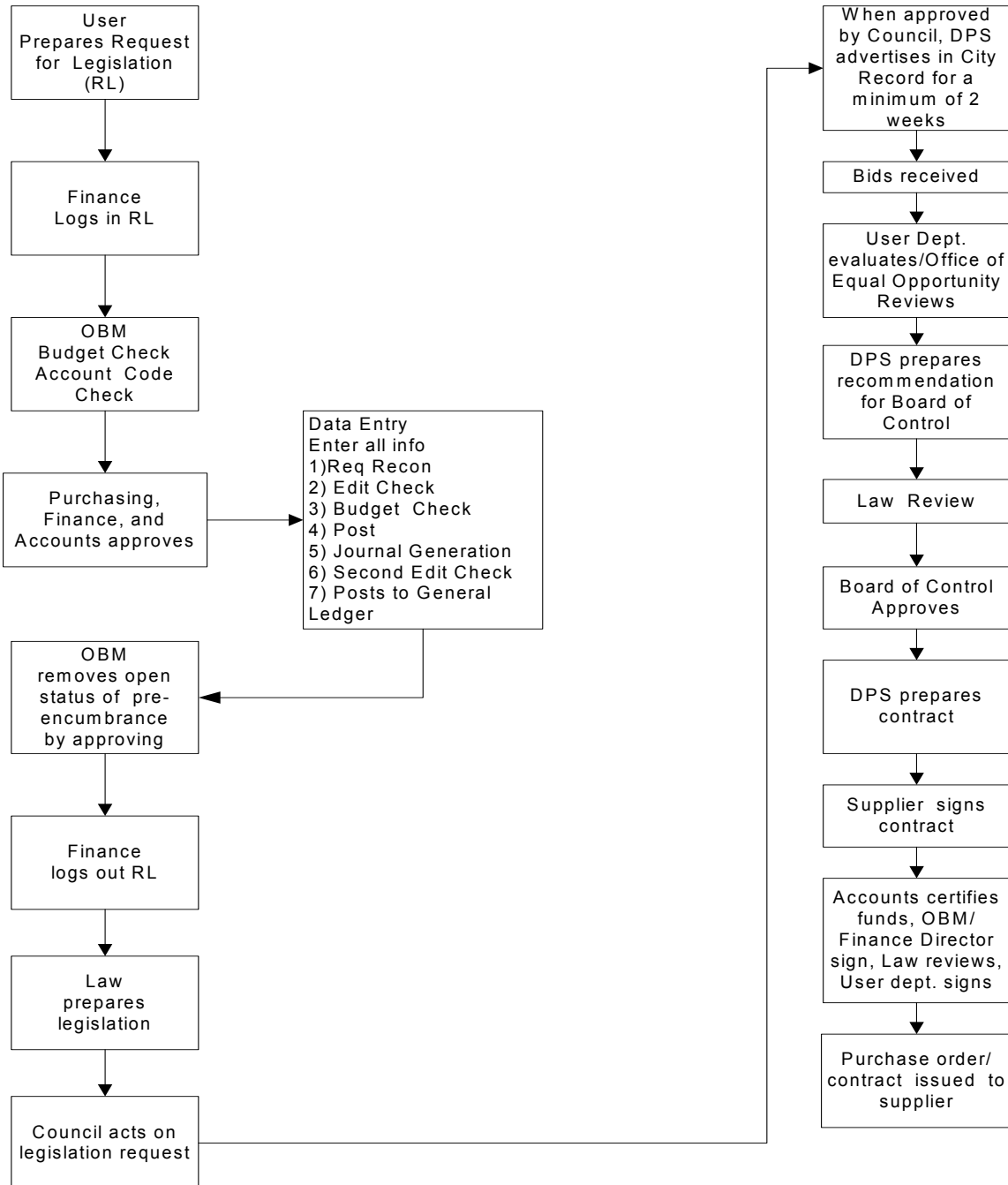
Once the purchase order has been approved and printed, two copies are made on a copier. The original is sent to the supplier, one copy is sent to the user, and the other is filed in DPS with the manual requisition attached. Any other pertinent information needed is also attached.

Chart 9-2: Current Purchasing System Flow for Purchases Between \$200 and \$10,000



The document flow for purchases greater than \$10,000 is shown in **Chart 9-3**.

Chart 9-3: Current Purchasing Flow for Purchases Over \$10,000



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When an estimated cost exceeds \$10,000, the user department prepares a legislative request, which accompanies the purchase requisition. The processing is essentially the same as the regular purchase process until this document package is sent to the Law Department where the formal request for legislation is prepared. The legislation is then introduced at a City Council meeting and assigned to a committee. The assigned committee reviews and recommends approval to the full Council. Once Council approves the legislation, advertisements for bids are published in the City Record for two consecutive weeks. The invitation to bid is also posted in DPS. After bids are received and formally opened, they are evaluated and a recommendation is prepared. It is reviewed by the Law Department and then forwarded to the Board of Control for approval. After approval, a contract is prepared and signed by the supplier and appropriate City officials.

DPS initiates and administers citywide contracts for items/services used by more than one department. The processes to establish these contracts are the same as outlined in **Charts 9-2 and 9-3**. DPS issues purchase orders against a contract when it receives an approved requisition from a user department.

Staffing

Table 9-1 displays the staffing comparison for 1999, 2000, 2001, and 2002 currently.

Table 9-1: Staffing Levels

	1999	2000	2001	2002
Commissioner	1	1	1	1
Project Director/Coordinator	1	0	0	0
Purchasing Supervisor	0	0	1	1
Buyer	3	4	4	4
Office Manager	1	1	1	0
Clerks	2	2	1	2
Receptionist	1	0	0	0
Secretary	1	0	0	0
Typists	2	2	1	3
Total Purchasing	12	10	9	11
Clerk, Accountant	1	1	1	1
Storekeeper	1	0	0	0
Total Mail Room	2	1	1	1
Total Division	14	11	10	12

Source: 1999, 2000 and 2001 Mayor's Estimates provided by the Finance Department and the Commissioner of the DPS. The 1999, 2000, and 2001 staffing levels are as of December of each year.

All DPS employees are currently involved in daily operations. **Table 9-1** indicates DPS currently operates with 12 full-time employees. Between 1999 and 2000, DPS lost two full-time clerical employees. An additional clerical person was lost in 2001. The current purchasing staff is back to 1999 levels with the filling of three clerical positions.

The mail room is presently operating with one less employee than in 1999. There are no plans to increase this staffing level. Part-time help has been used in the past.

The Commissioner of Purchases and Supplies performs the following functions:

- Oversees the purchase of all commodities for the City;
- Supervises DPS personnel activities and performance;
- Develops and implements purchasing policies;
- Performs special projects including upgrading City purchasing systems;
- Manages City-wide supply contracts;
- Participates in the sale of City-owned materials, equipment, and property no longer required for City operations; and
- Manages the City Hall mail room.

The Purchasing Supervisor performs the following functions:

- Supervises all personnel assigned to the buying section of DPS;
- Assists department heads in developing detailed equipment specifications;
- Coordinates purchases between state agencies and City departments; and
- Consolidates material or service requirements into City-wide contracts.

The DPS' Buyers perform the following duties:

- Locate supply sources;
- Advertise for bids;
- Analyze bids and makes source selections;
- Purchase supplies and equipment; and
- Resolve supplier issues.

The Office Manager supervises the workload performed by the clerical staff which consists of the Typists and Principal Clerks. The Typists are responsible for all bid posting activities under \$10,000, maintaining supplier files both manual and computerized, purchase order files, copying and mailing purchase orders, and preparing reports as required. The Principal Clerks are responsible for all bid posting activities over \$10,000, filing requisitions, answering phones, distributing department mail, and other duties as assigned. The City Hall mail room Accountant Clerk processes all incoming mail for City Hall departments, puts postage on outgoing mail and prepares usage reports and charge back reports for inter-department postage charges.

The Typist, Principal Clerk, and Accountant Clerk positions are part of the AFSCME Local 100 bargaining unit. All other DPS positions are covered by civil service.

Financial Data

Table 9-2 presents 1999 and 2000 actual revenues, and unaudited 2001 actual revenues for DPS.

Table 9-2: Funding/Revenue Source

	1999 Actual	2000 Actual	% Change 1999 - 2000	2001 Actual	% Change 2000 - 2001
Revenues - Purchasing:					
Licenses & Permits	\$15	\$0	-100.00%	\$0	0.00%
Sales & Charges for Services	\$0	(\$275)	N/A	\$0	N/A
Miscellaneous	\$26,588	\$13,668	-48.59%	\$286,905	1999.00%
Revenues - Mail Room					
Miscellaneous/Interest Income	\$0	\$191	N/A	\$1,202	529.00%
Expenditure Recoveries	\$754,127	\$655,169	-13.12%	\$667,611	1.89%
Total Revenues	\$780,730	\$668,753	-14.34%	\$955,718	42.91%
Total Expenditures	\$1,381,029	\$1,283,722	-7.04%	\$1,283,809	0.01%
Estimate of General Fund Support ¹	\$600,299	\$614,969	2.44%	\$328,091	-46.65%
% of Revenue that is Expenditure Recoveries	54.61%	51.04%		52.00%	
% of Revenues that is "Other"	1.91%	1.05%		22.44%	
% of Revenues that is General fund support	43.48%	47.91%		25.56%	

Source: 1999, 2000 and 2001 Mayor's Estimates provided by the Finance Department

¹ Calculated by taking total expenditures less other revenues as identified

DPS revenues come from the general fund, expenditure recoveries from charge backs to user departments, and the sale of City assets. Explanations for the significant variances are listed below.

- Total revenues decreased almost 15 percent between 1999 and 2000. This was due primarily to fewer surplus equipment sales and lower expenditure recoveries.
- The 2001 revenues increased almost 43 percent due to more expense recoveries and a significant increase resulting from surplus asset sales.

Table 9-3 depicts DPS' personnel costs for the 1999, 2000, and 2001 years. It also shows personnel costs as a percent of total expenditures.

**Table 9-3: Personnel Costs and Personnel Costs
as a Percentage of Total Expenditures**

	1999	2000	2001
Purchasing			
Salaries/Wages	\$486,651	\$367,777	\$379,005
Employee Benefits	\$121,800	\$98,491	\$108,625
Mail Room			
Salaries/Wages	\$40,041	\$32,133	\$22,760
Employee Benefits	\$14,573	\$16,198	\$11,533
Total Personnel Costs	\$663,065	\$514,599	\$521,943
Purchasing Expenditures	\$685,873	\$556,557	\$548,051
Mail Room Expenditures	\$695,156	\$727,165	\$735,758
Total Expenditures *	\$1,381,029	\$1,283,722	\$1,283,789
Staffing Levels	12 Purchasing 2 Mail room	10 Purchasing 1 Mail room	9 Purchasing 1 Mail room
Average Personnel Costs Per Employee	\$47,362	\$46,782	\$52,194
Average for Purchasing Only	\$43,461	\$46,627	\$54,181
Average for Mail Room Only	\$27,307	\$48,331	\$34,293
Average Expenditures Per Employee	\$98,645	\$116,702	\$128,379
Average for Purchasing Only	\$48,991	\$55,656	\$60,896
Average for Mail Room Only	\$347,578	\$727,165	\$735,758
Personnel Costs as a Percentage of Expenditures	48.01%	40.09%	40.66%

Source: 1999 - 2002 Mayor's Estimates provided by the Finance Department

* Total expenditures include all personnel costs. For purchasing, only \$26,108 was spent on supplies and training etc.

Table 9-3 shows that although personnel costs have decreased, the average per employee has increased. The table also shows that personnel costs as a percentage of total expenditures has stayed fairly constant. The overall decrease in expenditures is mainly attributable to the decrease in personnel costs. However, there has been a steady increase in postage costs.

Performance Measures

The following is the list of performance measures that were used to conduct the analysis of DPS:

- Assess the Division's functionality;
- Evaluate adherence to laws, regulations, policies and procedures;
- Analyze the effectiveness of internal controls over purchasing;
- Assess current city-wide purchasing programs including MBE/FBE involvement;
- Evaluate the effectiveness of the automated purchasing system;
- Evaluate mail-room operations; and
- Assess the surplus/obsolete program.

Findings/Commendations/Recommendations

Organization Function

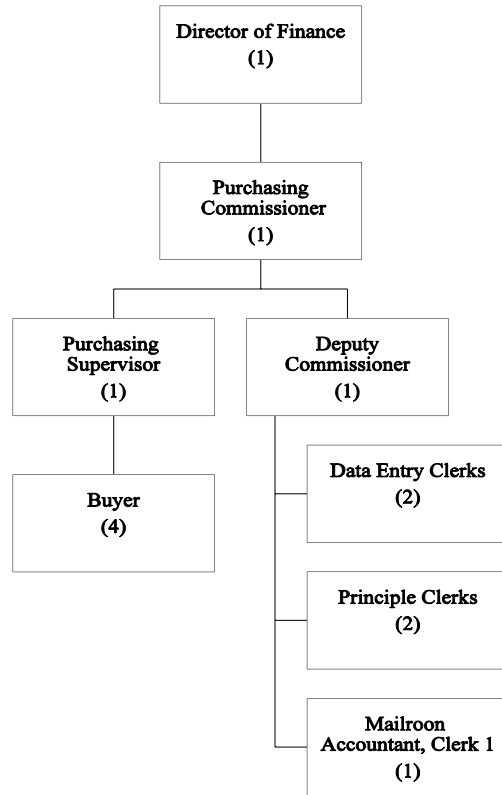
- F9.1 The DPS organization structure requires updating to be able to operate effectively in an integrated computerized environment. The Commissioner is the only person in the division that is proficient in the PeopleSoft purchasing module. Many times, when the Commissioner is not present there is no one available to answer questions and this impedes the purchasing process.
- F9.2 The DPS' Commissioner's span of control is too great resulting in no empowerment for the operating staff to make decisions that affect their daily work load. When the Commissioner is not present, there are many instances where questions cannot be answered which slows the purchasing process.
- F9.3 Job descriptions exist, but are not current and do not reflect the current job duties. They also are not current when compared to the job descriptions maintained with civil service or the bargaining unit. Also, the education and experience requirements in the DPS job descriptions require updating. A review of background information provided by the Commissioner showed that the professional staff (Commissioner, Purchasing Supervisor and Buyers) meet the requirements of the current outdated job descriptions. The Commissioner does have a college degree and both she and the Supervisor have fairly extensive purchasing backgrounds. Two of the four Buyers have been in their present positions for at least nine years.

R.9.1 The Director of Finance should review the organization structure to determine if the span of control is adequate so that the proper level of supervision is being provided. The addition of a Deputy Commissioner who would act as the purchasing systems administrator should be considered. The responsibilities of this position could include:

- Handle software implementation, upgrades, and/or changes;
- Resolve system problems in conjunction with ISS;
- Interact with other departments impacted by the purchasing module;
- Monitor daily system output and work with staff to correct problems;
- Update job descriptions;
- Train purchasing staff on software use; and
- Train other system users on an ongoing basis.

In addition this position could oversee the mail room, data entry, and other related office support functions. A suggested organization structure is shown in **Chart 9-4**. The change in function from typist to Data Entry Clerk is explained in more detail in **R9.16**.

Chart 9-4: Proposed DPS Organizational Structure



F9.4 Employee evaluations are not performed in the DPS. The staff have no indication of how they are performing against their assigned job duties and supervisor expectations.

R.9.2 Performance evaluations should be performed for the DPS employees. The purpose of evaluations would allow employees to work toward the attainment of goals and objectives, inform them of their strengths and weaknesses, improve performance, strengthen work relationships and communication, develop skills, and allow them staff to recognize accomplishments and good work. The frequency of evaluations should be quarterly, at least.

F9.5 None of the DPS staff belong to any professional purchasing organizations. Also, none of the staff have certification credentials that would indicate a basic understanding of the purchasing profession.

R9.3 Several professional staff of the DPS should consider becoming members of the National Institute of Governmental Purchasing (NIGP). Also, all professional staff should consider becoming certified as either a Certified Public Purchasing Officer (CPPO) or a Certified Professional Public Buyer (CPPB). Becoming members of the NIGP provides education, research, technical assistance in public purchasing while promoting excellence, enhancing effectiveness and increasing public trust. This is done through education and certification programs, publications, the web site, consulting services and chapter activities. Becoming certified, demonstrates that they offer employers and taxpayers a heightened understanding of the body of knowledge required to be successful in this discipline. Certification admirably reflects an understanding of a complex procurement function and an ability to apply the knowledge in the workplace. In addition, anyone hired into a Buyer position should be certified as a requirement for employment.

Current dues rates for membership in the NIGP is \$440 for five to seven members. Currently, the application and testing fees for the CPPB is \$200 for members of the NIGP and \$400 for non-members. The application and testing fees for the CPPO is \$275 if you are a member of the NIGP and \$600 for non-members.

The City should pay for the annual membership costs as well as the fees associated with the certifications. For the current professional staff level of six, the certification testing fees for the two managerial level employees would either be \$550 or \$1,200 depending on membership in the NIGP. For the four remaining professional staff, the certification testing fees would be either \$800 or \$1,600 depending on membership in the NIGP. The annual NIGP membership for the entire professional staff would be \$440.

F9.6 Outside training provided to staff is insufficient based on travel and budgetary constraints. Dollars spent for training and professional dues has been minimal. **Table 9-4** shows the amount spent and average amount spent per employee on training.

**Table 9-4: Training Costs and
Average Per Employee**

	1998	1999	2000	2001
Training & Professional Dues Expenditures	\$2,874	\$509	\$525	\$0
Staff Size	18	14	11	10
Average per Employee	\$160	\$36	\$48	\$0

Source: 2000, 2001 and 2002 Mayor's Estimates provided by the Finance Department and the Commissioner of the DPS

The NIGP Benchmark Survey conducted in June and July of 2001 shows that the average dollar amount spent on training for procurement staff was \$1,505. The City falls significantly below this average.

Table 9-5 indicates the number of hours of training provided by job classification in 2000 and 2001.

Table 9-5: Training Hours Received

Position	2000	2001
Commissioner	16	24
Purchasing Supervisor	0	11
Buyers	0	43
Typist	0	24
Clerks	0	8

Source: The Commissioner of the DPS

The training received over the past two years has been done in-house and has covered five different areas related to PeopleSoft. The areas covered were for query, requests for quotes, purchase order inquiry, purchase orders, and purchasing module.

R9.4 The City should establish a formal training program for all professional purchasing staff. Today's marketplace is changing rapidly and progressive purchasing functions are keeping up with the changes by encouraging and requiring staff to be proficient in the techniques needed to be successful. The City should also implement a tuition reimbursement program that would encourage staff to pursue higher education opportunities that would improve overall professionalism. Cuyahoga Community College offers certificate and associate degree programs in purchasing management. Baldwin-Wallace College also offers a purchasing certificate program. See **R9.3** for additional information on certification opportunities that would also increase staff professionalism.

F9.7 DPS management staff lack tools for tracking and managing workload drivers for assessing the division's effectiveness or efficiency. By keeping records and correlated statistics on activities, DPS can create internal benchmarks to assess its needs and performance, and can develop its own performance expectations. Since the division does not gather key data on a formal or consistent basis, the actual workload cannot be determined. This data is necessary for assessing staffing levels. It is also necessary for determining whether staff time is being used efficiently.

Measuring performance is important for several reasons which include the following:

- Focusing management's attention on key issues;
- Providing feedback on performance;
- Identifying problem areas;
- Guiding and directing improvement efforts; and
- Managing workload.

Some common indicators are the number of requisitions processed and number of purchase orders issued. **Table 9-6** shows the number of requisitions processed for each of the last three years. There was a significant increase between 1999 and 2000.

Table 9-6: Requisitions Processed

	1999	2000	2001
Requisitions processed	7,021	9,540	9,377

Source: The Commissioner of the DPS

Table 9-7 shows the number of regular and emergency purchase orders processed the last three years.

Table 9-7: Regular and Emergency Purchase Orders Processed

Purchase order type	1999	2000	2001
Regular	6,623	9,241	9,175
Emergency	398	299	202
Total	7,021	9,540	9,377

Source: The Commissioner of the DPS

As a measure of comparison, the National Institute of Governmental Purchasing (NIGP) Benchmark Survey conducted in June and July of 2001 shows that for the Great Lakes Region, the average number of purchase orders processed was 8,940. This comparison shows the City processes over 400 more purchase orders than their peers.

A test performed on a sample of City purchase orders showed that the average number of days to create the purchase order from when the requisition was first created was 55 days. The NIGP Benchmark Survey conducted in June and July of 2001 shows that the national average for the time of requisitioning to issuing a purchase order was 11.35 days. **Chart 9-2** shows the document flow and approval process required which contributes to the City taking an average of 55 days for completion. Data provided by the City of Columbus indicated in the last six months of 2001, the average number of days was 33 to process an informal bid purchase order.

R9.5 DPS should determine what workload drivers will be measured, and establish performance measures that correspond to each workload driver. Each performance measure should apply a standard to the workload indicator as a measure of effectiveness. DPS will need to establish procedures and a schedule for compiling data as well as the most appropriate software to store and analyze the data.

After performance measures are compiled, DPS should analyze the data and make adjustments in staffing and workload as is necessary to optimize efficiency among staff. DPS should also establish performance goals for the division based on benchmarks. Properly developed and implemented records would allow the division to accurately and objectively determine both the level of service being provided as well as the staff productivity associated with its functions. Once the division begins measuring its activities, benchmarks and indicators of quality can be used to assess its progress.

An example of some key performance measures can be found in the City of Columbus's 2002 budget. The outcome desired is an "effective and efficient purchasing process". The performance indicators and Columbus's current averages are as follows:

- Average number of days to "turn-around" informal bid purchases (33);
- Average number of days to "turn-around formal bid purchases (158); and
- Number of bid protests sustained (0).

Policies and Procedures

F9.8 The Division has no formal policies & procedures manual. Most of the requirements employees follow are set forth in chapters 181 (Purchases and Supplies) and 185 (Construction and Improvement Contracts) of the City's Codified Ordinances. There are also several memorandums issued by the Commissioner that provide guidance to staff. There is also a PeopleSoft Purchasing Reference Manual that provides detail steps for the request for quotes, purchase orders, maintaining suppliers and supplier contracts processes. Policies and procedures exist but they are not contained in a departmental manual and are in need of updating. The PeopleSoft Purchasing Manual was updated in September 2001. Discussions with DPS staff indicated that they all did not have the latest copy of this manual

In regards to the PeopleSoft Purchasing Reference manual, the current copy is dated September 2001. Inquiry with two of the Division's Buyers showed that one Buyer did not have the manual and the other had a manual, but it was dated November 2000.

- R9.6** The Division should develop a formal policies and procedures manual that include copies of the various documents mentioned above as well as developing and documenting specific steps/procedures to follow, depending on the task being performed. Procedures should be clearly documented for employees to follow. The manual can be developed for each employee category within the Division. The manual(s) should be continuously updated as a result of operational changes. An updated policies and procedures manual is essential as it provides clear guidance on what new or revised tasks need to be performed as a result of the system change. An updated manual also aids in training new staff and gives clear guidance on current duties that need to be performed in order to be effective and efficient.
- F9.9 The Division has updated their “How to do Business with City” (bidding procedure) brochure in the fall of 2001. This brochure provides guidance to potential suppliers in regards to instructions for bid procedures, a bidders checklist and required documents when submitting a bid associated with a contract. There is no set time table for review of this document to make sure it reflects current City practices.
- R9.7** The “How to do Business with City” brochure should be reviewed quarterly to make sure it reflects current City practices. This will ensure that all requirements are current and help new suppliers to submit required information on a timely basis and not cause them to miss bidding opportunities. In addition, the City is currently developing a web site for the DPS that would provide information to suppliers and allow suppliers to download or print information associated with current items for bid. The website should be activated as soon as practical to increase the ways suppliers can do business with the City.

F9.10 **Table 9-8** shows a comparison of National Best Practices to the DPS' practices.

Table 9-8: National Best Practices for Purchasing and Asset Management

Best Practices	DPS Practices
1) Clearly defined roles and responsibilities for staff involving contract bidding, purchasing, and requisitions exist.	Duties are separated and defined within several departments within the finance division, but are not documented in a purchasing policy and procedural manual. (See F9.8, R9.6)
2) Purchasing policy and procedure changes are disseminated to appropriate people on a timely basis with instructions and means for follow-up education, if necessary.	Purchasing policies and procedural changes are provided to staff via office memorandums after they receive training. No formal process exists to disseminate purchasing policies and procedures to appropriate employees in other departments on a timely basis. (See F9.8, R9.6)
3) Emergency purchasing procedures are appropriate	Emergency purchase orders procedures exist and the use of emergency purchase orders has decreased by about 50% from 1999 to 2001. (See F9.7, R9.5)
4) A list of recommended or preferred suppliers (including minority vendors) is compiled.	A supplier list is maintained, but no formal program exists to determine how a supplier is designated as a preferred supplier. (F9.11, R9.8)
5) Supplier performance is monitored.	No formal program exists. DPS addresses inadequate performance with suppliers when it is notified by the user department. (F9.11, R9.8)
6) Volume purchases are consolidated annually and discounts are negotiated.	The City enters into citywide contracts with specific purchases being made on an as-needed basis by department. (F9.19, R9.12)
7) Auctions of surplus furniture and equipment are conducted.	Auctions are held several times throughout the year. Items considered to be scrap are also offered to suppliers for bid. (F9.33, R9.21)

Source: GAO statement for Contract Management, "Trends and Challenges in Acquiring Services; Financial Systems, State of Ohio, AOS, "Preliminary Assessment of Functional Areas"; City of San Antonio Performance Review.

F9.11 There are no methods in place to monitor supplier performance on a citywide basis. Therefore, potential exists that a department will make a purchase with a supplier that may have caused another department significant problems. Individual user departments may informally monitor supplier performance by noting suppliers who have performed poorly and not make future purchases from them.

R9.8 The City should implement a centralized supplier performance monitoring program. Information that should be gathered includes, but is not limited to: quality of goods, timeliness of deliveries, supplier’s responsiveness to problems, goods continually being out of stock, price variances between catalog and invoice, and complaints concerning vendors expressed by the user departments. A centralized program would provide all user departments with the information necessary to not purchase from suppliers who have performed poorly in the past.

F9.12 **Table 9-9** shows the number of requirement, standard and public improvement contracts processed through the Division for the 1999 to 2001 years.

Table 9-9: Contracts Issued

	1999	2000	2001
Contracts issued	347	383	428

Source: Commissioner of the Division of Accounts

F9.13 Title 108 of the City Charter states that all expenditures over \$10,000 must be authorized and directed by City Council ordinance and then competitively bid. The State of Ohio Revised Code section 735.05 states that expenditures over \$15,000 must be competitively bid. Progressive public entities periodically review and adjust the competitive bidding threshold in-place. The current City level was established in 1989.

F9.14 Presently, it takes the City almost one year from the time the request for legislation is initiated until it becomes an executed contract. For a peer comparison, the NIGP 2001 Benchmark Survey shows that the average cycle time for formal bids, (from the time of requisitioning to the contract award) not including RFP’s or professional services, was 50.9 days for the Great Lakes Region.

An example of the extensive contract time delay is a consulting contract between the Auditor of State (AOS) and the City. Although this contract was previously discussed and initiated at City management’s request, it took from January 23, 2002 until March 18, 2002 to go from initiation, through a third and final reading, and then receive an ordinance number.

As of April 30, 2002, the City has received three invoices, but has paid only the third invoice. At this point, the project, involving more than 4,500 man hours, is 99 percent completed.

F9.15 **Table 9-10** shows the reduction in the number of contracts to be processed by the DPS if the dollar threshold was raised from its current level of \$10,000 to either \$15,000 or \$20,000 for each of the last three years.

Table 9-10: Reduction in the Number Contracts if the Dollar Requirement was Raised

	If the Dollar Threshold was Raised to	Total Fewer Number of Contracts	% Fewer Number of Contracts
1999 Year, 347 Contracts Issued	\$15,000	9	2.59%
	\$20,000	20	5.76%
2000 Year, 383 Contracts Issued	\$15,000	19	4.96%
	\$20,000	35	9.14%
2001 Year, 428 Contracts Issued	\$15,000	12	2.80%
	\$20,000	23	5.37%

Source: Review of contract listings provided by the Commissioner of the Division of Accounts

R9.9 The City’s Administration should submit a legislative request to City Council to enact an ordinance authorizing a change to the bid limit of Title 108 of the City Charter from \$10,000 to \$20,000. This will allow the City to reduce the number of competitive bids that have to be authorized by City Council, reduce the associated costs and speed up the process of obtaining goods and services. The competitive bid limits for the cities of Cincinnati and Columbus are \$25,000 and \$20,000 respectively.

Internal Controls

F9.16 DPS dollar approval levels do not exist for the professional buying staff. This requires the Commissioner to sign every purchase order.

F9.17 The City currently does not use a procurement card program. The Commissioner of DPS has attempted to initiate such a program. DPS processes many small dollar orders resulting in staff time being spent on non-value added transactions. The Division of Accounts also must spend staff time to process these transactions for payment. Time spent on these types of transactions does not allow DPS staff to participate in contract development and performing money-saving analyses.

R9.10 The City should investigate and ultimately approve the following two processes. Both of these measures will allow the Commissioner to manage the department instead of micro-managing the process.

The first process improvement is establishing dollar approval levels for each DPS organizational level. Having established approval levels will empower the professional staff, make them more accountable for their buying decisions, and help the Commissioner with time management.

Secondly, the City should investigate the process of implementing a payment card program. The City could either use the State of Ohio's Payment Card Program adapted to its needs or develop a request for proposal (RFP) and send it to companies that offer a payment card program. Since the State of Ohio's program already exists, the City would not have to process an RFP. The State program contains guidance on how to develop a detailed plan to ensure that the program is properly implemented.

Purchasing Programs

F9.18 The City currently has 190 different commodity groups classification. During the 1999-2001 years, the City has issued \$1,369,829,552 in purchase orders covering these commodity groups.

R9.11 The City should consider utilizing the NIGP Commodity/Service codes which are industry standards for identifying commodities and services. Using standard codes would allow potential suppliers to match City needs and provide an efficient means of capturing purchasing history that can be used for fiscal planning, budget execution, accounting and overall purchasing planning. Using standard codes would also be useful if the City ever decided to use an online service to seek bids from local and national suppliers.

F9.19 **Table 9-11** summarizes the number of citywide contracts, the number of commodity groups covered by the contracts, and the percentage relationship between citywide and all contracts processed by the DPS. Citywide contracts can cover more than one fiscal year.

Table 9-11: Citywide Contracts

Year	City-wide Contracts Issued	Commodities Covered	Contract Amounts Released	Total Number of Contracts	% That Are City-wide
1999	50	42	\$11,468,042	347	14.41%
2000	67	50	\$17,356,122	383	17.49%
2001	66	56	\$7,769,780	428	15.42%
2002 ¹	66	58	N/A	N/A	N/A

Source: Commissioners of the DPS and Division of Accounts.

¹ information as of January 2002

The Commissioner has established a personal goal for DPS to increase the number of citywide contracts each year. This has become more difficult because individual City divisions don't want to participate in contracts that they don't control individually. If City divisions continue this practice, the concept of using dollar leverage resulting from the combination of division requirements to obtain lower pricing will be weakened, and the City could subsequently pay more in the future. One example cited was the Department of Parks and Recreation's recent attempt to submit a request for legislation for uniform rental and work clothes even when a citywide contract exists. The department indicated they did not like the supplier but did not provide any documentation or other justification. The Commissioner returned the request for legislation to the department unapproved.

One of DPS' primary responsibilities is to address issues with suppliers regarding any purchase order or contract. In order for DPS to obtain better pricing and/or service through the use of citywide contracts, DPS staff need to ensure that the suppliers and all users know what the terms and conditions are, how substandard performance is to be reported, how suppliers will be notified of their performance, and how and within what time frame they are to correct substandard performance. By pursuing these steps, DPS will improve its management of suppliers and overall contract administration. Users will also be able to concentrate on their core responsibilities knowing a process is in place to ensure their individual needs are being met.

R9.12 With input from DPS, the Finance Director should notify all divisions that citywide contracts have been established for the benefit of the City based on Codified Ordinance, Title 181, and that this is the preferred method of purchasing supplies and services for the City. DPS should establish a written procedure just for citywide contracts and educate users divisions to ensure the process is understood. In addition, DPS will have to inform suppliers what is expected, and how their performance will be evaluated and reported. By installing an effective citywide contract program, the City will obtain better pricing and service, suppliers will be better managed, and user divisions will be able to concentrate on their major responsibilities.

F9.20 City Council has not passed an ordinance, as prescribed in Chapter 17, Section 108(b) that would allow the City to participate in contracts of the State of Ohio or any of its political subdivisions for the purchase of supplies, services, materials and equipment without competitive bidding.

R9.13 City Council should consider passing a blanket ordinance that covers all possible contracts that would allow DPS to use discretion and make purchases through the State's Purchasing program, or any of its political subdivisions, without the formal approval process (ordinance) of City Council.

F9.21 Chapter 187 (Minority Business and Female Business Enterprise Code), subsection (j) of section 187.03 (Goals of Contracting Departments, Bid and Contract Provisions) of the Codified Ordinances requires the Commissioner of DPS and each contracting department to:

1. Make every effort to increase the level of participation of MBEs and FBEs in contracts of \$10,000 or less;
2. Develop lists of MBEs and FBEs experienced in the various types of services, products or property typically contracted for;
3. Provide quarterly reports to the Director not later than 30 calendar days after the end of the previous quarterly period specifying with respect to contracts and subcontracts:
 - A. For the forthcoming quarter, the means by which it intends to meet the goals established by this section;
 - B. The dollar percentage and dollar amount of those contracts and subcontracts awarded in the previous quarter to MBEs and FBEs;
 - C. For each contracting department, the degree to which the goals set forth in this section have been met, any past and current activities undertaken and being undertaken in trying to meet such goals and, if applicable, a detailed explanation of why the goals set forth in this section have not been met; and
 - D. Such other information as may be requested by the Director; and
4. Appoint a member of the contracting department or division to serve as a liaison between the contracting department and the Office of Equal Opportunity, and to nominate a member of the contracting department or division to serve on the Committee established pursuant to Section 187.12.

The DPS Commissioner was unaware of these requirements and said they were the responsibility of the Director of the Office of Equal Opportunity.

F9.22 Chapter 187 (Minority Business and Female Business Enterprise Code), section 187.12 (Review and Evaluation Committee) of the Codified Ordinances requires a business enterprise liaison from the DPS to be part of the Review and Evaluation Committee. The Committee shall meet as is necessary to fulfill the following responsibilities:

- (a) Review and monitor each contracting department's MBE and FBE programs;
- (b) Assist the Director in preparing annual reports to the Mayor on the progress of the City's MBE and FBE programs;
- (c) Recommend changes in the regulations promulgated under this Code;
- (d) Assist, as appropriate, in the implementation of this Code;
- (e) Prepare, review and make recommendation concerning the directory of certified minority and female business enterprises;
- (f) Service as the steering committee of City sponsored workshops and seminars for minority and female business enterprises;
- (g) Cooperate in preparing a minority and female business enterprise newsletter and otherwise publicize business opportunities for MBEs and FBEs;
- (h) Assist in preparing a business enterprise monthly awards report; and
- (i) Carry out such other oversight or coordination functions as may be requested by the Director.

The Commissioner was unaware of these requirements concerning a business enterprise liaison from the DPS.

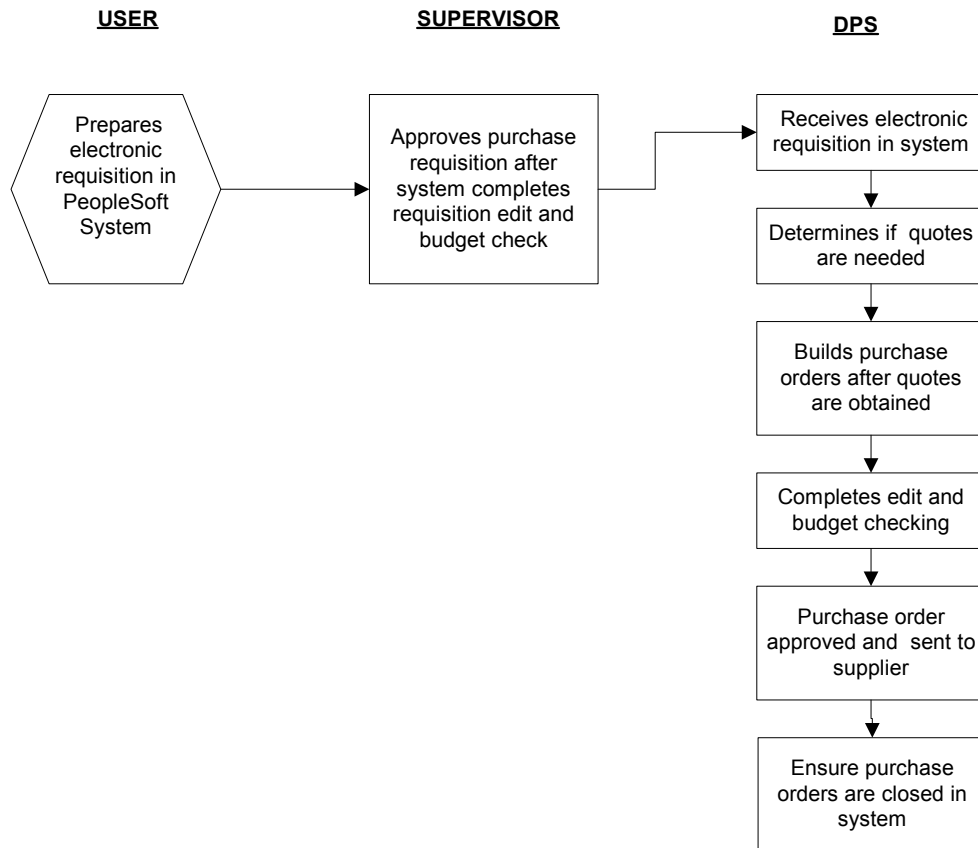
R9.14 The Commissioner plays a major role in Chapter 187 of the Codified Ordinance relating to minority and female businesses. The Commissioner should coordinate the process that ensures that all requirements of Chapter 187 are met. One important process change would be coordinating MBE and FBE efforts in other departments. These measures will greatly support the work of the Director of the Office of Equal Opportunity and help to promote additional business opportunity for any type of minority business enterprise.

Automated Purchasing System

F9.23 The City's current use of the PeopleSoft purchasing module is inefficient and time-consuming because of the current manual requisition approval process. The electronic requisition feature and the associated approval features are not utilized by those departments that have access to the module. The continued use of the manual requisition process is not cost effective, impedes the procurement process, and causes redundant reviews. See the **background summary of operations** for additional information on the manual requisition process. In addition, there are some departments that do not have the proper hardware to allow use of the purchasing module resulting in the continued use of the manual requisition form.

Chart 9-5 depicts the electronic purchasing flow that would replace the current flow shown in **Chart 9-2**.

**Chart 9-5: Electronic Purchasing System Flow
for Purchases Between \$200 and \$10,000**



R9.15 The City should implement use of the electronic requisition feature of the purchasing module along with the associated electronic approvals. This should be done on a citywide basis, but it will have to be done using a phased approach. The first phase involves the City departments that already have the proper computer hardware that allows use of all the features of the People Soft system. The second phase includes all other City departments and will require completion of a departmental hardware/software needs assessment and the establishment of a timetable to install everything identified in the needs assessment.

For the City departments already set up to use People Soft, a plan should be developed that would extensively test the use of the electronic requisition process. The plan should include a timetable to review and implement the process. This could also be done in a phased approach by department, but DPS should be actively involved from the beginning to address any questions that arise. Implementation will require additional user training. If the DPS assistant commissioner position is approved with systems administration responsibility, this position could help ensure proper implementation of the electronic requisition feature (see R9.1).

F9.24 All purchase requisitions are entered into the system by data entry located in Financial Reporting and Control. This is a purchasing responsibility and any changes to a requisition should be done by purchasing personnel.

R9.16 As part of the organizational review and in line with the proposed organizational structure change, the data entry personnel responsible for entering purchase requisitions in FRC should be transferred to DPS (see **R9.1**). This move should reduce the time it takes to process purchase orders by at least one day, and put the overall requisition responsibility in the proper function. As the PeopleSoft electronic requisition and approval features are implemented citywide, the need for requisition data entry will decrease and the data entry positions can be absorbed into the clerical functions that already exist. This should result in at least two clerical positions being phased out. Also, by transferring the data entry personnel, the system body of knowledge in DPS should increase and the ability of staff to utilize all purchase module features should expand.

F9.25 There are features noted in the PeopleSoft Purchasing Manual that are not currently being used. Examples include minority status, custom prices, and item identification (ID). Also the current practice of not putting more than one requisition on a purchase order increases purchase order processing costs due to additional data processing, copying purchase orders, and payment of multiple invoices. Utilizing all the features of the purchasing module will help improve the efficiency of the purchasing process and provide additional data for decision-making purposes.

F9.26 The purchasing module has a shipping default that specifies “Bestway”. This allows the City’s suppliers to determine what carriers to use and this may be costing the City higher shipping costs than other public entities. Suppliers typically have discount arrangements with carriers but rarely pass the savings on to their customers. This also means the City has not pursued any discount programs with carriers. “Bestway” also happens to be the name of a specific trucking company.

R9.17 DPS should review all of the purchasing module features that are currently not being used. The pros and cons of each feature should be documented and recommendations for not using a feature should be approved by the Director of Finance. Using all system features will ensure that use of the automated purchasing process is optimized, efficiency of operations is improved, better decision making data will be available, and the professionalism and proficiency of the staff will increase because they will have more time to concentrate on purchases/projects of significant value. Other benefits include:

- Standardization of forms used by departments;
- Accurate tracking/reporting of minority, women, disadvantaged business participation for the City, or department, supplier, or buyer;
- Accurate tracking/monitoring of preference purchases such as recycled content, US manufactured purchases for the City, or department, supplier or buyer;
- Quantity purchase agreement reports;
- Buyer activity/purchasing records;
- Reporting by commodity for the City, or department, supplier or buyer;
- Reporting by dollar volume for the City, or department, supplier, or buyer; and
- Purchase order reports for the City, or department, supplier, or buyer.

F9.27 The Commissioner signs all purchase orders. This is time consuming and is primarily due to Buyers not being held accountable for their errors when they build purchase orders. This is one more instance where the Buyers are not empowered to perform their jobs completely. Empowering the Buyers sign their own purchase orders means the Commissioner will be delegating approval authority. If a purchasing approval process was initiated, the purchase order signature block would need correct legal wording for agent authority, and an approval list stating what dollar limits a buyer can sign would have to be developed.

R9.18 The DPS's Buyers should be held accountable for the purchase orders they create and build. This can be done by ensuring the Buyers know what their job descriptions specify, having them correct their errors, and being responsible for all aspects of supplier management. Causes of errors and types of errors for the purchasing system should be tracked for each Buyer. A corrective action plan should be developed that specifics what is expected and possible outcomes if expectations are not met.

Mail-Room Operations

F9.28 The "Storeroom" (mail room) applies postage to all outgoing mail. There are no bulk mailings handled by the mail room. The City is able to use a pre-sort 1st class postage rate reduction of 2 cents. The City contracts with Midwest Presort Mailing Services to perform the sorting services.

F9.29 Other City departments (Divisions of Water, Sewer, and Electric) process mail and have programs in place to reduce postage costs. DPS' familiarization with these programs needs to be increased to determine if there is any further opportunity to improve operations and/or reduce costs.

F9.30 The City has no contract for express mail services. Council ordinance number 1059-01 has authorized a contract for express mail service. Currently, there are no bidders for the contract.

R9.19 The City should analyze expenditures associated with “express mail service” type suppliers to determine how much and which departments are using these services. This will identify what suppliers are providing current services and provide data that DPS can use to pursue a citywide contract.

F9.31 When the mailroom accountant is on leave for any reason, other people from the DPS fill in including the Commissioner. An interview with the Commissioner noted that a daily schedule is prepared to schedule time for DPS purchasing personnel to work in the mailroom when the mailroom accountant is absent. The Commissioner has worked in the mailroom sorting mail for up to three hours at a time when other DPS staff is not available. With the need to manage the purchasing system more effectively, this is not an effective use of time which impacts DPS’ ability to perform the purchasing function in a timely manner.

R9.20 The DPS Commissioner should pursue other staffing alternatives for the mailroom with the Finance Director. One alternative would be to identify other staff within the Finance Department that may be available to provide staff support either when the mailroom accountant is absent or there is a major mailing project that has to be completed quickly. Another alternative would be to investigate outsourcing the operation of the City Hall mailroom to the company that is currently performing the mail pre-sort function. This would ensure that there would always be someone operating the mailroom and eliminate the need for DPS personnel to fill in. The current mailroom accountant position could be eliminated and the savings used to offset the cost of outsourcing. This alternative would have to be negotiated with the union. Reducing or eliminating the need to use DPS staff in the mailroom should also help to improve the time it takes to process purchase orders which would get items ordered to the user in a more timely manner.

Obsolete/Surplus Disposal/Auction Program

F9.32 Guidelines for excess personal property (sale or use by other departments) is covered by section 181.19 of the City’s Codified Ordinances. DPS needs to improve its follow-up with additional bidders if the successful bidder does not present the required amount of money for an item.

F9.33 The City has several auctions throughout the year. **Table 9-12** shows auction activity and revenue for the last 3 years and also identifies the amounts still owed for the auctions held. Current City policy is the balance due is to be paid within five days of the auction. If the balance due is not paid in that time frame, the auctioned items are made available for future auctions or scrapped. The items auctioned are vehicles and equipment that are serviced through the Division of Motor Vehicles Maintenance (MVM). The auctions take place at one of the MVM’s shop locations.

Table 9-12: Auction Activity and Revenue

Year	Number of Auctions	Total Sales	Average per Auction	Balance Still Owed
1999	4	\$87,030	\$21,758	\$0
2000	8	\$346,675	\$43,334	\$2,725
2001	7	\$270,040	\$38,577	\$9,200
Total	19	\$703,745	\$37,029	\$11,925
Average	6.33	\$234,582	\$37,039	N/A

Source: City's Treasurer's office

F9.34 There is also scrap revenue generated for items that require disposal. These are non MVM-related items. When a division/department has items they no longer want, they are first offered to all other City divisions/departments. For those items not wanted by these other divisions/departments, the DPS will "post to receive bids" for the items. Suppliers may or may not bid on the items the City wishes to discard. During 2001, there was approximately \$240,417 in scrap revenue generated; however, \$238,379 came from the sale of helicopters and associated parts.

R9.21 As shown in **Table 9-12**, at the end of 2001 there was \$11,925 still owed as the result of the auction activity. DPS should implement a policy where the auctioned items are not transferred, unless the City receives their compensation.

Conclusion Statement

The Division of Purchasing and Supplies (DPS) is mired in antiquated purchasing practices. On average, it takes almost one year for a request for legislation to become an executed contract. For this process, the City exceeds the Regional average by over 300 days.

Major weaknesses in DPS include the City's failure to fully integrate the PeopleSoft software and create an automated purchasing system; the failure to use current practices such as the internet to procure quotes or receive professional guidance; and the use of procurement cards. Also, DPS personnel are not encouraged to join professional purchasing organizations, or attend training seminars to share information with their peers.

The City should implement the use of the electronic requisition feature of the purchasing module along with the associated electronic approvals. DPS should be actively involved with the implementation phase, especially in the area of additional user training. This report offered a recommendation for the creation of a new position, assistant commissioner, which would help ensure proper implementation of the electronic requisition feature. This system will improve efficiency and therefore the timeliness of citywide purchase requests. When fully implemented, the City should be able to improve their time frame for contract execution to meet peer average.

Along with the electronic requisition process, present staff should be educated in the full potential of all electronic media. Utilization of the internet and seeking to maximize the use of procurement cards are two other ways that purchasing can display that they are using all electronic formats at their disposal. This report offers a strong recommendation concerning the use of procurement cards and offers the State of Ohio's payment card program as a guide.

Finally, the staff should be trained in professional purchasing best practices and market systems. The employees should seek professional organization membership and participation to help professionalize both the department and themselves. Also, benchmarks and standards must be created for vendors, City departments, and staff. The use of criteria, gathered from professional surveys, training courses, and best practices will help insure delivery of the best possible service from all three sources.

Department of Public Utilities - Fiscal Control

Background

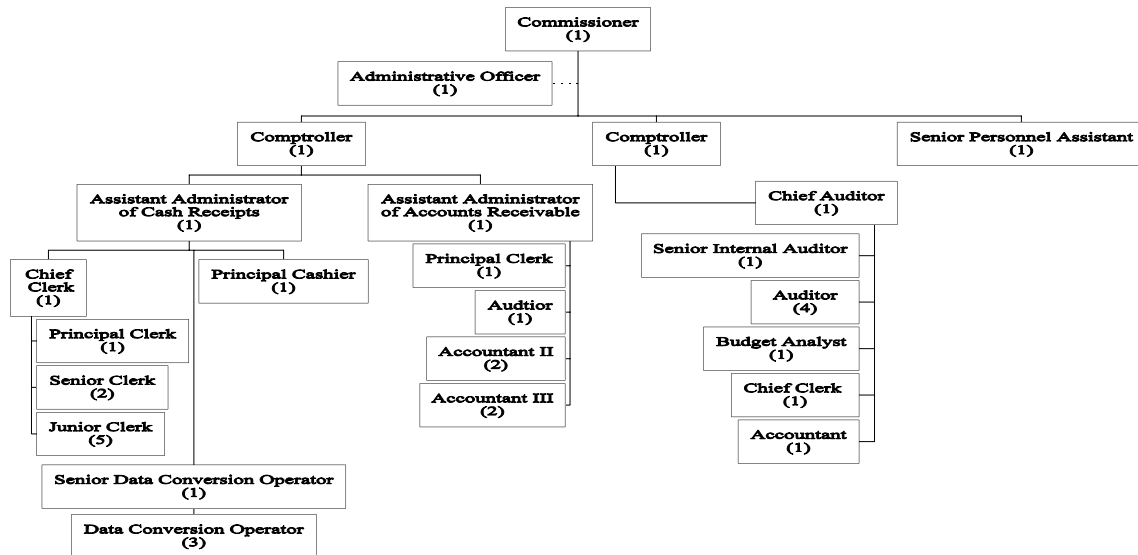
This section focuses on the performance review of the City of Cleveland’s Department of Public Utilities financial operations. The Division of Fiscal Controls for Public Utilities (UFC) was created for the purpose of providing financial reporting and control, coordination, and supervision to the Divisions of Water, Water Pollution Control (Sewer) and Cleveland Public Power (CPP). UFC was established by Ordinance Number 739-48 of the Codified Ordinances of Cleveland, Ohio, passed on May 17, 1948 and established June 2, 1948.

Our review will focus on the financial operations of the Division of Fiscal Controls and the three utilities management of their delinquent accounts. For the purpose of illustrating various operational issues, comparisons are made throughout the report with the financial operations of the Cincinnati Water Works and the Lake County Utilities Department.

Organizational Chart

Chart 10-1 depicts the organizational structure and reporting relationships for the Division of Fiscal Control within the Department of Public Utilities. In addition, **Appendix A** contains the job descriptions, the minimum level of education, and the minimum level of experience for key job positions.

Chart 10-1: UFC Organizational Chart



UFC is primarily responsible for the following financial functions within the Department of Public Utilities:

- Monitoring and reporting on the operating results of the Divisions of Water, Sewer, and CPP;
- Performing and coordinating all accounting functions of the Department of Public Utilities;
- Preparing and analyzing financial statements;
- Processing cash receipts, reconciling customers' accounts receivable, processing payroll, and billing miscellaneous charges; and
- Assisting the Divisions of Water, Sewer and CPP with budget preparation and monitoring budgets.

Summary of Operations and Staffing

The Department of Public Utilities consists of the General Administration, Radio Communication, Fiscal Control, Water, Sewer, and CPP. The Divisions of Water, Sewer, and CPP are reported as Enterprise Funds and are part of the City of Cleveland's primary government; servicing approximately 400,000 water accounts and 280,000 sewer accounts within the City of Cleveland and 69 suburban municipalities in Cuyahoga, Medina, Summit and Geauga Counties. The Department of Public Utilities additionally handles the servicing of 79,000 electric customers in the City of Cleveland. The Carl B. Stokes Public Utilities Building at 1201 Lakeside Avenue is the administration and engineering headquarters for the Public Utilities Department.

UFC is the financial arm of the Department of Public Utilities and has been set apart as a separate Division with a separate budget. Annual financial reports for the Divisions of Water, Sewer and CCP, are created by UFC. These reports are issued separately by the City of Cleveland and are independently audited.

UFC does not handle the disbursement of utility charges to customers. Amounts billed for utility services are managed by the individual utility divisions. Likewise, collection efforts on delinquent accounts are also handled by the individual utility divisions. However, the UFC's Accounts Receivable Unit is responsible for reconciling open accounts reported by the billing departments of Water, Sewer, and CPP. Purchase orders and requisitions are handled by the individual divisions within the Department of Utilities

UFC is divided into four main units: Cash Receipts Unit, Accounts Receivable Unit, Payroll Unit, and General Accounting Unit.

Some of the key procedures performed by the Cash Receipts Unit include the following:

- Managing the receipt of payments from Water, Sewer, and CPP customers;
- Collecting sewer payments on behalf of the Northeast Ohio Regional Sewer District (NEORSB);
- Physically handling and processing customer payments acquired through the mail, customer walk-in, or third party agents; and
- Balancing amounts processed against the amounts deposited.

Some of the key procedures performed by the Accounts Receivable Unit include the following:

- Updating the customer account database when payments from the customer are received;
- Agreeing the amounts processed by the Cash Receipts Unit to the amounts uploaded to the billing systems;
- Processing refunds;
- Tracing missing payments;
- Auditing the billing register; and
- Performing transfers to and from various accounts.

Some of the key procedures performed by the Payroll Unit include the following:

- Performs all payroll related work for UFC and the General Administration Divisions of the Department of Public Utilities;
- Writing payroll vouchers; and
- Managing the timekeeping system.

Some of the key procedures performed by the General Accounting Unit include the following:

- Posting accounting entries;
- Analyzing and summarizing financial data;
- Preparing various monthly, quarterly, and yearly reports pertaining to the Department of Public Utilities; and
- Creating journal entries and receiving warrants to be entered into the City of Cleveland's financial system known as PeopleSoft Applications.

Table 10-1 lists staffing levels and salary ranges as of March 1, 2002. This table reveals a number of positions are currently unfilled, including: Senior Auditor, Junior Cashier, and Senior Personnel Assistant. The hiring postings are handled through the City of Cleveland's Personnel Department.

Table 10-1: Staffing

Position	Salary Range	Budget 2001	Current Staffing ¹	Budget 2002
Commissioner of Utilities Fiscal Control	\$38,952 -\$102,603	1	1	1
Assistant Administrator	\$20,321-\$52,398	3	3	3
Utilities Comptroller	\$26,274-\$75,220	2	2	2
Chief Clerk	\$22,050-\$40,022	1	2	2
Junior Cashier	\$5.40/hr-\$14.01/hr	3	0	2
Junior Clerk	\$9.89/hr-\$11.68/hr	5	5	6
Principal Cashier	\$7.46/hr-\$19.60/hr	0	1	1
Principal Clerk	\$11.93/hr-\$16.58/hr	3	2	3
Senior Cashier	\$6.36/hr-\$16.19/hr	1	0	1
Senior Clerk	\$10.29/hr-\$13.69/hr	2	2	2
Senior Personnel Assistant	\$17,705-\$42,221	1	0	1
Accountant I	\$6.65/hr-\$16.68/hr	3	1	1
Accountant II	\$7.27/hr-\$18.29/hr	2	2	2
Accountant III	\$8.20/hr-\$20.28/hr	1	2	2
Administrative Officer	\$17,705-\$44,593	1	1	1
Auditor	\$19,785-\$49,523	5	5	5
Budget Analyst	\$16,761-\$44,619	1	1	1
Chief Auditor - Utilities	\$23,647-\$71,196	1	1	1
Financial Analyst	\$7.12hr-\$18.29hr	1	0	0
Senior Internal Auditor	\$23,647-\$56,409	1	1	1
Data Conversion Operator	\$9.92/hr-\$12.70/hr	2	2	2
Senior Data Conversion Operator	\$10.80/hr-\$15.21/hr	1	1	1
Seasonal Employee		1	0	0
Total Division		42	35	41

Source: Mayor's Estimate 2002 and the Assistant Administrator of Payroll

Footnote: ¹ Current staff as of March 1, 2002.

The Cleveland City Council establishes and approves water, sewer, and CPP (electrical) rates. **Tables 10-2, 10-3, and 10-4** list the current Water, Sewer and CPP rates for Cleveland Customers.

Table 10-2: Water Rate Schedule Effective August 24, 2001

Customer Types		2001	2002	2003	2004	2005
Regular Customer:	First thousand feet of water - 7,500 gallons (MCF)	\$ 7.59	\$ 7.85	\$ 8.13	\$ 8.41	\$ 8.71
	Additional MCFs	\$ 16.23	\$ 16.80	\$ 17.38	\$ 17.99	\$ 18.62
Special Homestead ¹	All MCFs	\$ 3.61	\$ 3.68	\$ 3.74	\$ 3.81	\$ 3.87

Source: Ordinance Number 1551-01 of the Codified Ordinances of Cleveland, Ohio passed August 15, 2001, effective August 24, 2001

Footnote: ¹ Special homestead includes senior citizens, disabled, low income, etc.

Table 10-3: Sewer Rate Schedule Effective June 29, 2000

Customer Types		2001	2002	2003	2004	2005
Regular Customer	First thousand feet of water - 7,500 gallons (MCF)	\$ 6.81	\$ 7.16	\$ 7.51	\$ 7.89	\$ 8.25
Special Homestead ¹	All MCFs	\$ 4.17	\$ 4.34	\$ 4.52	\$ 4.71	\$ 4.91

Source: Ordinance Number 1742-99 of the Codified Ordinances of Cleveland, Ohio passed June 19, 2000, effective June 29, 2000

Footnote: ¹ Special homestead includes senior citizens, disabled, low income, etc.

Table 10-4: CPP Rate Schedule

	Kilowatt Hour (KWH) or Kilowatt Demand (KWD) Charge	Summer	Winter
Residential Rate Schedule ¹:	For the first 1,000 KWH	\$ 0.0774/KWH	\$ 0.0655/KWH
	For all KWH over 1,000	\$ 0.0752/KWH	\$ 0.0353/KWH
Small Commercial Rate Schedule ¹:	For the first 7,500 KWH	\$ 0.0679/KWH	\$ 0.0588/KWH
	For all KWH over 7,500	\$ 0.0398/KWH	\$ 0.0309/KWH
Large Commercial Rate Schedule:			
Demand Charge	For the first 50 kilowatt demand (KWD)	\$ 7.99/KWD	\$ 7.28/KWD
	For all over 50 KWD	\$ 6.92 KWD	\$ 6.33/KWD
Reactive Charge	For Kilovars (KVAR) in excess of 30	\$ 0.20/KVARD	\$ 0.20/KVARD
Kilowatt Hour Charges	For the first 40,000 KWH	\$ 0.0331/KWH	\$ 0.0288/KWD
	For the first 60,000 KWH	\$ 0.0207/KWH	\$ 0.0173/KWH
	For the first 100,000 KWH	\$ 0.0166/KWH	\$ 0.0140/KWH
Minimum Charge	The monthly minimum charge shall be \$12.25 plus the Energy Adjustment Charge		
Maximum Charge	The monthly maximum charge shall be \$0.165/KWH plus the Energy Adjustment Charge		

Source: Ordinance Number 1027-83 of the Codified Ordinances of Cleveland, Ohio passed May 6, 1983, effective May 10, 1983

Footnote: ¹ Amounts do not include adjustments and incremental charges, such as, environmental and ecological adjustments approved in Ordinance Number 1027-83, passed May 6, 1983, effective May 10, 1983; the energy adjustment charge approved in Ordinance 910-98, passed February 14, 2000, effective February 22, 2000; and a KWH excise tax imposed by Section 5727.81(A) of the Ohio Revised Code.

Financial Data

Table 10-5 lists UFC's actual expenditures for fiscal years 1999, 2000, 2001 and budgeted expenditures for 2002.

Table 10-5: Actual and Budgeted Expenditures 1999 through 2002

Category of Expense	1999 Actual	2000 Actual	2001 Actual (unaudited)	2002 Budgeted
Salaries	\$1,101,063	\$1,209,523	\$1,310,292	\$1,487,000
Employee Benefits	\$289,079	\$314,836	\$364,218	\$438,608
Training & Professional Dues	\$4,119	\$8,455	\$4,156	\$10,000 ³
Contractual Services	\$23,813	\$33,518	(\$9,904) ¹	\$26,500
Materials and Supplies	\$15,247	\$26,071	\$13,453	\$16,500
Maintenance	\$1,496	\$1,980	\$31,801 ²	\$37,000
Claims Refunds & Miscellaneous	\$24,755	\$25,000	\$25,020	\$27,698
Interdepartmental Service Charges	\$10,241	\$4,632	\$7,727	\$40,694 ⁴
Capital Outlay	\$28,480	\$16,147	\$20,617	\$0 ⁵
Total Expenditures	\$1,498,293	\$1,640,162	\$1,767,380	\$2,084,000

Source: Mayor's Estimate for 2002

Footnote:

¹ An amount of - \$33,518 was posted to the Contractual Services line item to decrease it to the negative amount of \$9,904. This posting was not noted in prior years. The Commissioner of UFC does not understand why this figure has been posted and believes it was a mistake on the City of Cleveland's records.

² Maintenance contracts increased due to the contract with BancTec Processing System. In prior years this was accounted for under the Division of Water. When the contract was up for renewal in 2001, UFC decided to report it in their records.

³ UFC budgeted \$5,844 more in training in 2002 to anticipate costs to provide training on PeopleSoft Applications.

⁴ The anticipated increase in Interdepartmental Charges for 2002 is based on an increase in telephone and data processing charges from the Office of Budget Management (OBM).

⁵ The Commissioner does not anticipate any Capital Outlay charges in 2002. All computers have been historically charged from the Water Department.

Performance Measures

- Review the internal controls over revenue operations and the process for updating customer accounts;
- Assess the skill sets of employees in UFC fiscal operations;
- Assess the efficiency of the Financial Statement Preparation;
- Review the effectiveness of fixed asset reporting; and
- Assess the UFC's management of delinquent accounts.

Findings / Commendations / Recommendations

Internal Controls Over Revenue Operations and the Process for Updating Customer Accounts

- F10.1 The Cleveland City Council establishes and approves water, sewer, and electrical rates. Customers serviced locally in the City of Cleveland for sewer charges receive two bills, one containing the water charges and the other containing sewer charges.
- F10.2 The Divisions of Water and CPP perform individual meter readings for each customer. The Division of Water performs the billing functions for Sewer. On a daily basis, meter readers key in the water usage for each meter into hand-held computers. The hand-held computers interface with a vendor purchased application on an NT server. The information recorded in the application is then uploaded to their billing and collection system, the IBM AS/400 for Water and Sewer. CPP uses Banner Customer Information System (CIS). The billing departments of the Divisions of Water and CPP maintain the distribution of bills to customers. When customers remit payments, the Cash Receipts Unit at UFC transmits the data to an input file. The Accounts Receivable Unit issues a “go” command in the billing and collection system to credit the customer accounts by the amounts received. The input file for CPP payments is e-mailed to the appropriate personnel at CPP where amounts are uploaded to the Banner CIS system.

The billing and collection system is an in-house developed application that handles all customer water transactions for the Division of Water and Sewer. This application is 15 years old. The division has programmers on staff to customize the program to meet user needs. The Division of Water along with a consulting firm has developed a five-year technology plan for approximately \$40 million in technology re-design for the division. The division considered including an upgraded or new billing application, however, there were other projects that were more critical to the division’s Information Technology (IT) operations (i.e., reorganizing the IT structure to meet the future IT requirements of the division). This plan has been approved by City Ordinance and the division’s staff and resources are committed to this plan and will be unable to take on any new technology issues in the next five years. The Assistant Commissioner of Division of Water indicated that a new application may be a consideration six or seven years after the commencement of the technology plan.

CPP implemented the Banner CIS in 2000 and 2001. The application is tailored to electric billings and offers many reporting advantages.

R10.1 The Department of Public Utilities should investigate integrating the two billing systems, the billing and collection system and Banner Billing, into one system that would be able to accommodate all water, sewer, and electric customers. It would be more cost efficient for UFC to receive the same reports and perform the same operations for all utility divisions. Analysis time would be reduced, due to the efficiency of examining only one type of report. Operational procedures would be more consistent and result in a reduction in mailing and paper costs.

The Division of Water should inquire of Cleveland Public Power whether the Banner Billing System could meet the Division of Water's requirements and standards needed to efficiently manage customer billing for water and sewer. A determination should then be made as to whether the Banner system could be interfaced with the PeopleSoft system to reduce manual entries. For comparison, the Cincinnati Water Works uses Banner Billing Systems for water billing and it has been pleased with its capabilities.

If UFC expands beyond the capabilities of the Banner Billing System, they should investigate utilizing the PeopleSoft's Billing Applications to handle all their public utility accounts. Once implemented, the collections received would be automatically updated into PeopleSoft system without manual entry.

F10.3 All utility payments or payment information, including payments for water, sewer, and electric, are forwarded, via mail, to the Public Utilities Building. Payments are also received from walk-in customers or mailed directly to the Public Utilities Building.

Procedures for walk-in customers are as follows. Cashiers are located at the Utilities Building. Payments are made through cash and personal check and are normally accompanied by a stub from the electric or water bill that the customers submit. These stubs indicate the customer's address, account number, meter reading, and amount due. Once the payment is received, the cashier validates both the top and bottom portion of the stub to indicate verification of payment. The cashier then separates the top portion of the stub and retains it with the payments. The bottom portion of the stub is given to the customer as a receipt of the transaction. Cashiers receiving cash payments of \$1,000 and over, must use the currency counter, retain an output tape, and have another cashier or a supervisor sign the tape.

At the end of each business day, the cashiers balance their daily receipt totals. Each cashier prepares a Cashier Activity and Status report indicating the amount of checks and cash payments received during the day. The cashier must sign this report. A register tape and the reporting amounts received for each utility department, are attached to the report. The Principal Cashier then reviews the batch control sheet and verifies the amount of checks and cash payments for accuracy. The Principal Cashier also re-verifies the total amount of money to be deposited. All of the monies received are placed in a pre-numbered and sealed plastic deposit bag within a key-locked bank pouch. The payment stubs are then sent to the Cash Receipts Unit where the stubs are processed.

- F10.4 The Cash Receipts Unit also receives utility payments from customers by mail. The mail is segregated by Water, CPP, and Sewer and is then sorted into two categories of mail: postal delivery and agency. The postal delivery mail is sorted by envelope type. An electronic mail opener opens all mail. Clerks extract the contents of each envelope, checking for full payments and stubs. Separate staff members examines the payment receipts and compare the stub with the payment. If the payment made is not a payment in full, the clerk categorizes them by partial payment, multi payments, payments over \$250, and unscannable stub payments.

Certain banks and collection agencies act as “agents” for the UFC and accept utility payments from customers. These agencies, in turn, remit the payments received from customers to UFC by issuing their own checks for the total receipts that day. Remittance stubs are also sent by the banks and collection agencies to support the total amounts received. Pay-by-phone transactions are not accompanied by stubs. Instead, a fax is sent, listing all of the accounts and a copy of their deposit slip. Agencies processing payments through the Automated Clearing House (ACH) credit transactions, send a report or a fax to the City of Cleveland Treasury, showing the totals of the daily receipts and deposits made to UFC’s bank account. The reports are then sent to the Cash Receipts Unit at UFC.

- F10.5 Payments are also received through lockbox and direct deposit. The Cash Receipts Unit receives a daily report from National City Bank showing the control totals of the daily receipts and deposits made to the UFC’s bank account. Payment stubs, are received from National City Bank, which are sent to the clerks to be scanned through the 9500 Bancotec Remittance Processing System.

F10.6 The 9500 Bancotec Remittance Processing System is used to post collection data. It reads the account and balance for Water, Sewer, and CPP information as the stubs and checks are scanned through the machine. The machine stops, if a stub of \$250.01 or more is scanned and will prompt the operator to “accept” or “skip” the payment. If a customer payment cannot be scanned in from the remittance stub (i.e., partial payments, or no stub), the Data Conversion Operators manually inputs the amount. The same procedure is performed for multiple payments. Partial payment must first be keyed in for the amount of the payment made and then reverse-keyed to prevent inaccurate data input (reverse-keying means that if the payment amount is \$25.00, the first input must be 2 5 0 0 and the reverse input must be 0 0 5 2). Payment stubs from the lockbox, direct deposit, and walk-in customers are also scanned through the machine. The 9500 Bancotec system interfaces with the billing and collection and the Banner Billing Systems to apply the monies received to specific customer accounts.

At the end of the day, checks and other payments received through the mail are placed in a sealed plastic deposit bag. All of the cashiers’ register tapes, mail, agency and ACH credit batch totals, processed by the 9500 Bancotec system, are reconciled to the total amount to be deposited or already banked. Batch totals from cashiers are compared to the cashiers’ Activity and Status reports. Batches from National City Bank and the agencies are balanced to the entity’s daily receipt reports. Discrepancies are investigated and reviewed immediately.

F10.7 The cashiers and the processors of the Cash Receipts Unit are the only individuals throughout the collection process that can receive payments. Additionally, the cashiers are the only ones that can handle cash. As such, security cameras have been placed throughout the cashier area, where the money is handled. A television monitor is located in the Assistant Administrator’s office for continual monitoring. The cameras capture all activity on tape for later review if necessary.

The Cash Receipts Unit sends a daily control sheet to the Accounts Receivable Unit reporting amounts received from the mail and the ACH credits, the National City tallies, and the cashiers’ reports. The unit also remits a calculator tape for the total dollar amounts received from the mail, by division, to an Accountant in the General Accounting Department. The unit will also remit any reports or faxes from agencies. The Accountant then creates receiving warrants, which serves as a receiving document that the City of Cleveland uses to record amounts received and banked into PeopleSoft. Daily cash is usually recorded on six or seven receiving warrants for the Water, Sewer, and CPP funds. Each fund has individual warrants noting the dollar amounts received per the cashiers’ reports and the dollar amounts noted on the tapes per the Cash Receipts unit. One or two warrants are used to record various direct deposit entries such as ACH transactions, Smartel, Checkfree, etc. The deposit slip filled out by the bank along with a copy of the forms received by these agencies are attached to the receiving warrant.

F10.8 A Security officer subsequently picks up deposit bags from the Cash Receipts Unit, the deposit bags from the cashiers, and the receiving warrants from the General Accounting Unit. The deposit bags and the receiving warrants are then taken to the City of Cleveland's City Hall. The cash, checks, and a copy of the receiving warrant go to the Treasury Department for the daily deposit. The Treasury Department recounts the cash and checks received, prepares the deposit slip, and sends the deposit to the bank. Amounts are then entered into PeopleSoft Applications by the City's Financial Reporting and Control (FRC). A copy of the receiving warrant is remitted back to the General Accounting Unit with the authorizing signatures from the Commissioner of the Division of Accounts and the Treasurer.

R10.2 UFC, along with the appropriate personnel at the City of Cleveland, should investigate allowing the General Accounting Unit the authority and the ability to enter receiving warrant information into PeopleSoft. Before the amounts are permanently updated into the PeopleSoft system, amounts should be first authorized by the City Treasury. This procedure would promote a paperless environment, encourage efficiency and create more storage space. Additionally, the processing time and efficiency would improve, since the amounts are only entered once, instead of once on the physical receiving warrant and then into PeopleSoft at City Hall. By comparison, the Cincinnati Water Works Accounting Department has access to enter amounts received to the City of Cincinnati's accounting system. The entry is reviewed at "check points" at the City of Cincinnati's Treasury Department before being update to the system.

F10.9 After the Accountant II, fills out receiving warrants, he creates Daily Cash Receipts Reports for Water, CPP, and Sewer. The Water and CPP Cash Receipts Report show the amounts received on customers' accounts and miscellaneous amounts received by the cashiers for electric and water only. The Water and Agency Cash Receipts Reports show amounts deposited and the amounts applied to the customers' accounts for water and sewer. Amounts deposited and not applied to a customer account are placed in a suspense account until the proper accounts are determined. Amounts applied to the accounts are obtained by the Accounts Receivable Department from billing and collection and Banner Reports.

The Accountant II, in the General Accounting Department manually enters amounts, noted on the Daily Cash Receipts Reports for water and sewer into cash books. CPP's Daily Cash Receipts Report is forwarded to an auditor in the General Accounting Unit, who enters the amounts in the CPP Cash Book.

At the end of the month, the cash amounts recorded in the cash books are reconciled to amounts recorded into PeopleSoft. Reconciliations are performed by auditors in the General Accounting Unit. Entries made to the cash account in PeopleSoft are obtained by running a querying program used to extract the information in PeopleSoft. Ending balances from the query and the cash books are recorded on a spreadsheet. Any variances noted in the reconciliation are printed out and attached to the balanced spreadsheets and then filed in respective folders.

R10.3 Reconciliations are not signed or initialed to give evidence of a supervisory review. The Chief Auditor should initial or sign the monthly reconciliation to document the review.

Also, UFC uses the Auditor in the Accounts Receivable unit to enter the daily cash activity for CPP. UFC should re-title this auditor position as an Accountant in conjunction with the duties performed. The limited audit functions this position occasionally performs should be transferred to the City Division of Internal Audit. See **R10.6** for further reporting structure comments.

F10.10 Each day, the Accounts Receivable Unit receives the Daily Cash Receipts Report from the Accounting Department, the control sheet prepared by the Cash Receipts Unit, and the WSP33 Online Reviews Report. The WSP33 Online Reviews Report notes the total amounts entered from each batch. When the Assistant Administrator of Accounts Receivable is assured that the information on the WSP33 Online Reviews Report is correct, he issues a “go” command that allows the input file from the 9500 Banctec Remittance Processing System to be processed into the A/S400 Billing System for Water and Sewer. Amounts from this system are extracted nightly. The extracted data file is automatically sent to the AS/400 for the Division of Water and Sewer collections. The CPP extracted data is placed on a floppy disk, and is then e-mailed to the appropriate CPP personnel to be uploaded into the Banner Billing System. A final WSP33 Online Reviews Report is also compared to the control sheet received from the Cash Receipts Department. The total amount processed is subtracted from the beginning accounts receivable balance to create a new accounts receivable balance. This balance is then reconciled against the open accounts reported by the Division of Water and CPP. Reconciliations for the month are also performed.

R10.4 UFC should create an interface between Banctec and Banner Billing Systems. This would give UFC the ability to automatically update CPP’s records in the same manner as water and sewer.

F10.11 Entries noting the amounts billed to customers, are updated monthly into PeopleSoft, unlike collections, that are updated daily into PeopleSoft. Monthly Sales Register Reports, containing a list of all accounts billed during the month, are generated by the billing and collection and the Banner System. They are summarized by the Accounts Receivable Department into five Accounts Receivable Excel Spreadsheets. The five are: Water-active and inactive accounts; Sewer-active and inactive accounts; and CPP. These reports are sent to the auditors in the General Accounting Unit where they create journal entries to update Accounts Receivable into PeopleSoft. There is no direct interface between PeopleSoft and the billing systems. The auditors prepare the journal entries on an Excel spreadsheet in the Utilities Shared Drive. A hard copy is printed out and given to the Chief Auditor. The Chief Auditor then moves the journal entries to Project Cost Module in People Soft, which are then moved over to the General Ledger Module. The Chief Auditor and two staff auditors have access to make adjustments to the PeopleSoft system.

R10.5 UFC should eliminate recording the journal entries twice. The practice of the auditors preparing the entries on an Excel spreadsheet, then the Chief Auditor moving the entries on PeopleSoft is not cost efficient and increases the risk of transposition errors. UFC should give the staff, who create journal entries, access to PeopleSoft and write a procedure where the head of the department approves the entries.

Organizational Issues

R10.6 UFC should retitle and restructure their General Accounting Unit. UFC is using the Chief Auditor and two staff auditors to post journal entries on the accounts receivable system and convert cash basis amounts to accrual entries. These three dedicated positions are performing accountant duties and should be titled and paid accordingly.

Presently, the Senior Auditor position is vacant. UFC should consider not replacing this position. If accounting duties need to be distributed to another staff member, the title of auditor and corresponding pay scale should not be considered. UFC uses auditors as part of the system processing, but these auditors never look at operations, internal controls, or issue reports.

UFC should use the City's Division of Internal Auditors to increase efficiency and provide the level of independence needed for reporting and individual assessments of controls and operations.

F10.12 There are no formal training programs in place. When a new employee is assigned, it is the supervisor's responsibility to train new employees and to offer any assistance. Though employee participation in training courses is not required, it is encouraged and is fully compensated by the UFC. Occasionally, the UFC hires an instructor to teach basic Microsoft Office techniques.

Also, at the start of employment, performance evaluations are performed at day 30, 60, 90 and 120 day intervals. After the probationary period, no other reviews are performed.

R10.7 UFC should set up a program to ensure that its staff maintain professional proficiency through continuing education and training. The program for accountants should follow the Government Auditing Standards requirement of 80 hours of continuing education every two years. The training should be directly related to the employee's job duties.

Cincinnati Water Works requires employees to have 40 hours of training per year. While, their training did not have to be specifically on financial issues, it did have to relate to water or sewer issues.

Finally, UFC should create annual reviews to continually evaluate employees' performance and to offer feedback. A timely evaluation process serves as an excellent promotional barometer for both staff and management and enhances performance and morale.

Efficiency of the Financial Statement Preparation

F10.13 In the 2000 financial audit, it was noted that UFC utilized Excel spreadsheets for the preparation of monthly, quarterly and annual financial statements. UFC auditors have the ability to extract some reports (Trial Balance and Unencumbered Cash reports) directly through PeopleSoft applications, however, financial statements, such as, the Income Statement, Balance Sheet, and Cash Flows Statements are not obtained directly through PeopleSoft. The majority of the data used for the preparation of financial statements is obtained from running queries in the PeopleSoft database. The information gathered from the query, is then extracted onto Excel spreadsheets. This process can be time consuming and is prone to error.

In the 2000 financial audit, a recommendation was offered for UFC to develop customized reports within PeopleSoft rather than creating separate Excel spreadsheets. Currently, UFC has not adopted any recommendations or changed their financial statement procedures from the prior year. UFC is still utilizing Excel spreadsheets for the preparation of monthly and quarterly financial statements. UFC in collaboration with programmers at FRC are currently in the process of trying to automate their monthly balance sheets and quarterly cash flows statements and income statements. However, the programmers were not successful in their initial attempts to automate the financial statements.

R10.8 UFC should continue to seek assistance to automate their financial statement presentation. All of the information needed to generate the Cash Flow Statement, Income Statement and Balance Sheet is entered into PeopleSoft, therefore it should be possible to extract the information and automate the reporting modules.

Automating the financial statements will alleviate the burden on the UFC at year-end and will result in a more efficient and effective year-end close. This would also allow the Fiscal Control to process monthly, quarterly, and year-end statements more efficiently.

F10.14 Some information, included in UFC's financial statements, is derived from inquiry of the appropriate personnel at FRC. Line items, such as "Due to" Expenses, Cash, and Accounts Payable, have to be obtained directly from FRC. This information is received from FRC through hard copy reports and interoffice e-mail.

F10.15 In the preparation of financial statements, the Project Cost Module of PeopleSoft is reconciled to the General Ledger Module of PeopleSoft. The reconciliations are performed monthly by auditors in the General Accounting Unit. The General Ledger Module accounts for expenditures made by departments within Cleveland. Account codes, specified by Cleveland, are assigned to expenditures to track specific types of items that are purchased. The Project Cost Module in PeopleSoft is an alternate module for tracking costs. In the Project Cost Module, expenditures are classified by the activity that the expenditure helps maintain. In the Project Cost Module, expenditures are tracked by activity. Reports from both modules are directly obtained through the PeopleSoft database.

F10.16 The reconciliation process usually results in expenditures being shown in the General Ledger Module, that are not shown in the Project Cost. These errors usually occur when the staff enters invalid project cost codes on the form. When FRC receives these forms, they enter the General Ledger account codes into PeopleSoft, which updates the General Ledger Module. However if FRC enters an invalid project account code into PeopleSoft, the expenditure is not included in the Project Cost Module. Also, expenditures are not included in the Project Cost Module when the project cost codes are not entered on the purchase order form. Finally, cost codes are often times not entered at all. The reconciliation must be scanned to determine if the project cost module was given the correct project cost code.

Other differences between the two modules are examined by the UFC auditors to determine why amounts are not in balance. The proper balance is determined through running queries of both modules or through consulting prepared schedules of depreciation, amortization, interest and other expense schedules.

R10.9 Beside citywide improvements to PeopleSoft access, understanding, use, and reporting, much of the time and effort spent reconciling the Project Cost and the General Ledger modules would be eliminated if the staff at the departmental level were properly trained. Training in the areas of valid project costs and the correct project cost code for specific expenditures should be implemented immediately.

Fixed Asset Reporting

F10.17 In the 2000 financial audit, it was found that UFC utilized Excel spreadsheets to track fixed assets and later post the fixed asset detail information to PeopleSoft at year-end. This resulted in the subsidiary schedules not reconciling to the fixed asset records. It was recommended by the State Auditor's Office to utilize the PeopleSoft Asset Module to effectively track and record fixed asset additions and deletions through the year.

Also, in the 2000 financial audit, it was found that UFC did not make timely transfers of completed assets from construction-in-progress to the fixed asset accounts. Transfers were performed on an annual basis. Accounting standards deem that the projects should be transferred from construction-in-progress to fixed assets when the project is substantially complete and placed into service for its intended use. It was recommended to develop a formal reporting process, whereby UFC is notified when construction projects are placed into service in a timely manner.

During 2001, UFC hired an auditor to handle asset management on a full-time basis. A major project was to transfer the fixed asset records from the Excel spreadsheets into the PeopleSoft Fixed Asset Module. Secondly, in October 2001, the auditor moved construction-in-progress to the fixed asset module.

F10.18 UFC is currently consulting with City computer programmers for ways to fix the PeopleSoft Asset Module. UFC has been experiencing a number of problems in utilizing the module. Problems are evident within the report generated by the module. As an example, ending dates are not provided on reports. Additionally, the reports do not include a separate column for adjustment to the cost of the asset. Instead, the cost is grouped together in the retirement column.

UFC initially used a report in the PeopleSoft Asset Module to report fixed assets. However, the report generated negative numbers for ending valuation. Additionally, the report did not present columns for a description of the asset, the life of the asset and the acquisition date. Therefore, UFC developed another report which included these columns. The reports for water and sewer assets were created, however, the report for the CPP assets exhibits a zero figure for all categories.

R10.10 UFC should document the problems with the PeopleSoft Asset Module and address the above issues with the City's information system analysts. UFC should contact the Cincinnati Water Works which uses the PeopleSoft Asset Module for consultation.

Delinquency Management

F10.19 The Division of Water has formal written procedures over the collection of delinquent accounts for Water and Sewer accounts. The Collection Procedure Manual was prepared in 1995. The only copy of the manual is maintained by the Collection Manager.

The Division of Cleveland Public Power, also has formal written procedures over delinquent accounts and collection procedures. The Customer Service Payment Plan and Collection Procedures was prepared in 1998.

R10.11 The Division of Water's Collections Department should review the current procedures manual for outdated and inaccurate procedures, and should index the procedures manual for easy reference. All employees in the Collection Department should be provided a copy of the manual. The procedures should be reorganized and prioritized into categories, such as Employee Procedures and Customer Account Procedures.

The Division of Cleveland Public Power's current written procedures do not include a description of when disconnection notices are sent out to customers. The Division of Cleveland Public Power should review the current written procedures for accuracy and completeness of all pertinent information. The written procedures are somewhat brief and should be expanded on.

F10.20 **Table 10-6** presents a summary of the collection procedures for water and sewer customer accounts.

Table 10-6 Water and Sewer Delinquency Procedures as of 1995

Days Past Due	Summary of the Actions Taken
20 days and less than \$100:	A Reminder Notice is automatically sent to the customer from the billing system (AS400).
20 days and greater than \$100:	A 15-day notice is automatically sent to the customer from the billing system 20 days after an account is past due.
After another 15 days:	A 3-day final notice is automatically sent to the customer from the billing system stating that their services will discontinue in three days.
After 3 more days:	<p>If the customer account is shut off:</p> <ol style="list-style-type: none"> 1)The customer must make an attempt to contact the Division of Water & Water Pollution Control, and the customer may pay half of the balance due. 2)If the customer is unable to pay half of the balance due, the Division will ask the customer to pay one-third of the balance. 3)If the customer is unable to pay one-third of the balance, the Division will put the customer on a payment plan for the unpaid balance for up to six months, and they must also pay the current charges on a quarterly basis.
After 9 -12 months:	If a customer is delinquent for up to 9 to 12 months, they are placed on INACTIVE STATUS.

Source: Procedures Manual obtained from the Collection Manager for Division of Water & Water

F10.21 Concerning final notice procedures, a meter reader, from field operations, has to service the turn off procedures of an account within three to five days of the final notice being received. Failure to act in that time frame, overrides the final notice and the meter reader cannot immediately turn off the service. Now the Division of Water must reissue another disconnection notice giving the customer a selected amount of days, to pay on the bill. For a customer that has a meter that has not been serviced within sixty days from date of scheduled turn off and the customer has not paid, the billing system will automatically produce another 15-day notice and a 3-day final notice for past due charges. The customer will also be billed for the water used subsequent to the discontinuing of service.

In 1998, 1999, 2000, and 2001 the number of meter readers from field operations were 15, 14, 13, and 11 respectively. As of March 18, 2002 there are only nine meter readers.

R10.12 The Division of Water must re-write their procedures to discontinue service. The Division of Water should be able to discontinue service, regardless of whether or not it was over five days after the final notice was issued. If the Division of Water enforces stricter rules upon its customers, the customers, in turn, will be more inclined to pay their water bills.

F10.22 After every attempt has been made to collect a delinquent account, the UFC Collection Department will certify the arrears to the Cuyahoga County Property Tax Division. This procedure is done twice annually. A title check is performed to assure the ownership has not changed. Each account is sent a letter notifying the property owner that they have thirty days to pay the bill in full to prevent the account from being placed on their property taxes. The list of delinquent accounts is sent to the Commissioner of the Division of Water and then forwarded to the Cuyahoga County Auditors Office for certification. A copy is also sent to UFC to have the certified amounts removed from the active accounts and placed in an inactive file. Once the account has been certified to the County Auditor, the delinquency must be paid to the County Auditor.

“Uncollectible” delinquent accounts are referred over to a collection agency contracted by the City of Cleveland. An account is considered uncollectible if the division cannot find the owner of the property, cannot transfer ownership of the property, or basically is unable to collect on the account.

F10.23 When a CPP customer has an outstanding balance of \$300 or more, which is five days after the due date, a disconnection notice is automatically sent to the customer from the Banner billing system. A second disconnection notice is sent ten days after the first letter, if no arrangements are made by the customer. If the customer is still delinquent after three days, CPP will review the customer’s payment history. After review of the customer’s payment history, CPP will decide to disconnect customer service or grant an extension.

When the customer calls before service is disconnected, the customer must pay the most recent past due letter amount by the due date, or pay one half of the total bill and the balance in two weeks.

When the customer calls after the service has been disconnected, the entire past due amount must be paid. Any exceptions to this must be approved, in writing, by the Manager of Customer Service for commercial customers and residential customers with amounts greater the \$500 and by the Customer Service Supervisor for residential customers with partial payments and payment plan arrangements on outstanding amounts greater than \$200 but less than \$500.

CPP does set up an extended payment plan with a number of options to maximize the collectability of the accounts. The availability to the customer depends on the customer payment history and if the customer has broken a payment agreement in the past.

F10.24 **Table 10-7** and **Table 10-8**, depict the dollar value and the number of the active and inactive sewer and water accounts, respectively, over 31 days past due from calendar years 1999 to 2001. An inactive account is an account that is not being billed for services. An active account is transferred to an inactive account when the City has exhausted all procedures to receive payment from a customer. The transfer usually occurs when the department removes the overdue portion of an active account and certifies the amount to Cuyahoga County.

Table 10-7: Number of Active and Inactive Sewer Accounts Over 31 Days Past Due from Calendar Years 1999-2001

	1999	2000	2001	Variance 1999 vs. 2000	Variance 2000 vs. 2001
Dollar Amount of Active Accounts for Greater Cleveland¹	\$6,775,952	\$7,802,503	\$9,662,795	15.15% ²	23.84% ²
Number of Active Accounts for Greater Cleveland¹	22,553	26,117	33,869	15.80% ²	29.68% ²
Dollar Amount of Inactive Accounts for Greater Cleveland¹	\$9,627,228	\$10,798,282	\$12,978,575	12.16% ³	20.19% ³
Number of Inactive Accounts for Greater Cleveland¹	20,522	23,454	27,015	14.29% ³	15.18% ³

Source: Sewer Aging Receivable Report as of 1999-2001 obtained from the Utilities Fiscal Control Comptroller. The City's audited 2000 General Purpose Financial Statements showed revenue from customers of \$418,091,000.

Footnote:

¹ Amounts above represent delinquent accounts from the City of Cleveland and accounts in the City of Cleveland serviced by North East Ohio Regional Sewer District (a separate sewer district with overlapping clients).

² Increases in Active Accounts, both in number and amount, is probably attributable to the economic climate.

³ Increases in Inactive Accounts, both in number and amount, is probably attributable to an increase of bankruptcies and final bills assessed to customers who move out of their residences.

Table 10-8: Number of Active and Inactive Water Accounts Over 31 Days Past Due from Calendar Years 1999-2001

	1999	2000	2001	Variance 1999 vs. 2000	Variance 2000 vs. 2001
Dollar Amount of Active Accounts of all serviced cities ¹	\$7,079,628	\$8,114,570	\$10,866,128	14.62% ³	33.91% ³
Number of Active Accounts of all serviced cities	39,642	44,965	52,852	13.43% ³	17.54% ³
Dollar Amount of Inactive Accounts of all serviced cities	\$6,747,459	\$7,902,595	\$9,698,753	17.12% ⁴	22.73% ⁴
Number of Inactive Accounts of all serviced cities	30,457	35,340	39,958	16.03% ⁴	13.07% ⁴
Dollar Amount of Active Accounts for the City of Cleveland ²	\$3,144,032	\$3,633,136	\$5,418,287	15.56% ³	49.14% ³
Number of Active Accounts for the City of Cleveland ²	21,237	24,741	32,572	16.50% ³	31.65% ³

Source: Water Aging Accounts Receivable Summaries as of 1999-2001 obtained from the Utilities Fiscal Control Comptroller. The City’s audited 2000 General Purpose Financial Statements showed revenue from customers of \$201,419,000

Footnote:

¹ Amounts include all cities serviced by the Division of Water

² UFC could not provide Aging Water Accounts Receivable Summaries for inactive accounts of the City of Cleveland. Therefore, these amounts are not included.

³ Increases in Active Accounts, both in number and amount, could be attributed to the economic climate. Additionally the bankruptcy of LTV Steel resulted in amounts, close to \$900,000 deemed uncollectible under Chapter 11 Bankruptcy Laws.

⁴ Increases in Inactive Accounts, both in number and amount, could be attributed to an increase of bankruptcies. Additionally Inactive Account includes accounts delinquent close to ten years old. Amounts over six years should be written off the system.

F10.25 **Table 10-9**, depicts the percentage of accounts with past due amounts between 31 days and a year old for the Division of Water and the Lake County Utilities, for 2001. The table shows the percentage is approximately 4 percent higher than Lake County Utilities.

Table 10-9: Percentage of Accounts Over 31 Days and Less Than 1 Year

	Number of Accounts Over 31 Days and Less Than 1 Year	Total Number of Accounts Serviced	Percentage of accounts with Past Due amounts between 31 days and 1 year old
Division of Water	107,700	414,303	26.00%
Lake County Utilities	8,465	38,745	21.85%

Source: Water Aging Accounts Receivable Summaries as of December 2001 were obtained from the Utilities Fiscal Control Comptroller. Total number of accounts serviced was an estimate from the Water Accounts Billed Comparison Report obtained from the Utilities Fiscal Controller. Lake County amounts were obtained from the Billing Manager of Lake County Utilities.

F10.26 Accounts delinquent over six years are supposed to be written off. UFC requests from the data programmers, located at the Public Utilities Building, a listing of delinquent accounts over six years old for Water, Sewer, and CPP. The list is approved by the collection managers of each division, and approved by each division’s commissioner. Afterward, the list is forwarded to the UFC Commissioner for final approval.

However, many of the inactive accounts noted in **Tables 10-7 and 10-8** include delinquent accounts that are ten years old. The last write-off of accounts, performed for Water and Sewer accounts, was in 1997 for accounts prior to 1991.

R10.13 The Division of Water should enforce their procedures to write-off all delinquencies that are in excess of six years old and for which, all collection procedures have been exhausted. UFC should implement procedures for an annual inspection to clear the uncollectible delinquencies. All procedural changes must be coordinated with the legal department and should be approved by the Mayor and City Council.

F10.27 **Table 10-10** depicts the number of active and inactive CPP delinquencies (accounts over 31 days past due) for 2000 and 2001.

Table 10-10: Number of Active and Inactive CPP Accounts Over 31 Days Past Due from Calendar Years 2000-2001

	2000	2001	Variance 2000 vs. 2001
Dollar Amount of Active Accounts	4,906,317.51	8,836,056.23	80.10% ²
Dollar Amount of Inactive Accounts	11,084,099.68	13,302,390.27	20.01% ³

Source: Accounts Receivable Aging Report, provided by the Accounting Services Controller at the Division of CPP
The City’s audited 2000 General Purpose Financial Statements showed revenue from customers of \$134,426,000

Footnote:

¹ Accounts Receivable Aging Reports were only obtained for 2000 and 2001. Due to the division implementing a new system in 2000, prior records regarding the number of active and inactive accounts could not be obtained.

² Increases in Active Accounts could be attributed to the following:

The economic climate;

The newly installed Banner system was not sending bills to the correct customer, (this has been fixed); and

Amounts are inflated due to the City’s departmental delinquencies, which were paid in February of 2002.

³ Inactive Accounts includes accounts delinquent close to ten years old.

F10.28 The inactive accounts noted in **Table 10-10** include delinquent accounts over ten years old. Although the last write-off of accounts, performed for CPP accounts prior to 1994, was approved December 26, 2001, the accounts still remain on the system.

CPP was advised not to run bad debt on the current version of Banner that they have recently implemented. They are currently migrating an older version of Banner that will allow writeoffs. They have a workaround (although labor intensive) to remove the balances, however they opted to hold off until the new version is in place.

R10.14 UFC should write and enforce procedures to mandate yearly review and subsequent write-off of delinquencies. As with the Water policy, all procedural changes must be coordinated with the legal department and should be approved by the Mayor and City Council.

Conclusion Statement

This section focused on the Division of Fiscal Controls for Public Utilities (UFC). The UFC serves as the division for financial reporting and control and the coordination of delinquencies for the Divisions of Water, Water Pollution Control (Sewer) and Cleveland Public Power (CPP). The review of UFC focused on the internal controls over financial operations; the job descriptions for employees; the financial statement preparation; the fixed asset reporting; and the management of delinquent accounts.

Overall, UFC has an acceptable level of internal control, due to the segregation of duties. Weaknesses do occur in the processing of information at the financial operations level. The failure to fully integrate billing, processing, and journal entry operations with PeopleSoft has left UFC posting information twice and increasing the risk of error. UFC would benefit from integration of the two billing systems, Water's billing and collection system and Banner, into one system that would be able to accommodate all water, sewer, and electric customers. Tremendous efficiencies would be gained when UFC receives the same reports and performs the same operations for all utility divisions.

The UFC should retitle and make corresponding salary modification to accountants misclassified as auditors. The UFC organizational chart lists seven job positions as auditors. The majority of their duties are to be part of the revenue processing system.

The recommendations to improve the efficiency of the financial statement preparation included allowing all staff, who create journal entries, access to PeopleSoft and the elimination of the procedure of recording the journal entries twice. The efficiencies gained would be in the area of eliminating transposition errors and duplication of effort. Presently, the entries are created on an Excel spreadsheet and then entered into the PeopleSoft system.

As for fixed asset reporting, UFC needs to document the problems with the PeopleSoft Asset Module and address the issues with the City's information systems analysts. UFC should contact other governments using the PeopleSoft module for assistance.

Finally, the Divisions of Water and CPP need to review the current procedure manuals for outdated and inaccurate delinquency management procedures, as well as indexing the current procedures for easy reference. The divisions need to annually conduct procedures to review and subsequently write-off uncollectible delinquent accounts. All procedural changes, especially in the area of customer usage, failure to pay invoices, and subsequent write-off of delinquent accounts should be prepared with assistance from the law department and approved by the Mayor and City Council.

Appendix A

The following table describes the job descriptions, the minimum level of education, and the minimum level of experience for key job positions.

Position ¹	Job Description	Minimum Level of Education	Minimum Level of Experience
Comptroller	Oversees the operation of the Accounts Receivable and Cash Receipts Units. Prepares and analyzes various financial and statistical reports. Prepares and maintains cost control of annual income and expenditure budgets.	Bachelors degree in Accounting - CPA preferred	Five years of governmental or public accounting with an emphasis on financial and billing analysis.
Chief Auditor	Supervises auditors and employees engaged in the preparation of reports and financial data for the Department of Public Utilities.	Bachelors Degree in Accounting - CPA preferred	Five years experience in General Ledger Accounting and the preparation of financial statements.
Auditor	Audit and/or examines various City and Utilities Department accounts. Prepares various financial reports using standard accounting procedures. Perform other general accounting duties.	Bachelors Degree in Business Administration (or equivalent)	Two years minimum accounting experience, preferably public accounting, personal computer (PC) capability with financial software.
Budget Analyst	Assists in the analysis of division budgets and in the forecast of division revenues and expenditures. Participates in monitoring budget variances.	Bachelors Degree in Business Administration (or equivalent)	PC capability with financial software.
Chief Clerk	Prepares and tracks all Utilities office vouchers including refunds, petty cash, travel allowance, and mileage.	High School Diploma	Strong math and computation skills. Experience in working with the public.
Accountant I	Performs accounting functions in the preparation of financial statements, accounting records, and documents.	College Degree	PC capability with financial software. Ability to operate adding machine.
Assistant Administrator - Accounts Receivable	Supervises the daily operations of the Accounts Receivable Unit.	Bachelors Degree preferably in accounting	Three years minimum experience in the processing and reconciling of water, sewer, and light bills. Must be familiar with collection and refund transactions.
Assistant Administrator - Cash Receipts	Supervises the daily operations of the Cash Receipts Unit, coordinates and schedules work assignments, and trains employees in multitasking assignments.	High School Diploma	Five years experience receiving, disbursing, setting up, and reconciling customer payments.
Assistant Administrator - Payroll	Performs all payroll-related work for the Divisions of Fiscal Control and General Administration.	Bachelors Degree	Five years experience in payroll/personnel type work. PC capability needed.

Source: The Assistant Administrator of Payroll

Footnote: ¹Details on Commissioner were not included since this position was appointed by Mayor's Council.

Divisions of Cleveland Hopkins International and Burke Lakefront Airports

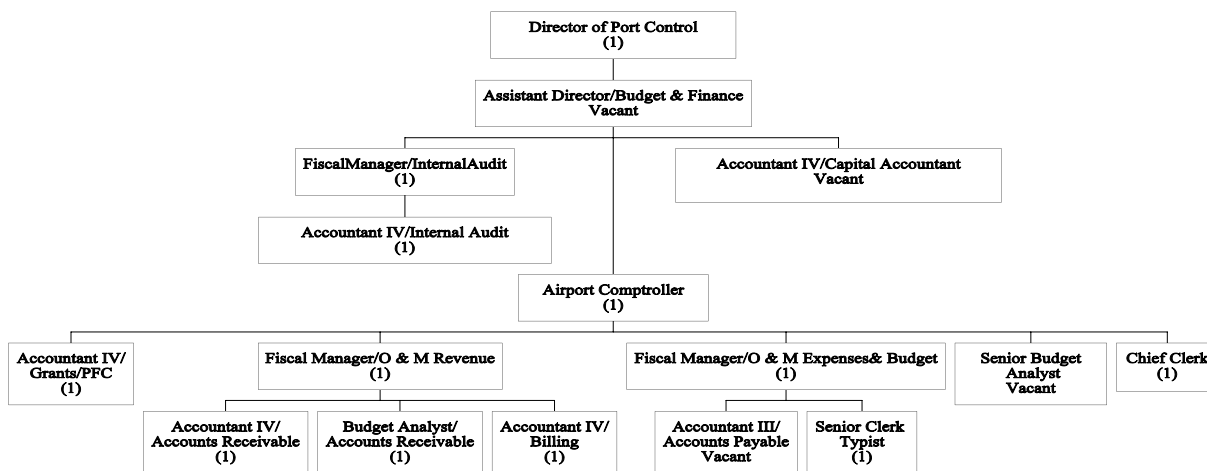
Background

This section focuses on the performance review of the City of Cleveland’s Divisions of Cleveland Hopkins International and Burke Lakefront Airports’ (Airport) financial operations. The Airport’s fiscal operations handles the billing, collection, receipting, reporting functions and the tracking of fixed assets and grants for the Airport. Whereas, the City maintains the financial records and processes the disbursements for the Airport. The Airport financial statements are reported as an Enterprise Fund of the City of Cleveland and are operated under the Department of Port Control (DPC). The financial data presented in this report is for both Cleveland Hopkins International and Burke Lakefront Airports, however Burke Lakefront Airport represents approximately one percent of revenues and five percent of expenses.

Organizational Chart and Staffing

The Department of Port Control was established on June 3, 1968 by City Charter Chapter 11, Subsection 76-8 for the purpose of administration and control of activities in and about the harbor and airplane landing fields. **Chart 11-1** depicts the organizational structure and reporting relationships, as of January 1, 2002, for positions which have certain responsibilities for the Department of Port Control fiscal functions.

Chart 11-1: Budget & Finance Organizational Chart



Organization Function

The Airport's fiscal operations are managed by the Assistant Director/Budget and Finance, who is responsible for all operations and who reports directly to the Director of Port Control. The Airport's Comptroller is responsible for managing the daily fiscal operations. The Fiscal Manager/Internal Audit is responsible for the fiscal operations of the internal audit function and the external audit function of airport vendors. The Capital Project Accountant is responsible for overseeing the daily operation and reporting of the Airport's Improvement Grants and the reporting of the Passenger Facility Charges (PFC) quarterly status reports. The Accountant IV/Grant/PFC is responsible for recording and monitoring the Grants and Passenger Facility Charges. The Fiscal Manager/Operations & Maintenance (O & M) Revenue is responsible for all revenue functions, and the preparation of accruals. The Fiscal Manager/O & M Expenses & Budget is responsible for all expenditure functions, fixed asset recording, budgeting functions, and the preparation of accruals. Specific functions performed by the various individuals, within the Airports, are listed below.

Some of the key responsibilities of the Assistant Director/Budget and Finance include:

- Negotiating yearly rates & fees with airlines, for landing/rentals/joint use, to cover proposed projects and submission notifications to airlines;
- Overseeing the department's budget review process;
- Monitoring the reconciliation of monthly and quarterly airport activity to the City's PeopleSoft computer system;
- Overseeing the debt issuance documentation for General Airline Revenue Bonds;
- Developing internal policies and procedures;
- Monitoring the PFC collection and related expenditures and notifying and meeting with airlines for proposed PFC projects; and
- Monitoring the Improvement Program Grants including compliance with laws and regulations.

Some of the key responsibilities of the Comptroller include:

- Overseeing the Department of Port Control/Budget & Finance daily fiscal operations;
- Overseeing the preparation of the separately issued financial report, at year end, related to the airport Enterprise Funds;
- Monitoring the generation of accrual amounts at year end for financial statement preparation;
- Monitoring the reconciliation of monthly and quarterly airport activity to City's PeopleSoft computer system;

- Assisting the Assistant Director/Budget & Finance in negotiating yearly rates and fees with airlines;
- Monitoring the Passenger Facility Charges (PFC) collection and related expenditures;
- Reviewing the PFC monthly bank reconciliation;
- Monitoring the Improvement Program Grants including compliance with laws and regulations; and
- Assisting in developing and implementing internal policies and procedures.

Some of the key functions performed by the Capital Accountant include:

- Overseeing the daily operation of the Improvement Program Grants including compliance with laws and regulations;
- Preparing required Improvement Program Grant applications and reports;
- Overseeing the preparation of PFC quarterly status reports and other required reports to the Federal Aviation Administration (FAA); and
- Monitoring the capital projects, including certifying contracts, preparing and tracking payments, and preparing fund transfers.

Some of the key functions performed by the Fiscal Manager/Internal Audit include:

- Overseeing the audits of the contracted revenues and expenses incurred for the parking garage and shuttle operation reported by parking management company;
- Functioning as the liaison with outside independent auditors;
- Overseeing the contracting process of independent public accountants for audits of vendor concession revenues;
- Overseeing the requesting, monitoring, and comparing of the airline audited PFC revenue reports; and
- Overseeing the fiscal function of monitoring the billing and invoice of vendors.

Some of the key functions performed by the Fiscal Manager/O & M Revenue include:

- Assisting in the preparation of the separately issued financial report, at year end, related to the Enterprise Funds;
- Generating revenue accrual amounts at fiscal year end for financial statement preparation;
- Reconciling monthly and quarterly airport revenue activity to the City's PeopleSoft computer system;
- Maintaining the billing, recording, and receipting of all airport revenues including landing fees, rentals, concessions, fuel sales, utility sales and others;
- Maintaining of the vendor accounts receivable subsidiary ledger and the master file listing;
- Retaining and filing all related contracts and agreements including: master lease; concessions; car rental leases; parking management and shuttle service, and others;

- Recording and monitoring Construction In Progress (CIP) expenditures on a cash basis, for monthly entries, and on an accrual basis for year end entries; and
- Maintaining debt issuance documentation for General Airline Revenue Bonds.

Some of the key procedures performed by the Fiscal Manager/O & M Expenses & Budget include:

- Assisting in the preparation of the separately issued financial report, at year end, related to the Enterprise Funds;
- Generating expense accrual amounts at fiscal year end for financial statement preparation;
- Reconciling monthly and quarterly activity to the City's PeopleSoft computer system;
- Maintaining the fixed asset listing on the Fixed Asset Management module of the PeopleSoft computer system and reconciling on a separate Microsoft Excel database;
- Assisting in the negotiation of yearly rates and fees with airlines, for landing/rentals/joint use and to cover proposed projects and submits notifications to airlines;
- Managing surplus/obsolete equipment disposal program; and
- Revenue forecasting.

Some of the key procedures performed by the Accountant IV/Grant/PFC include:

- Overseeing the Passenger Facility Charges (PFC) collection and related expenditures and notifying and meeting with airlines for proposed PFC projects;
- Requesting, monitoring and comparing the airline audited PFC revenue reports;
- Preparing PFC quarterly status reports and other required reports to the Federal Aviation Administration (FAA);
- Performing PFC monthly bank reconciliation; and
- Overseeing the Improvement Program Grants, including compliance with laws and regulations.

Some of the key procedures performed by the Capital Accountant include:

- Maintaining and monitoring airport expenditures; and
- Participating in the department's budget review process.

Summary of Operations

The City negotiated a thirty year master lease for the period beginning November 1, 1976 and terminating December 31, 2005. The master lease was signature approved by each airline representative, the Mayor, the Director of Port Control, and a representative the City's Law Department. Each year, the Assistant Director/Budget and Finance, Airport Comptroller and Landrum Brown (consultants) prepares an in-house packet of the proposed operating budget for the next fiscal year that determines the model of rates and charges necessary. The Assistant Director/Budget and Finance presents the rates and charges to the Director of Port Control for

approval. The rates and charges are presented to the airlines 120 days before year end. The airlines do not vote on the proposed budget, but rather they continually negotiate with the Airport's staff until it is verbally agreed upon. The Board of Control approves the accepted rates for the next fiscal year. The operating budget is voted on and approved by City Council and signature approved by the Director of Port Control and the City's Mayor.

The Rates, Fees and Requirements Summary Letter is forwarded to airlines, effective January 1st each year, and includes:

- Landing Fees per 1,000 pounds maximum landing weight for non-signatory scheduled air carriers (A Rate) and itinerant aircraft (B Rate);
- Terminal and Concourse Rental rate depending upon location;
- Baggage Claim and Common Areas which are based upon both the number of airlines occupying that area and their relative percentage of enplaned passengers;
- Electricity Charges based upon the rates currently in effect;
- Fuel Flowage Fees for non-signatory airlines including lubricants;
- Customs' charges for carriers utilizing the Federal Inspection Service (Customs);
- Passenger Facility Charges per enplaned passenger;
- Insurance requirements for general liability; and
- Letter of Intent to start service.

Payments by airlines and vendors are made for services rendered through a check to the Airport's lock box account located at Key Bank. Approximately three times per week, a courier goes to Key Bank and obtains copies of the payments made and a statement of deposit. These items are delivered to the Accountant IV/Account Receivable (Receivable Clerk), who records them in the PeopleSoft receipts ledger. After recording the receipt, the Receivable Clerk applies the amount of the payment to the outstanding invoice or account balance. An accounts receivable reconciliation is performed by the Budget Analyst/Account Receivable prior to the posting of receipts to the general ledger. Each month the Receivable Clerk prints a Programmed Terminal Fees Report detailing receipts, which both the Comptroller and Fiscal Manager/O & M Revenue review.

Financial Data and Statistical Data

Table 11-1 presents the detailed calendar years 1999, 2000 and 2001 actual revenues and the 2002 budgeted revenues, summarized by major category.

Table 11-1: Comparison of Airport's Revenue (in thousands of dollars)

	1999 Actual	2000 Actual	2001 Actual (unaudited)	2002 Budget Amounts
<u>Airline Revenue:</u>				
Signatory Terminal Complex Space	\$10,836	\$13,622	\$17,943	\$30,164
Signatory Landing Fees	16,295	28,730	18,585	22,458
Non-Signatory Landing Fees	2,027	3,762	2,480	1,909
Total Airline Revenue	\$29,158	\$46,114	\$39,008	\$54,531
<u>Non-Airline Revenue</u>				
Terminal Complex Rental Cars	6,987	10,211	8,174	9,376
Terminal Complex Concession	2,791	5,229	4,534	5,353
Terminal Complex Utility/Other	5,793	5,724	3,220	2,408
Parking & Roadways Parking	8,200	12,728	12,374	11,918
Parking & Roadways Utility/Other	310	406	302	838
Airfield Area Fuel Flowage Fees	475	1,045	1,056	1,050
Airfield Area Utility/Other	559	500	617	1,523
Hangers Concession Revenue Roadways	896	1,517	1,058	1,384
Hangers Ground Rents	1,285	1,754	1,765	1,486
Hangers Utility/Other	839	954	737	809
Burke Lakefront Rentals & Landing Fees	759	712	783	785
Interest Income/Investments	1,295	2,440	1,988	1,260
Total Non-Airline Revenues	\$30,189	\$43,220	\$36,608	\$38,190
Debt Service Contributions	\$2,926	\$834	\$1,505	\$20,672
Total Airports System Revenues	\$62,273	\$90,168	\$77,121	\$113,393

Source: 1999, 2000, & 2001 Fund 60 Revenue Report & Mayor's 2002 Estimate

Some of the more significant revenue changes between the years on **Table 11-1** are as follows:

- Signatory terminal complex space rentals has steadily increased from calendar year 1999 to calendar year 2002 budget due to improvements made to terminals passed on to airline users via higher rental rates agreed upon via direct negotiation. Additionally, Concourse D opened in June 1999, adding additional terminal rental space.

- Signatory and non-signatory landing fees increased significantly from calendar year 1999 to calendar year 2000 due to additional traffic after the opening of Concourse D. Due to the tragic events on September 11, 2001, airline travel was totally suspended for a week. September 11, 2001 events lead to significantly reduced ticket purchases to which the airlines responded by reducing flights resulting in significantly reduced landing fees in 2001. Budgeted 2002 landing fees anticipate travel proportionally less than levels before September 11, 2001.
- Increased passenger travel from calendar year 1999 to calendar year 2000 has a direct relationship to increased revenues for rental cars fees, concessions fees, and parking fees. After the tragic events of September 11, 2001, passenger traffic decreased significantly resulting in significantly reduced revenues fees from these sources. Budgeted 2002 revenues anticipate fees from these sources proportionally less than levels before September 11, 2001.
- Debt Service contributions for 2002 budget amounts were anticipated to increase significantly due to construction of the new runway.

Table 11-2 presents the detailed actual expenses for calendar years 1999, 2000, and 2001 and the 2002 budgeted expenses, by major object level.

**Table 11-2: Comparison of Airport’s Statement of Expenditures
(in thousands of dollars)**

	1999 Actual	2000 Actual	2001 Actual (unaudited)	2002 Budget Amounts
Division:				
Total Salaries	\$12,743	\$14,171	\$14,828	\$17,184
Total Employee Benefits	3,607	3,877	4,711	5,331
Total Personnel	\$16,350	\$18,048	\$19,539	\$22,515
Training & Professional Dues	\$174	\$267	\$271	\$177
Utilities	5,260	6,034	8,146	7,441
Contractual Services	17,947	20,094	21,541	24,267
Material and Supplies	3,335	4,418	4,496	4,567
Maintenance	2,446	2,822	3,250	3,291
Claims Refunds & Miscellaneous	1,191	557	555	599

	1999 Actual	2000 Actual	2001 Actual (unaudited)	2002 Budget Amounts
Interdepartmental Service	3,231	4,959	3,591	3,907
Capital Outlay	1,075	1,398	2,937	1,000
Debt Service	24,610	34,220	34,296	40,754
Total Other Expenditures	\$59,269	\$74,769	\$79,083	\$86,003
Total Expenditures	\$ 75,619	\$ 92,817	\$ 98,622	\$ 108,518

Source: City of Cleveland's 2002 Budget Estimate Report

Budget based on programmatic assumptions of increase staffing levels of 9% due to September 11, 2001 terrorist attacks and final negotiations with the airlines.

Some of the more significant expenditure changes between the years on **Table 11-2** are as follows:

- Actual salaries expenditures have steadily increased from calendar year 1999 to calendar year 2000 due to annual cost of living increases and merit raises. After the September 11, 2001 events, the Airport laid off nine positions. Therefore salaries expenditures were only slightly more in calendar year 2001 than calendar year 2000. Budgeted 2002 expenditures are expected to increase steadily due to annual cost of living increases and merit raises and additional staffing due to additional security measures and new projects such as the construction of a new runway.
- Utility expenditures are directly related to the square footage of buildings, area climate, and the cost of natural resources that are passed on by the utility companies. Extreme temperatures and the variation in the cost of natural resources would be reflected in the expenditures. Expenditures have steadily increased from calendar year 1999 to calendar year 2001 due to additional footage and moderate increases in the cost of natural resources. Budget 2002 expenditures are anticipated to decrease due to decreases in the cost of natural resources passed on by the utility companies.
- Contractual services expenditures has steadily increased from calendar year 1999 to calendar year 2002 budget due to expansion and improvements. Expansion include the construction of Concourse D, the construction of the new parking garage, and the construction of a new runway. Improvements include runway paving and terminal renovations.
- Debt Service expenditures are for improvements or construction of terminals, parking structures, and runways. The 2002 budget amounts reflect an increase due to the construction of a new runway.

Table 11-3 presents a size comparison of revenues generated at the Airport and other airports in the region.

**Table 11-3: Peer Data Revenues for 2000 Fiscal Year
(in thousands of dollars)**

	Columbus Municipal Airport Authority	Detroit Metropolitan Wayne County Airport	Cleveland's Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Passengers Enplaned	3,462,920	17,610,466	6,622,947
Operating Revenues:			
Landing and related fees (net)	\$8,727	\$51,759	\$27,715
Concessions fees	956	38,755	13,823
Parking fees/Parking concessions	18,862	35,516	22,561
Rental facilities	24,013	28,355	15,847
Expense recoveries	0	7,942	6,747
Total operating revenues	\$52,558	\$162,327	\$86,693
Nonoperating Revenues:			
Passenger facility charges	\$9,545	\$45,997	\$16,642
Federal and State Grants	6,724	1,206	8,425
Investment interest income	4,541	60,959	17,859
Total nonoperating revenues	\$20,810	\$108,162	\$42,926

Source: Columbus Municipal Airport Authority, Detroit Metropolitan Wayne County Airport, and Cleveland's Divisions of Cleveland Hopkins International and Burke Lakefront Airports 2000 calendar year audit reports

In analyzing **Table 11-3**, the following should be noted:

- The number of Passengers Enplaned represents individuals that initiate their flight at the airport. This would not include passengers that were at the airport for a layover;
- Based on the landing and related fees compared to the passengers enplaned, indicates that Cleveland has a higher percentage of layover flights than Columbus or Wayne County;
- Based on revenue sources, indicates that Cleveland has developed space for concession revenue, whereas Columbus has developed areas for rent; and
- Based on the State and Federal Grants, indicates that Cleveland is spending more on expansion than Columbus or Wayne County.

Peer data statistics for the calendar year ending December 31, 2001 on **Table 11-4** revealed that Passenger Facility Charges are comparable to other airports. **Table 11-4** also revealed that negotiated landing fees were slightly higher for Cleveland’s Airports, however, per the master agreement in place with airlines, there is a landing fee adjustment where the airlines are reimbursed by the Airport for excess revenues over expenses.

Table 11-4: Peer Data Statistics on Passenger Facility Charges, and Landing Fees for 2001 Fiscal Year (in thousands of dollars)

	Columbus Municipal Airport Authority	Detroit Metropolitan Wayne County Airport	City of Cleveland Divisions of Cleveland Hopkins International and Burke Lakefront Airports
Passenger Facility Charges Fee (Enplaned)	\$3.00	\$3.00	\$3.00
2001 Landing fees per 1,000 lbs. signatory	\$2.01	\$2.50	\$2.65
2001 Landing fees per 1,000 lbs. non-signatory	\$3.01	\$3.13	A Rate - \$3.31 B Rate - \$3.98

Source: Comptroller for Columbus Municipal Airport Authority, Detroit Metropolitan Wayne County Airport, and Cleveland Divisions of Cleveland Hopkins International and Burke Lakefront Airports

Peer data statistics on **Table 11-5** revealed that short and long term parking rates at February 1, 2002 were comparable to other airports. Pittsburgh Airport information replaced Columbus Airport for this table.

Table 11-5: Peer Data Statistics on Short and Long Term Parking Rates at February 1, 2002 (in thousands of dollars)

	Pittsburgh International Airport	Detroit Metropolitan Wayne County Airport	Cleveland Hopkins International Airport
Short Term Parking - Hourly Rates	\$1.00/1st ½ hour \$2.00/1st hour \$3.00/hour each additional hour	\$2.00/1st ½ hour \$2.00/1st hour \$2.00/2nd hour \$3.00/each additional hour	\$1.50/1st ½ hour \$3.00/hour \$3.00/hour each additional hour
Short Term Parking - Daily Rates	\$16.00/Day	\$12.00/Day	\$11.00/Day & \$18.00/Day
Long Term Parking - Daily Rates	\$9.00/Day	\$7.00/Day Remote Economy Lot	\$9.00/Day

Source: Internet

Performance Measures

The following performance objectives were followed to analyze the operations of the City of Cleveland's Divisions of Cleveland Hopkins International and Burke Lakefront Airports.

- Assessing the Divisions of Cleveland Hopkins International and Burke Lakefront Airports reporting hierarchy and structural needs;
- Evaluating the adequacy of the automated PeopleSoft system; and
- Evaluating the external auditing issues.

Findings / Commendations / Recommendations

Staffing Structure and Needs

F11.1 The Airport's fiscal operation is operated by Budget & Finance. Presently, eleven of the fifteen dedicated fiscal operation positions are filled. Currently, three of the administrative positions and one of the staff positions are vacant.

R11.1 Currently, the Comptroller is acting as the Assistant Director of Budget & Finance until a replacement is named. Since the job descriptions parallel each other in many ways, the Airport should consider the elimination of the Assistant Director of Budget & Finance. In line with the elimination of that position, the Comptroller position duties should be updated and the salary band evaluated. The Airport's fiscal operation should eliminate all positions on the organizational charts that have been determined to be adequately performed by other personnel.

There is no direct financial implication(s) related to the implementation of this recommendation. However, an indirect financial implication exists related to potential increase(s) in employee efficiency and reporting offset by the probable salary increase for having an increase in responsibility related to new job functions.

F11.2 The Fiscal Manager/Internal Audit position performs various fiscal management functions in addition to external and internal audit functions. This position directly reports to the Assistant Director/Budget & Finance, however with that position currently vacant, the Internal Auditor is reporting to the Airport Comptroller. The Accountant IV/Internal Auditor performs internal and external audit functions and reports to the Fiscal Manager/Internal Audit.

F11.3 The Institute of Internal Auditors (IIA) Standards for the Practice of Internal Auditing indicate that the organizational structure of an internal audit function should be sufficient to permit the accomplishments of its audit responsibilities. Internal auditors should be independent in conducting their internal audit responsibilities. Independence results when the internal audit function is free from direction or constraint by the managers of the organization. The internal audit function should be responsible to an individual in the organization with sufficient authority to promote independence and to insure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit objectives. The independence of the internal audit function may be compromised when auditing areas that report directly to the Assistant Director/Budget & Finance.

- R11.2** The Fiscal Manager/Internal Audit and the Accountant IV/Internal Auditor should report directly to the City’s Division of Internal Audit (DIA). This reporting structure would promote independence in both fact and appearance. In addition, for the Fiscal Manager/Internal Audit and the Accountant IV/Internal Auditor to be independent of the Airport administration, these positions should not perform fiscal management functions at the Airports.
- F11.4 The Airport is in the process of cross training the staff within the Budget and Finance department. Each position has between one and three individuals already trained or in the process of being trained to be able to perform new job responsibilities. As of January 31, 2002, the Airport Budget and Finance department has prepared a Cross Training Chart.
- F11.5 The City of Cleveland utilizes salary bands for the positions to determine compensation of the employees. The salary bands that exist for the Airport have an extreme salary range for applicants that meet the position’s qualifications. For example, the Director of Port Control salary band is \$49,078 to \$148,750, therefore the salary band range exceeds \$99,000.
- R11.3** The Airport and the City of Cleveland should review the salary bands of all the Airport’s positions and establish realistic compensation bands for the qualifications and duties required.

Adequacy of the Automated PeopleSoft System

- F11.6 The Airport is currently using the fixed asset module, accounts receivable module and the billing modules. The City’s FRC Division handles software problems specific to PeopleSoft, which is used by the Airport Budget and Finance Department. The City is currently operating with PeopleSoft version 7.5 and the “go live” date for this upgrade was September 30, 2001. Budget and Finance personnel have expressed concern that the system is very slow and the training classes are too infrequent and not particularly helpful to their function. In fact, the last training attended was in March 2001, (a full 2 years after the original version of the PeopleSoft system went live), and this training only covered query accesses and abilities within PeopleSoft. No training has been provided with the most recent upgrade.

- R11.4** Training is lacking and needs to be more Airport-specific. At the March 2001 training, the attendees received a book which gave step-by-step instructions on performing a query, but neither the training or the book explained the query function. Timely training for any upgrades should be provided for all Airport application users. Additional PeopleSoft support staff expertise should be added - especially in the area of the Accounts Receivable (A/R) module. Finally, an annual training course on the PeopleSoft application would be promote the proper use of the system.
- F11.7 The system reacts very slowly at the Airport Budget & Finance. In fact, a login is never less than two minutes in length, but is usually less than five minutes (upon observation, a login took just more than four minutes). This is due to two factors, a T-1 line being the only connection pipe for that application and the server not fully functioning as a “client-server.” Currently, the PeopleSoft application and all of the data reside in one place, effectively making the server function as a mainframe.
- F11.8 The A/R system currently has four deposits “locked up” due to old budget year transactions that were included in them. The four deposits in question all have had their actual monies deposited into the bank, but the deposits have not been accounted for in PeopleSoft (applied to the respective vendor accounts) because they are in suspense. For example, a \$.01 credit was posted against a customer’s account from a prior year (to clear that budget year for that account) and now a deposit in the amount of one million cannot be posted to their account because the credit is not being accepted by the system. The credits have not been reversible, thus far, so these deposits are still lingering in the system. It should be noted that these problems did not start happening until the most recent upgrade was installed in September 2001.
- F11.9 The A/R maintenance module does not work properly. The module is used to perform account maintenance (i.e., applying credits earned to a vendor’s account) because employees cannot post data to an account through the A/R module without an actual check being received. Once the maintenance function is opened, not all data is being “built” (transaction history is not shown) on the maintenance screen and the A/R personnel cannot accurately view or post amounts to any of the accounts on file while in maintenance mode. Secondly, a security issue exists where the A/R personnel at the Airport can access and post to any of the three A/R business units, including the finance business unit that is used by FRC at City Hall.

- F11.10 All of the information needed to generate the necessary information is entered into PeopleSoft. The Airport's staff believes that it should be possible to make necessary reports easier to access and/or manipulate. As it stands, Structured Query Reports (SQR) reports print directly to the printer (after a two to five minute delay) and the staff must extract the pages they specifically needed for their purposes. Sometimes, there is a 200 page report that a Fiscal Manager only needs five pages. The Crystal reports can be downloaded to an Excel spreadsheet, where the data can be manipulated, however this is a time-consuming process.
- F11.11 For most of 2001, fixed asset acquisitions and disposals were recorded on a Microsoft Excel spreadsheet called the Fixed Asset Detail Listing. This Listing was used to track, classify and depreciate all of the Airport fixed assets in accordance with the City of Cleveland's Fixed Asset Policy Manual. In September 2001, the Fixed Asset Management module of PeopleSoft was implemented at the Airport and the Excel spreadsheet was uploaded to this module. A reconciliation was performed, at that time, to ensure the data transfer occurred properly.
- Fixed asset additions and retirements are still being recorded on the Fixed Asset Detail Listing, but the actual journal entries, to record these transactions in the PeopleSoft trial balance, are not being performed until year-end. Depreciation expense is also not recorded for assets until year-end, when actual depreciation is calculated for the fiscal period. The Fiscal Manager/O & M Expenses & Budget is planning on trying to attempt to implement a perpetual inventory system, whereby any fixed asset additions will be directly entered into PeopleSoft, as they are acquired and/or their value is determinable. Once this perpetual system is adopted, a reconciliation between the Fixed Asset Detail Listing and the PeopleSoft Fixed Asset Management module will be performed each quarter.
- The generation of the year-end fixed asset reconciliation is currently performed by the Fiscal Manager, O&M Expenses and Budget and it is reviewed by the Comptroller. Each quarter, informal fixed asset reconciliations, of the Fixed Asset Detail Listing, are performed for purposes of the generation of the Airport's quarterly financial statements. The quarterly generation of the financial statements uses estimated depreciation expense for financial review of Airport operations.
- F11.12 Airlines deposit passenger facility charges (PFC) fees via checks in a lock box. Receiving warrant envelopes with copies of PFC checks and a copy of the wire transfer from Chase Bank are placed in an appropriate Capital Projects internal mailbox. The original Receiving Warrant is sent by the Accounts Receivable Division to the Division of Accounts for processing. The Division of Accounts will process the Receiving

Warrants and return pink copies to the Accounts Receivable Division which will forward them to Capital Projects Division. Capital Projects Division will match the pink copies of the Receiving Warrant to the Receiving Warrant envelope and record the assigned Receiving Warrant number. The pink copy of the Receiving Warrant is filed by year in the Capital Projects Division. The Receiving Warrants are then verified by the following procedures: copies of the checks are verified to the batch tape; total of the batch tapes are compared to the copy of the wire transfer from Chase Bank; and any differences are reported to the Accounts Receivable Division.

The Airport posts the individual checks to the appropriate airline in the Access Data Base "Capital Project/Accounts Payable Log." The Access Data Base "Capital Project/Accounts Payable Log" is kept current. Reconciliation is performed monthly between the PeopleSoft General Ledger Activity and Bank Statements.

R11.5 The City and Airport need to determine the appropriate number of connections to the applications and the need for a fully dedicated server. The problems encountered in using PeopleSoft accounts receivable module need to be addressed, especially why the revenue function is locking up, why posting credits in the maintenance module do not perform as required, and finally why Airport personnel can post to any of three units. Also, overall report processing must be addressed. These PeopleSoft issues are not unique to the Airport and are addressed in greater detail in the Information Systems portion of this Cleveland report.

Auditing Issues

F11.13 During 2001, the Airport implemented and/or updated policies and procedures for the following areas: 1) Accounts Receivable; 2) Accounts Payable; 3) Capital Accounting; 4) Financial Statement Preparation; 5) Internal Audit Procedures; 6) Human Resource Procedures; 7) Administrative Issues; 8) Reconciling with FRC for Year-End Closing; 9) Legislative Issues; and 10) Budget Preparation. Also, the Airport's fiscal employees prepared job duties and job descriptions. These initiatives were taken in part due to discussion and results from the fiscal 2000 financial audit.

- F11.14 Also during 2001, the Airport initiated procedures to improve on the selection process of outside accounting firms who monitor the vendor revenue reports. Policies and procedures were put-in-place over the Airport's selection process concerning the criteria for advertising, bidding, and awarding the contracts to Independent Public Accountants for their services. These implemented policies and procedures also include steps to follow when errors occur and with problems concerning refunds and negotiated amounts. Two of the IPA audits of airport vendors were reviewed and it was determined that the implemented procedures were adhered to.
- F11.15 In the City of Cleveland's 2000 audit report, there was a reportable condition on the Airport Detention Basin. The City had prepared a draft settlement agreement to recover costs from the private developer. It was recommended the City finalize and execute the agreement as soon as possible, that the money received from the developer should be paid to the Airport, and its usage be restricted to airport purposes. This draft agreement has been submitted to the Federal Aviation Administration (FAA) for approval. The FAA has reviewed the proposed settlement and is currently meeting with the Airport Engineering staff to resolve any questions necessary to approve/reject the proposed settlement.
- R11.6** The City should follow-up with the FAA to obtain approval in order to recover costs from the private developer. The City would receive negotiated recovery costs upon approval by the FAA.
- F11.16 In the fiscal year 2000 audit report, it was recommended that the City competitively bid for employee shuttle service. The City should specify that the bid include a new or low mileage fleet and place a cap on the cost of repairs and maintenance fees for older buses. The City decided not to pursue this recommendation until the new administration took office in 2002 due to legal constraints. The City should make this a priority and resolve this issue.

Conclusion Statement

Staffing structure for the Airport Budget and Finance department appears adequate to operate the fiscal administration of the Airport. We performed an analysis and documented findings related to staffing size. Improvements can be made as follows:

- *Organizational chart and staffing level* - evaluate each position against current responsibilities performed and eliminate all nonessential positions;
- *Internal Auditors* - reassign the Internal Auditor from the Assistant Director/Budget & Finance to the City's Internal Audit Department; and
- *Salary bands* - establish realistic compensation bands per the qualifications and duties required for each position.

The PeopleSoft modules had implementation problems. These implementation problems and usage training were reviewed along with PeopleSoft staff support. Improvements can possibly be made as follows:

- *PeopleSoft Accounts Receivable Maintenance Module* - correct problems so that the maintenance module can be properly utilized;
- *PeopleSoft training* - establish timely training for all Airports PeopleSoft system users for all upgrades; and
- *PeopleSoft support* - provide additional PeopleSoft support staff expertise, especially in the area of the accounts receivable module;
- *PeopleSoft accounts receivable access* - address security issues of account receivable personnel; and
- *PeopleSoft reports* - address problems with downloading portions of reports.

The Airport needs to examine the most effective and efficient ways to use the PeopleSoft system to complete their job duties.

The status of the 2000 financial statement findings and recommendations was reviewed. Areas where the Airport upgraded or initiated policies have shown improvement. Areas such as the Airport Detention Basin cost recovery and the employee shuttle service contract proposal should be reconsidered and resolved by the new administration.

Division of Assessments and Licenses

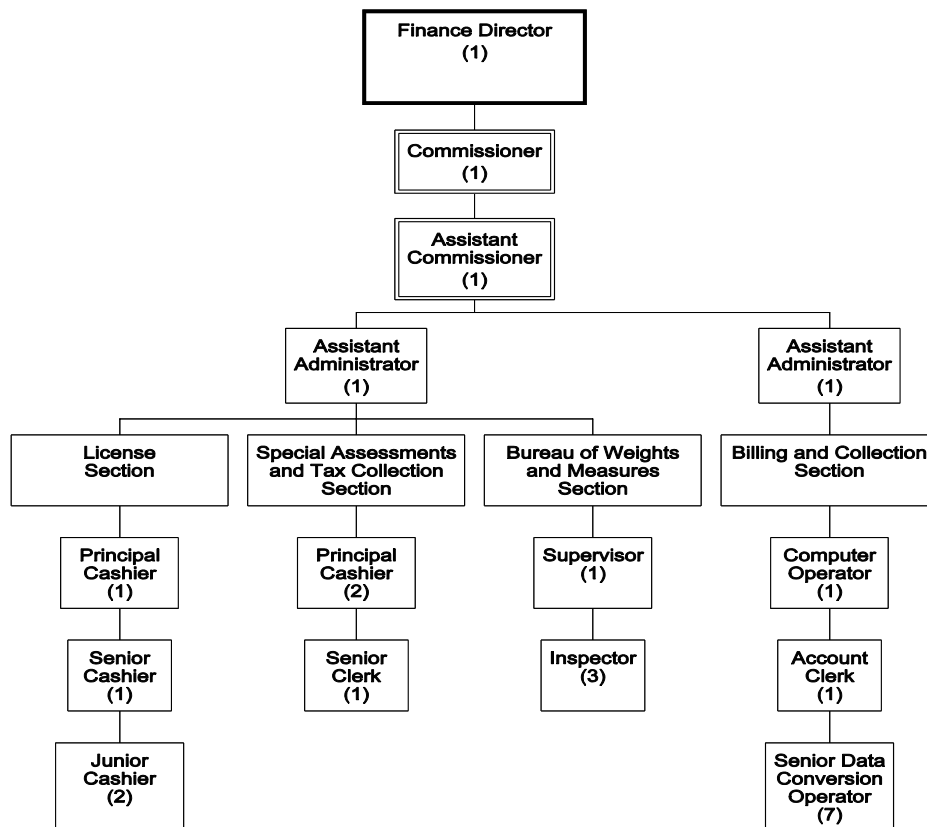
Background

This section focuses on the collection of revenue within the License, Special Assessments and Tax Collection, Bureau of Weights and Measures, and the Billing and Collection Sections that comprise the Division of Assessments and Licenses (DAL). All collections are forwarded to the City Treasury for deposit.

Organizational Chart and Staffing

Chart 12-1 depicts the reporting relationships and staffing for DAL.

**Chart 12-1: Division of Assessments and Licenses
Organizational Chart**



Organizational Function

The DAL serves all legal notices for the allocation of property, assessments and street vacancies, and issues all City licenses. The DAL is equipped with computer applications to ensure the Codified Ordinances of the City are met for the issuance of licenses and permits. The DAL follows up on inspections and delinquencies, and is closely involved with the regulations of pay telephones citywide.

The DAL's Billing Section invoices and collects selected payments for the Division of Health, Building and Housing, EMS (Emergency Medical Services), Streets, Waste, Police and Fire. The DAL's Bureau of Weights and Measures participates in protecting the City's consumers through inspecting and ensuring that supermarket scales and other commercial measuring devices are uniformly accurate. The Bureau seals the City's supermarket and retail price scanning devices and performs regular and unscheduled inspections of the City's taxi cabs and taxi cab meters. The Bureau interacts with other similar city, county and state bureaus, which initiate such laws and special investigations which are deemed necessary to ensure consumer protection with the spirit of the Consumer Protection Code.

Governing Laws, Rules and Regulations

DAL was established pursuant to Chapter 17 - Department of Finance, Section 103, of the City of Cleveland's Charter, (November 9, 1931).

Summary of Operations

All revenue is generated from collections for charges for services within the Permits & Licenses, Special Assessments and Tax Collections, Bureau of Weights and Measures, and the Billing and Collection sections.

The three sources of collection methods.

- Over-the-counter - collections are received by a total of six cashiers. Four cashiers operate day-to-day activity at City Hall. The two remaining employees are principal cashiers who do not operate windows at City Hall. The first principal cashier settles customer disputes and rarely collects payments. The second principal cashier opens and receipts daily mail payments. Mail collections represent over 90 percent of the DAL's revenue. The majority of the over-the-counter and mail collections are hotel excise tax, admissions tax, additional admissions tax 2 percent (collected for the Cleveland City School District), parking facility tax, and motor vehicle lessor tax.

- Lock Box - collections are received at Key Bank for payments relating to various charges for services, (Division of Street and Permits, Waste Collection, Public Safety, Weights and Measures, Building and Housing). Daily lock box revenues are electronically transmitted to the City Treasurer by Key Bank. The Treasurer enables Financial Reporting and Control (FRC) to access the lock box collections on the PeopleSoft system. FRC then applies payments to the proper account codes. FRC performs daily reconciliations to ensure the completeness of collections and daily account balances.
- Payments for EMS transportation charges - the Billing and Collection Section receipts mail collection payments for patients that have outstanding EMS balances. Initially, commercial insurance is billed and collected and the remaining balance is billed to the patient. In 2001, more than 55,000 EMS patient forms were processed.

There are five major Sections in the DAL:

- Special Assessments - serve all legal notices for the City including paving, sewer, water, sidewalks, appropriation of property and street vacations. See **Table 12-1** for the sources of revenue for the years 1999 through 2001.

Table 12-1: Special Assessments Revenue

<u>Description</u>	<u>1999 Revenues</u>	<u>2000 Revenues</u>	<u>2001 Revenues</u>
Playhouse Square Assessment	\$293,978	\$323,750	\$303,699
Vacant Lot Clean Up Payment	45,325	48,121	95,167
Tree Assessment Payment *	45,653	0	68,157
Sidewalk Payment	<u>66,938</u>	<u>58,674</u>	<u>40,387</u>
Totals	\$451,894	\$430,545	\$507,410

Source: Division of Assessments and Licenses Report of Transactions Processed for the years 1999 through 2001

* Tree Assessment payments were not assessed in 2000

- Permits and Licenses - issue 78 different types of permits and licenses (approximately 28,000 per year), and the DAL is responsible for the collection and depositing of permit and license fees. See **Table 12-2** for the four types of licenses and the revenue collected.

Table 12-2: Licenses and All Other Revenue

Revenue Description	1999 Revenues	2000 Revenues	2001 Revenues
Food Service Operators License Commercial/Non-Commercial *	\$631,079	\$647,604	\$818,897
Electrical Contractor License	97,590	140,820	69,020
Food Handler *	52,385	52,185	266,877
Pay Telephone Commission	282,770	237,271	207,320
All Other Revenue	<u>742,813</u>	<u>649,272</u>	<u>658,970</u>
Totals	\$1,806,637	\$1,727,152	\$2,021,084

Source: Division of Assessments and Licenses Report of Transactions Processed for the years 1999 through 2001

* State of Ohio restructured food handler's license fees in 2001

- **Tax Collections** - collect and reconcile City admissions tax, hotel/motel tax, motor vehicle lessor tax and parking facility tax. See **Table 12-3** for the five types of tax sources collected which account for approximately 87 percent of the total received, and the respective revenue.

Table 12-3: Tax Revenue

Account Description	1999 Revenue	2000 Revenue	2001 Revenue
Hotel Excise Tax	\$3,555,559	\$3,881,711	\$3,683,889
Admissions Tax	7,711,952	10,623,467	9,481,074
Motor Vehicle Lessor Tax	2,358,497	2,482,322	2,061,995
Parking Facility Tax	9,439,233	10,980,371	9,823,741
Admissions Tax 2% Additional	2,038,758	2,625,856	2,586,317
All Other Taxes	<u>1,507,972</u>	<u>1,460,939</u>	<u>1,150,612</u>
Totals	\$26,611,971	\$32,054,666	\$28,787,628

Source: Division of Assessments and Licenses Report of Transactions Processed for the years 1999 through 2001

The reason for the large variance in total revenue between 1999, 2000 and 2001 was due to a City policy in 1999, where the revenue postings were closed after 50 weeks. This situation thereby created a 54 week revenue collection for 2000. In 2001, a revenue collection period of 52 weeks was reinstated. Secondly, admission tax in 2000 was up 38 percent due to a 221 percent increase in the first quarter of 2000. The majority of this increase can be traced to the collection of new millennium festivities which occurred at the end of 1999 for which the revenue was received in the first quarter of 2000.

- Bureau of Weights and Measures - inspects and seals all weighing and measuring devices, including commercial scales and gasoline pumps within the City at least annually. Investigates complaints concerning the accuracy of weighing devices, condemns instruments, issues violations (if necessary), and ensures that all violations are corrected. The Bureau also inspects all of the City’s taxi cab meters and conducts safety inspections per State of Ohio instructions.

- **Table 12-4** depicts the amount of revenue the Bureau of Weights and Measures collected for 2000 and 2001. The 1999 lock box revenue amounts were not presented due to a computer system conversion.

Table 12-4: Bureau of Weights and Measures Revenue

<u>Account Description</u>	<u>2000 Revenue</u>	<u>2001 Revenue</u>
Measurement Device Tests	\$121,295	\$117,895

Source: City of Cleveland WEM Schedule Report.

- Billing and Collection Section - this section invoices and collects payments received at lock boxes and EMS billings.
 - Lock Box - following, are the collection and depositing procedures for the Division of Streets and Repair, Oversize Vehicles Moves, Commercial Waste Collection, Unnecessary Police and Fire Alarms. Accounts receivable and aging reports are generated from the PeopleSoft system for the lock box accounts. There are no receiving warrants issued for lock box revenue.

For lock box procedures:

- Key Bank accumulates daily collections for specific customer payments;
 - City Treasurer enables the availability of daily lock box collections to the PeopleSoft system;
 - PeopleSoft system assigns a file number that contains information which will mirror the daily packets received by FRC;
 - FRC employee opens the Key Bank packet and accesses the file number that was previously downloaded from the PeopleSoft system; and
 - If the information in the PeopleSoft file and the Key Bank packet do not agree, the FRC employee follows-up on the discrepancies.
- **Table 12-5** lists the department, description, and amount of lock box revenue for 2000 and 2001. The 1999 lock box revenue amounts were not presented due to a computer system conversion.

Table 12-5: Lock Box Collection Revenue

<u>Department</u>	<u>Description</u>	<u>Lock Box 2000 Revenue Amount</u>	<u>Lock Box 2001 Revenue Amount</u>
Public Safety	Unnecessary Fire Alarms	\$5,925	\$3,250
Public Safety	Unnecessary Police Alarms	170,807	100,101
Public Safety	Annual Alarm Registration	49,975	51,880
Public Service	Commercial Waste Collection	1,687,806	1,381,699
Public Service	Street Permit and Repair	1,680,205	1,693,263
Public Service	Oversize Vehicle Moves	<u>99,140</u>	<u>33,075</u>
TOTALS		\$3,693,858	\$3,263,268

Source: DAL Billing Revenue 2000 and 2001

- Emergency Medical Services (EMS) - most emergency ambulance transportation fees are covered by Medicare, Medicaid and other commercial insurance companies. Medicare, Medicaid, and Medical Mutual of Ohio patient payment detail is electronically downloaded to the Rocket System Laboratories (RSL) computer system maintained in the Billing Section.

The Billing Section employees reconcile all insurance payments with patient claim numbers and the actual check received as part of the receiving warrant. Sufficient support documentation is maintained to support the receiving warrant amounts.

- The Billing and Collection Section generates monthly EMS reports of billings and collections in order to monitor outstanding collection amounts. **Table 12-6** depicts the billings and collections for the applicable categories for the years ending 2000 and 2001. The year 1999 was not included in this table due to reporting differences caused by a computer system change.

Table 12-6: EMS Collection Revenue

Category Description	2001 Amount Billed	2001 Amount Collected
Medicare	\$4,403,588	\$3,773,554
Medicaid (ODHS)	2,368,810	1,450,644
Insured	4,376,692	3,734,545
Self Pay	<u>4,492,245</u>	<u>256,170</u>
Totals	\$15,641,335	\$9,214,913

Source: Division of Assessments and Licenses Report of Transactions Processed for the year 2001

Category Description	2000 Amount Billed	2000 Amount Collected
Medicare	\$4,434,409	\$3,706,455
Medicaid (ODHS)	2,383,241	1,333,101
Insured	4,991,234	3,596,038
Self Pay	<u>4,626,988</u>	<u>269,575</u>
Totals	\$16,435,872	\$8,905,169

Source: Division of Assessments and Licenses Report of Transactions Processed for the year 2000

The following factors are integral part to the collection percentages in **Table 12-6**:

- Medicare - due to a federally mandated agreement with the Health Care Financing Administration (HCFA), Medicare will only reimburse about 80 percent of the patient transportation charges, the remaining 20 percent will be billed to the patient or Medigap.
- Medicaid - due to an agreement with the Ohio Department of Human Services (ODHS), Medicaid pays about one-third of patient transportation charges and the remaining balance will be written off as uncollectible since further bills are unallowable.
- The “self pay” column pertains to outstanding patient accounts. The self pay accounts are established for patients who may not have the resources to provide payment and/or the lack of insurance provider information.
- **Table 12-7** provides a detail of the DAL’S departmental expenditures.

Table 12-7: Expenditure Data

Expenditure Description	1999 Expenditures	2000 Expenditures	2001 Expenditures
Employee Salaries & Benefits	\$958,159	\$891,136	\$942,958
Training & Professional Dues	3,127	3,996	3,979
Contractual Services	26,510	76,854	33,751
Material and Supplies	31,507	24,385	21,876
Maintenance	151	1,298	798
Interdepartmental Service Charges	<u>126,241</u>	<u>76,189</u>	<u>108,361</u>
Totals	\$1,145,695	\$1,073,858	\$1,111,723

Source: Division of Assessments and Licenses Mayor’s Estimated Report for the years 1999 through 2001 (year 2001 unaudited)

Explanation of significant differences are as follows:

- The significant increase in contractual services between 1999 and 2000 was due to purchased software for the Bureau of Vital Statistics at the close of 1999 that was directly billed to the DAL during the first quarter of 2000. Moreover, the 2000 City Finance Director directed the DAL to absorb charges incurred by the Bureau of Vital Statistics.
- The significant decrease of interdepartmental service charges from 1999 to 2000 were directly related to information technology charges related to Y2K compliance during 1999. In 2001, the DAL began to absorb charges incurred by the Bureau of Vital Statistics because of greater budgeted resources existing within the DAL's expense budget.

Performance Measures

The following is a list of performance measures that were used to review the DAL:

- Document the computer environment and software packages and evaluate the effectiveness of those systems in relation to billing, collecting and reporting;
- Evaluate the personnel structure and employee job performances for efficiency and effectiveness;
- Evaluate the collection practices and procedures for the accounting for aging accounts and current accounts receivable; and
- Evaluate the billing, collecting and depositing procedures for Emergency Medical Services (EMS).

Findings/Commendations/Recommendations

Computer Environment

F12.1 The Division operates three independent software packages to account for the collection of revenue within each Section.

- License, Special Assessments & Tax Collection - is using a system referred to as the “DataFlex” system for over-the-counter and mail collections. This DOS based system is user friendly and is designed to efficiently operate by simply inputting the customer’s federal or social security identification number. Sequentially numbered licenses and permits are generated by the system. DataFlex is an application development tool. The DataFlex license and assessments application was developed by two City IT employees in 1991. The City no longer employs anyone with the expertise to support the application and the vendor does not support the current version of DataFlex. The DAL does not have formal, written, system or user procedures and guidelines. The DAL purchased the Windows version of DataFlex with the intention of having Information System Services (ISS) develop the application and convert the data. However, the project has been on hold since no one in ISS can develop and support the DataFlex license and assessment system.
- Bureau of Weights and Measures - is using the City’s PeopleSoft system. Inspectors charge flat fees established by City Charter Section 555.08. The fees are encoded into the standing data to ensure the correct fee is charged.
- Billing and Collection - utilizes two different software systems for billing and collection operations. The first, Emergency Medical Service (EMS) data has been processed through the Rocket System Laboratories (RSL) software since September 1999, because the previous system was not year 2000 compliant. The second, interdepartmental payments (public safety, public service) are billed using the PeopleSoft system and received by Key Bank lock box.
- Finally, for both systems (RSL and DataFlex), all revenue system entries are entered manually into PeopleSoft with information from the receiving warrant.

R12.1 The City has to become more user friendly to both the public and other City department and divisions. For the public users, the DAL has to address the need to be fully accessible to on-line license registration, billing and payment opportunity. Before committing to development of the license and assessment application using the Windows version of DataFlex, the City should research technology system suppliers who are able to upgrade the

license section to fully automate on-line license applications and renewals. Selected software should also contain the ability to perform all functions that DataFlex now performs concerning all over-the-counter and mail collections, and be fully interfaced with the PeopleSoft accounting system. For the City department users, the system must be easily readable to expedite information processing presently done with hard copy transfers. Lastly, to eliminate all the manual entries that are presently being performed, the RSL should be programmed to interface with the PeopleSoft system.

F12.2 Technology referred to as the pen base system of documenting EMS charges and services is available. This system is presently used by United Parcel Service. The pen base software has the following advantages designed for efficient and effective services:

- Accurate and timely recording of services performed for patient care
- Availability of information as it is keyed into the system
- Paperless processing of patient information
- Reducing the manual labor hours for EMS transportation charge billing and collecting

R12.2 The City should pursue the possibility of implementing the pen base system. This system should diminish the time it takes for the billing information to be input at the DAL's Billing Section. This reduction of time is due to the fact that pen base is electronically downloaded, while the present system is manually posted from the paper copies as provided. In addition, the pen base information is consistent and uniform unlike the current, manual EMS patient information sheets.

Personnel

F12.3 A review of the organizational chart on **Chart 12-1** representing titles and staffing numbers revealed that payroll charges in the Special Assessments and Tax Collection Section included a principal cashier whose time is totally dedicated to activities as Vice-President of Local Union 100. This position remains on the organizational chart as part of the collective bargaining agreement. In 2001, this employee was paid approximately \$28,000, which must be included in this Division's payroll and budget. Secondly, two part-time employees who worked in the Vital Statistics Section under the Department of Health, charged their time to the DAL during 2001. The approved 2002 budget did not reflect the two part-time employees.

R12.3 The Commissioner should account for all charges incurred by the DAL. At a minimum, during the October budget meetings, the Commissioner should present and document to the Finance Director, any expenditures incorrectly assessed his Division in the prior ten months.

F12.4 Currently there are no training programs due to budget constraints within the City. The Commissioner is trying to implement training programs to better train staff. The Bureau of Weights and Measures inspectors and supervisors are required by the State of Ohio to meet the standards of continuing education credits through training from conferences and home study programs. Research compiled by the Auditor of State shows an average of \$25 per hour for one continuing education unit. During 2001, the DAL spent \$166 per employee for training.

R12.4 A training budget must be appropriated annually for those employees who are required by Federal or State laws or licensing requirements. Training budgets also must be appropriated for contingencies such as new computer training, City policy changes, customer relations, or general office conduct and morale.

F12.5 In 2001, the total tax revenue was \$28,787,628. This significant source of revenue has no independent verification such as a planned or surprise audit of the source documents supporting the agency's, (hotel, parking facility, Rock and Roll Hall of Fame) amount of revenue reported.

R12.5 In January 2002, the City's Internal Audit Division assessed the significant sources of admissions and hotel tax revenue to ensure the proper amounts are reported. Moreover, the Internal Audit Supervisor indicated additional audits will be conducted and they will begin rotating audits to address all significant sources of revenues. The City should continue to have Internal Audit follow-up on all significant undocumented sources of revenue.

F12.6 The DAL uses five dedicated cashiers to collect, receipt, and post information to DataFlex. As shown in **Tables 12-8 and 12-9**, there were 19,137 and 19,101 transactions for the years 2000 and 2001, respectively. Based on a 240 day work year, five dedicated cashiers each average 16 transactions.

R12.6 The DAL should reduce the number of cashiers in this section. The DAL must address the comparison of the number of cashiers to productivity in light of the following conditions. The first is the amount of time needed to process a transaction. The average time for an over-the-counter or mail collection and corresponding permit processing is about ten minutes. Secondly, as previously recommended, DAL should be looking for an on-line licensing application and renewal software which will reduce the need for both mail and over-the-counter collections. Finally, as reported in the tables for both years, October has the highest collections, while March has the most transactions. This information is useful to the DAL which may be able to borrow seasonal employees from other City agencies such as Central Collection Agency, if October collections become excessive.

Table 12-8 summarizes the DAL's over-the-counter and mail collections for the year 2000. October was the highest collection month with \$3,461,459 and March had the most number of transactions with 2,956. The average collection was \$2,851,357 per month with 1,595 transactions.

Table 12-8: Over-the-Counter and Mail Collections received during 2000

Year 2000 Month	Total Fees Collected	Number of Transactions
January	\$3,218,766	1,031
February	2,848,806	1,692
March	2,777,500	2,956
April	1,673,106	2,710
May	2,883,337	1,330
June	2,645,513	1,176
July	3,310,018	974
August	3,328,457	1,106
September	2,834,605	860
October	3,461,459	798
November	2,844,839	1,683
December	<u>2,389,877</u>	<u>2,821</u>
Totals	\$34,216,283	19,137

Source: Division of Assessments and Licenses Monthly Report of Transactions Processed for the year 2000

Table 12-9 summarizes the DAL's over-the-counter and mail collections for the year 2001. October was the highest collection month with \$3,606,358 and March had the most number of transactions with 3,488. The average collection was \$2,629,439 per month with 1,592 transactions.

Table 12-9: Over-the-Counter and Mail Collections received during 2001

Year 2001 Month	Total Fees Collected	Number of Transactions
January	\$2,336,572	1,443
February	1,511,341	928
March	2,434,764	3,488
April	1,982,669	1,995
May	2,897,937	2,156
June	2,729,074	1,647
July	3,148,917	1,418
August	2,980,295	1,298
September	3,091,949	855
October	3,606,358	1,090
November	2,504,287	1,378
December	<u>2,091,959</u>	<u>1,405</u>
Totals	\$31,316,123	19,101

Source: Division of Assessments and Licenses Monthly Report of Transactions Processed for the year 2001

F12.7 Codified Ordinance Section 555.02 established the Bureau of Weights and Measures located for administrative purposes within the Office of Consumer Affairs. Section 555.04 established the right to examine and Section 555.08 established a fee will be charged for the inspection and sealing of weighing and measuring devices. Currently, the staff consists of three inspectors and a Supervisor. The primary function of these inspectors is to make unscheduled visits to City establishments to test validity of scanners, scales, and pumps. Inspectors are also responsible for testing the City's taxi cab meters and conducting actual safety inspections of those taxi cabs. Areas of concern include taxi cabs, gasoline stations, laundromats, supermarkets, and factories.

F12.8 All inspections conducted by the Bureau of Weights and Measures are logged on a “routing slip” with applicable mileage traveled and the time of each inspection(s) for various establishments. The times for typical inspections (barring delays of weather or customers) are as follows:

- Supermarket scanners - two and a half to three hours;
- Laundromats - sixty to ninety minutes;
- Supermarket and factory scales - ten to fifteen minutes;
- Vehicle scales - twenty-five minutes per scale; and
- Gasoline station pumps - five to ten minutes per pump.

Accounts Receivable

F12.9 There are two types of accounts receivable identified as the lock box receivable and the special assessment receivable.

Lock Box Receivables:

- The primary reason for lock box accounts receivable is the lack of proper support documentation within the lock box payment. Any lock box payment that does not contain the correct documentation (invoice) is forwarded by Key Bank to the City Treasury. Proper reporting is delayed and an account receivable is created when actually the invoice has been paid, and the revenue has been deposited. At different intervals, the Treasury does provide the DAL with a list of the exceptions.
- A secondary reason for lock box accounts receivable is that prior to October 2001, the Treasury employees were keying revenue entries to the PeopleSoft system, but not crediting the proper customer accounts. Currently, an FRC employee is manually inspecting the prior lock box packets received from Key Bank and applying payments to the proper accounts.

Special Assessment Receivables:

- Special assessment receivables are created because the City’s Service and Parks and Maintenance Departments provide debris removal; weed control; tree planting and removal; and sidewalk repairs for various City property owners. These services are performed at the request for the property owner, or when the property owner has allowed their property to become a public distraction at the discretion of the City Inspectors.

The property owners are billed for the aforementioned services and usually one of following takes place:

- 1) They pay the invoice;
- 2) They disregard the invoice completely;
- 3) They object to both the amount of billing or the fact that the services were performed at all; and
- 4) They accept the bill, but wait for certification of the account to the County Auditor pursuant to City Charter or Ohio Revised Code.

F12.10 **Table 12.10** lists the special assessment accounts receivable outstanding balances as of September 2001 certified to the Cuyahoga County Auditor. This portion of special assessment accounts receivable is created because the Ohio Revised Code, by statute, provides that every September a city can transfer the delinquencies to the County Auditor due to their statutory ability to put a lien on the property.

Table 12-10: Special Assessment Accounts Receivable

Vacant Lots	\$499,188
Playhouse Square	26,007
Sidewalks	124,733
Tree Assessments	<u>92,989</u>
Total	\$742,917

Source: Division of Assessments and Licenses Special Assessments Receivable Report at September 2001

R12.7 The City should develop formal policies and procedures for delinquent accounts, collection efforts, and subsequent write-offs when necessary. These policies and procedures must be approved by the Mayor and City Council. These policies and procedures should address when an account is to be declared delinquent, what procedures will be applied internally to seek collection, and when an account is to be written off. Also, the DAL should work with the City Treasury and Key Bank to document lock box payments without proper documentation and reconcile the proper account on a monthly basis.

F12.11 The Government Finance Officers Association’s (GFOA) best practices recommends that government entities evaluate the benefits and costs of utilizing lock box services to determine if advantages can be gained in the areas of accuracy, cash flow, and efficiency.

A review of ten recent days lock box activity, showed that one of the lock boxes had an average daily revenue collection of \$969 from ten checks. These amounts are not consistent with the DAL trying to reduce the employee hours needed to complete receiving warrants. As a comparison, the DAL cashiers would be able to process these checks in about one hour.

Cash Collections, Depositing and Billing for Emergency Medical Services (EMS)

F12.12 The City has not increased charges for Emergency Medical Service (EMS) transportation fees since 1993. The current fees for advanced life support is \$375 and basic life support (non-emergency) is \$150. The Health Care Financial Administration (HCFA) established the current inflation index cost at \$434.35 for advanced life support. **Table 12-11** explains the number of transports representative cities made and their support fee.

Table 12-11: 2001 EMS Transports and Advanced Life Support Fees from Other Comparable Cities

<u>City</u>	<u>Number of Transports</u>	<u>Advanced Life Support Fee</u>
Cleveland, OH	55,819	\$375.00
Cincinnati, OH	29,633	425.00
Dayton, OH	17,198	630.00
Pittsburgh, PA	<u>56,601</u>	<u>450.00</u>
Averages	39,813	\$470.00

Source: Inquiry with City Fire Departments and EMS Personnel

F12.13 **Table 12-12** presents a fifty-one week look at 2001 Medicare/Medicaid billings and collections. These billings for patient care and necessary transport charges only. Medicaid reimburses 33 percent of the cost, while Medicare reimburses 80 percent of the cost. The final collectable percentage is 77 percent.

Table 12-12: 2001 Medicare and Medicaid Billings and Collections

Billed	\$6,772,398
Collected	<u>5,224,198</u>
Total Uncollected	\$1,548,200

Source: EMS Billing and Collection year ending 12/31/01 per RSL system

F12.14 **Table 12-13** presents a fifty-one week look at the 2001 summary of billed and collected insured and self pay amounts for patient care and necessary transport charges. The insured accounts represent patients with insurance coverage. The self pay represent patients that may be indigent or homeless. In 2001, the final collectable percentage for insured patients was 85 percent and the final collectable percentage for the self pay patients was 5.7 percent.

Table 12-13: 2001 Summary of Billed and Collected Insured and Self Pay Amounts

	Insured	Self Pay
Billed	\$4,376,692	\$4,492,245
Collected	<u>3,734,545</u>	<u>256,170</u>
Total Uncollected	\$642,147	\$4,236,075

Source: EMS Billing and Collection year ending 12/31/01 per RSL system

F12.15 The following are billing procedures used by the Billing Section for self pay patients:

- All patient information is researched to determine if the patient has insurance. If insured, normal billing procedures are followed.
- If the patient is not insured, an initial bill is sent to the patient. After 45 days of the initial bill, a second bill is issued. After an additional billing period of 30 days, the patient balance is put into a special account to be determined as uncollectible, by the Assistant Administrator (Billing and Collection).
- If a patient responds to an EMS bill and supplies the proof necessary to qualify for the low income category, the patient balance receives a “hardship” adjustment that lowers the balance owed in accordance with the patient’s income.

R12.8 The City's EMS charges should be increased to meet the national inflation index presented by HCFA, as well as comparable cities in **Table 12-11**. Since the Medicaid program reimburses up to one-third of EMS transport charges, and they have established a new rate of \$165.70 as of February 2002, the City should charge a minimum of \$497.10. Secondly, the City must use all resources available to increase the self pay collections. The weakness, which is pervasive in the Cleveland area, is self pay patients are usually homeless, indigent people without social security or medical status.

Conclusion Statement

The DAL collected nearly 44 million dollars in revenue during 2001. The following is a summary of areas that the DAL should address to become more user friendly, more efficient, and maximize revenue potential.

The current software packages provide sufficient capabilities for daily operations, however, upgrades and integration will be needed to enhance the DAL's billing, collecting and reporting. The DAL must look to provide an interface between industry specific software, like the Medical Service billing software, and PeopleSoft, the citywide financial software. Secondly, the DAL must become more user friendly. They must provide all necessary reports for the City users to expedite information processing. Also, the DAL must address the need to be fully accessible to all on-line license registration, billing and payment opportunities.

Next, the DAL must address staffing. With the use of lock boxes and improvements to technology, a reduction in staffing may be necessary at positions that process the mail and handle cashier duties. Staffing reductions have to be evaluated in light of the current financial picture of the City and with an eye towards automating licence applications, billing, and payment procedures.

In the area of billing, collecting, and posting, the DAL has to evaluate present Emergency Medical Service (EMS) costs and strongly consider raising their rate to a current national average. Current efforts to collect on account receivables are efficient. The DAL seem to be using all collection methods at their disposal.

Finally, the DAL must increase their budget for extensive computer software training. A budget that includes training in on-line software and the ability to interface PeopleSoft should be mandatory. Also, training for all staff in customer relations can enhance the presentation that DAL will offer to all users whether clients or City employees.

Parking

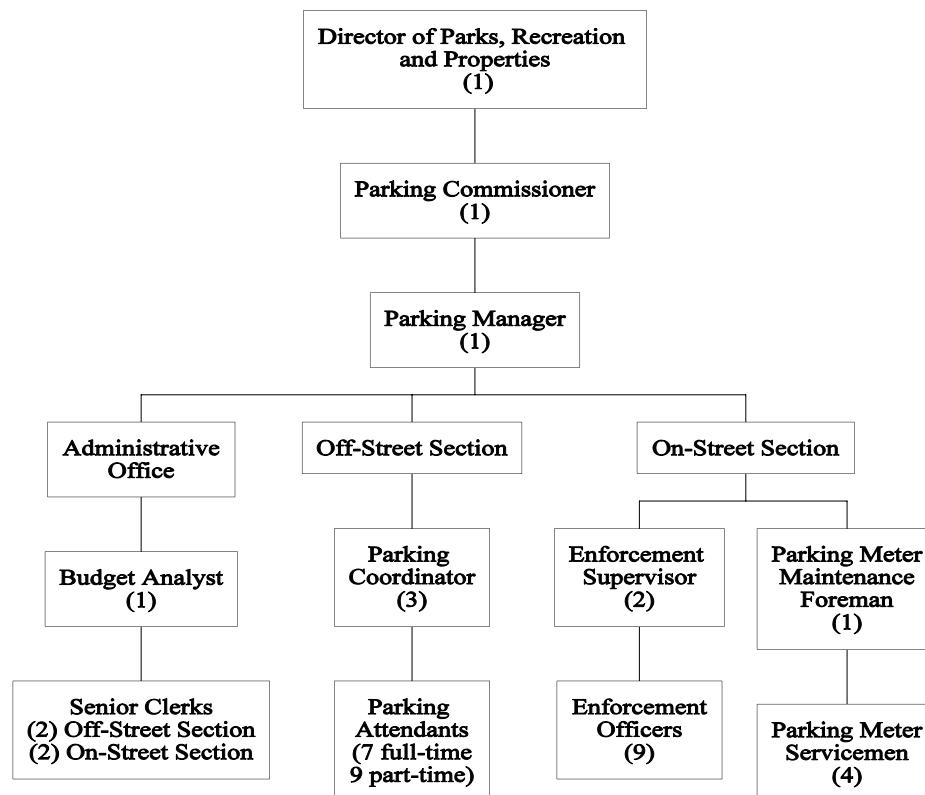
Background

The Division of Parking Facilities (“Division”) is reported as an Enterprise Fund for the City of Cleveland and is operated under the Department of Parks, Recreation, and Properties. The Division was established on August 6, 1980 by City Council Ordinance 1645-80, for the purpose of providing moderately priced off-street parking facilities to citizens within the City of Cleveland. This section of the performance audit focuses on the staffing structure and needs, adequacy and comparability of parking rates, monitoring procedures and divisional audit function at the two Gateway garages, policies, procedures, and local compliance and stand-alone computer operations.

Organizational Chart and Staffing

Chart 13-1, shown below, depicts the organizational structure and reporting relationships, as of February 1, 2002, for positions having responsibilities within the Division of the Department of Parks, Recreation and Properties.

Chart 13-1: Organizational Structure



Organization Function

The City's Division consists of a Commissioner, who reports directly to the Director of Parks, Recreation and Properties, and who monitors the overall operations of the Division. The Parking Manager is responsible for overseeing the day-to-day operations of the Division, including monitoring the activities/procedures performed by the Budget Analyst, three of the four Senior Clerks, the Off-Street Section (Parking Facilities), and the On-Street Section (Metered Parking Section). The Budget Analyst is responsible for daily supervision and support of three Senior Clerks, as well as monitoring the sales and collection of parking revenues (City-owned, Gateway garages and metered). One Senior Clerk processes payroll and reports directly to Administrative Services. The Parking Coordinators report directly to the Parking Manager and are responsible for the overall daily operations, of the various lots/facilities, as well as the supervision and support of the various Parking Attendants. The Parking Enforcement Supervisors report directly to the Parking Manager and are responsible for the overall daily parking enforcement operations, as well as the supervision and support of the various Parking Enforcement Officers. The Parking Meter Maintenance Foreman reports directly to the Parking Manager and is responsible for the overall daily parking meter maintenance operations, as well as the supervision and support of the various Parking Meter Servicemen. Specific functions performed by the various individuals, within the Park Division, are listed below.

Some of the key functions performed by the Parking Commissioner include:

- Establish divisional policies and procedures;
- Initiates and oversees the construction, maintenance, and general operation(s) of all City owned parking garages and lots throughout the downtown area along with overseeing activity at the two Gateway Garages;
- Initiates and oversees the maintenance, installation, and removal of all parking meters throughout the City; and
- Oversees the implementation and enforcement of municipal parking codes and related regulations.

Some of the key functions performed by the Parking Manager include:

- Oversees the day-to-day operations and maintenance of all City owned parking garages and lots throughout the downtown area;
- Oversees and manages the Parking Coordinators and Attendants throughout the Division; and
- Assists the Parking Commissioner in establishing divisional policies and procedures.

The functions performed by the Budget Analyst and the Senior Clerks include:

- The review and accumulation of daily revenue reports, master reports, cash count slips, and the deposit sheet for daily transient parking collections;
- The invoice billing(s) and account posting(s) of collections from monthly parking permits;
- The data entry of daily tickets issued (sequences utilized) and daily sales/collection information for the two Gateway Garages;
- The data entry of all revenue collections (i.e., daily, monthly, and Gateway lease) into a stand-alone computer system spreadsheet;
- The review of monthly Gateway reports submitted by the management company, AMPCO System Parking, Inc., (AMPCO) in conjunction with detailed auditing procedures; and
- preparation of the annual budget.

The functions performed by the Parking Coordinators and Parking Attendants include:

- The collection of daily and special event transient parking revenues and subsequent reconciliation to tickets issued;
- The preparation of daily cash count slips and daily deposit sheet for Treasury; and
- The preparation of a daily sales reports and master report.

The functions performed by the Enforcement staff and Maintenance staff include:

- Issue tickets related to cars parked at expired meters;
- Call Police Department to report cars illegally parked, abandoned, or vandalized; and
- Investigate, repair, and replace broken or disabled parking meters.

Summary of Operations

City Owned Parking Facilities/Lots

The Division of Parking operates 8 facilities and lots in the City. The individual lots and their capacity and occupancy rate are further detailed in **Table 13-4**. When a parking attendant completes a shift, they count the money received, deduct the start-up change fund and prepare and sign a cash count slip. The cash count slip requires the preparer to include the total for each denomination collected, the amount collected per denomination and the grand total. The coordinator, for the outer lots, signs the cash count slip after reviewing the information presented in conjunction with the money (coin and currency) on hand to be deposited. The money and cash count slip are placed in a pre-numbered, reusable deposit bag, which is locked by the parking coordinator. However, the Treasurer's Office maintains control of the key(s) that open the deposit bags.

City Owned Parking Facilities/Lots (Cont.)

Each parking attendant completes a daily report which reconciles tickets issued with money collected and the car counter readings, where applicable. A daily report is prepared by each attendant for the specific entrance. The daily report is supported by the cash count slip and is signed by the parking attendant and the applicable coordinator. All of the daily reports, per parking facility, are summarized into a daily master report which is prepared and signed by the parking coordinator.

The coordinator, for the outer lots, picks up the locked deposit bags from each of the parking facilities/lots and takes them to the main office at the Willard Garage. He places the locked bags in the Willard safe, records the bag numbers and the time(s) of the cash drop(s) on the Daily Deposit Sheet and places his initials in the "Dep. In" column. The coordinator, at the Willard Garage, is responsible for securing the deposit bags (in the safe) and completing the Daily Deposit Sheet related to revenues at the Willard Garage.

At the beginning of each day, the safe is opened and the daytime coordinator (at the Willard Garage) takes possession of all deposit bag(s), as evidenced by his initials on the Daily Deposit Sheet ("Dep. Out" column). This coordinator and another employee together deliver the deposit bags to the Treasurer's Office. The daytime coordinator and a Treasurer's Office Employee verify the number of bags deposited with the Treasurer's Office as well as the actual deposit bag numbers.

The Division attaches the applicable cash count slip(s) to the corresponding daily report. The daily reports, per parking facility, are attached to the applicable daily master report along with the receiving warrant and are filed by month. The daily deposit sheet copies are filed separately.

A Senior Clerk, within the Division enters ticket sequence(s) and sales/revenue information into an excel spreadsheet(s) within the stand alone computer system of the Division. The Budget Analyst and Parking Commissioner monitor revenue collections and internal reports prepared within the Division to those reports generated from the PeopleSoft computer system.

Gateway Lease - North and East Garages

The Gateway East and North garages are attached to Gund Arena and Jacobs Field located on the south side of downtown Cleveland. These garages are operated by AMPCO based on a two year lease agreement (dated 2/1/01), with a City option to continue the lease for up to three more consecutive one year lease periods, through February 1, 2006. AMPCO deducts monthly operating expenses and their management fee (from gross revenues), prior to submitting the net revenues (by check) to the City along with a monthly reporting package. Collection, deposit, reconciliation, and report preparation procedure, on daily revenues, are performed exclusively by AMPCO employees.

Gateway Lease - North and East Garages (Cont.)

When the Division receives the Daily Master Report and ticket package along with a copy of the check from AMPCO, the Senior Clerk reviews the ticket sequence(s) issued, at each of the two garages, to ensure the accuracy and completeness of gross revenues collected. Specifically, the gross revenue at each of the garages is recalculated based on the number of tickets issued/redeemed, at each rate, times the applicable collection rate(s). The ticket sequences and gross revenues collected, per garage, are then entered into an excel spreadsheet(s) within the stand alone computer system of the Division. In addition, the operating expenditures, reflected on the monthly report(s), are reviewed to supporting documentation provided by AMPCO. Also, a monthly sales journal and a revenue report are generated, from the excel spreadsheets, and are compared to the financial information (ticket sequences, sales and gross revenue) reflected on the AMPCO generated reports. Finally, the Budget Analyst and Parking Commissioner review the monthly reports generated for accuracy and completeness.

Beginning on October 1, 2001, the Division began auditing the daily receipts, reports and supporting documentation prepared by AMPCO for the two Gateway garages. All reporting days were audited for October. However, beginning November 1, 2001, the Division began to audit a judgmental sample (ten days in each month) of daily activity. The auditing procedures performed included reviewing the daily reports (prepared by AMPCO), accumulating/segregating the various type(s) of tickets, counting the number of tickets issued/redeemed, and calculating the gross daily revenue based on the number of tickets issued. A spreadsheet shell, prepared by the Internal Audit Department, is utilized to record the results of each monthly audit. The Division has estimated that it currently takes one employee between three and four days to perform the auditing and data entry procedures related to the two Gateway Garages.

Metered Parking

The Treasurer's Office is responsible for the daily collection and depositing parking meter money. The FRC Division is responsible for revenue posting of parking meter money. For meter parking a copy of the receiving warrant is received by the Division. The Division's role in the revenue process, for money collected through parking meters, is limited entirely to monitoring procedures. A copy of the daily deposit slip(s) is received by the Division. A Senior Clerk posts the daily revenue collections into an excel spreadsheet within the Division's stand-alone computer system utilizing the deposit slip copies. The monthly parking meter collection totals, per the Division, are compared to amount(s) reflected on the monthly reports generated from the PeopleSoft system. In addition, various Division employees (i.e., Senior Clerk, Budget Analyst, and Parking Commissioner) review the monthly reports for accuracy and completeness.

However, the main responsibility the Division has over the Meter Parking Section relates to the installation, maintenance and enforcement of the parking meters throughout the City.

Governing Laws, Rules, and Regulations

The Division was established in 1980, through the passage of City Council Ordinance 1645-80. The Division's operation(s), including the fee structure, are governed under codified ordinance section 133.33, which was originally adopted in 1976.

The current fee structure for City-owned parking facilities or lots, including the rates and/or ranges that were permitted to be charged, was established by City Council on May 22, 1996 through the passage of ordinance 926-96. The current fee structure for the Community Development surface lots, including the rates and/or ranges that were permitted to be charged, was established by City Council on December 18, 1995 through the passage of ordinance 1828-95. The 1995 and 1996 ordinances amended codified ordinance section 133.33, as noted above. The fees reflected include the parking rate(s) charged for daily (regular and early bird), hourly, monthly, incremental, special event or other usage.

The current fee structure, for Gateway East and North garages, including the rates and/or ranges that can be charged is governed by Board of Control Resolution 0680-01, adopted September 26, 2001. The fees reflected include the parking rate(s) charged for daily (regular and early bird), hourly, monthly, incremental, special event or other usage.

The current rate structure, for parking meters, was established by City Council December 19, 1988 through the passage of ordinance 2536-88.

Funding

The Division's operations, as they relate to the Parking Lot Facilities Section are funded primarily by revenues generated by the parking fees charges. A small portion of revenues are received from miscellaneous source(s) and interest. The payroll portion of the Metered Parking are funded and recorded as expenditures with the General Fund under the Department of Parks, Recreation and Properties.

Financial and Statistical Data

Table 13-1 presents parking revenue and **table 13-2** presents parking expenses.

Table 13-1 presents the detailed calendar year 2000 and 2001 revenues, summarized by major category, and for the Division's Enterprise Fund, within the Department of Parks, Recreation and Properties.

Table 13-1: Division Charges for Services Revenue Comparison

	2000 Actual Amounts	2001 Actual Amounts	Percentage Increase (Decrease)
TAXES:			
Local Parking Taxes	\$507,001	\$366,179	(27.78)%
CHARGES FOR SERVICES:			
City Owned and Operated	\$3,643,157	\$3,736,819	2.57%
Gateway Parking Lease	2,077,189	1,904,152	(8.33)%
Other Leases	180,000	180,000	0.00%
Metered Parking	1,859,239	1,707,139	(8.18)%
Other Charges for Service	9,602	4,818	(49.82)%
Total Charges For Services	\$7,769,187	\$7,532,928	(3.04)%
OTHER REVENUES			
Interest	\$1,100,453	\$860,711	(21.79)%
Other	12,689	6,795	(46.45)%
Total Other Revenues	\$1,113,142	\$867,506	(22.07)%
TOTAL REVENUE	\$9,389,330	\$8,766,613	(6.63)%

Source: 2000 and 2001 revenue reports provided by the Office of Budget and Management (OBM)

Some of the more significant changes between the two years on **Table 13-1** are as follows:

- Local parking tax revenues decreased significantly from calendar year 2000 to calendar year 2001 due to FRC Division posting 1999 local parking tax revenues in the amount of \$179,856 to the 2000 calendar year, therefore, 2000 calendar year amounts were overstated.
- Parking revenues, related to the two Gateway Garages, decreased from calendar year 2000 to calendar year 2001 by a moderate amount. This was partially due to a decrease in overall downtown parking usage, after the September 11, 2001 terrorist attack. In addition, parking usage at the two Gateway Garages decreased during calendar year 2001 due to reduced attendance at Cleveland Indian's baseball games.
- Parking revenues, from metered parking, decreased from calendar year 2000 to calendar year 2001, by a moderate amount. This was partially due to a decrease in meter usage, after the September 11, 2001 terrorist attack, which resulted in increased building security, which restricted meter use. The overall atmosphere and security around key Cleveland buildings contributed to the decrease in usage and overall revenue decline.
- Interest income revenue decreased from calendar year 2000 to calendar year 2001, by a significant amount. This was partially due to the overall United States economy which pushed down interest rates. Further, the cash and/or investment balance(s) within the Division account statements, including the principal and interest payment accounts, was lower during the majority of calendar year 2001. This contributed to the overall decrease in interest revenue from calendar year 2000 to calendar year 2001.

Table 13-2 presents the detailed actual Parking Lot Facilities Section of the Division calendar years 1999, 2000 and 2001 expenditures, by major object level, for the Division's Enterprise Fund within Department of Parks, Recreation and Properties. In addition, the table also reflects detailed budgeted Division expenditures, by major object level, for calendar year 2002.

**Table 13-2: Division (Parking Lot Facilities)
Expenditure Comparison**

	1999 Actual Amounts	2000 Actual Amounts	2001 Actual Amounts	2002 Budget Amounts
PERSONAL/RELATED SERVICES:				
Salaries¹	\$517,052	\$593,448	\$633,926	\$754,200
Employee Benefits¹	135,158	156,440	175,591	203,958
Total Personal Services	\$652,210	749,888	\$809,517	958,158
OTHER EXPENDITURES				
Other Training/Professional Dues	\$250	\$1,562	\$1,520	\$1,800
Utilities	145,046	154,941	154,826	178,303
Contractual Services	695,855	816,036	673,380	688,454
Materials/Supplies	119,821	154,507	90,026	94,713
Maintenance	67,670	90,856	61,383	68,000
Interdepartmental Service Charges	120,618	116,523	124,223	187,172
Miscellaneous	42,420	0	181,146	0
Capital Outlay	0	9,997	0	0
Expenditure Recovery	79,480	0	0	0
Debt Service	6,111,213	5,969,818	4,607,555	6,172,187
Total Other Expenditures	\$7,382,373	\$7,314,240	\$5,894,059	\$7,390,629
TOTAL EXPENDITURES	\$8,034,583	\$8,064,128	\$6,703,576	\$8,348,787

Source: 2000 and 2001 expenditure reports provided by the Office of Budget and Management (OBM)

¹ Salaries and employee benefits, for the Metered Parking Section, are not included in the above table since the expenditures were not charged to the Division's Enterprise Fund with the Department of Parks, Recreation and Properties. Rather, approximately \$650,000 of salaries and employee benefits, for the Metered Parking Section, were charged to the General Fund as part of the Department of Parks, Recreation and Properties.

Some of the more significant expenditure changes between the years on **Table 13-2** are as follows:

- Actual salaries expenditures have steadily increased from calendar year 1999 to calendar year 2001 due to annual cost of living increases, merit raises, part-time employee living wage increases and in some cases staff size increases.
- Salary expenditures were expected to increase significantly from calendar year 2001 to calendar year 2002, as budgeted by the Division. This was primarily due to expected increases related to a cost of living adjustments, merit raise(s), part-time employee living wage adjustment and an anticipated increase in staff size of one employee. Further, the expected increase also factors in a twenty-seventh pay during calendar year 2002 and an entire year's salary for one Administrative Employee, who only worked a portion of calendar year 2001.
- Employee benefit expenditures have increased significantly, each year, from calendar year 1999 to calendar 2001. Further, these expenditures are expected to increase significantly from calendar year 2001 to calendar year 2002, as budgeted by the Division. This was primarily due to overall rising health care costs, over the last several years, along with increases that are directly associated with the anticipated increase in salaries.
- Utility expenditures, were budgeted to increase significantly from calendar year 2001 to calendar year 2002, by the Division. This was primarily due to the actual calendar year 2001 utility expenditures not being available at the time the budget was created. The budgeted 2002 utility expenditure amount was based on the budget, for calendar year 2001, which was significantly higher than the actual expenditure amount.
- Contractual service expenditures decreased from calendar year 2000 to calendar year 2001, by a significant amount. A large portion of this annual expenditure line item relates directly to the payment of parking tax revenues to other City funds. Since parking tax revenues decreased significantly, the related portion of contractual service expenditures paid out, decreased during the same time frame.
- Inter-departmental charge expenditures are expected to increase significantly from calendar year 2001 to calendar year 2002, as budgeted by the Division. This is to eliminate deficits in the Internal Service Funds in 2002, that occurred over the last two years.
- Debt service expenditures decreased from calendar year 2000 to calendar year 2001, by a significant amount. Debt service expenditures are charged when funds are transferred to the debt payment bank account(s). For calendar year 2001, these transfers were decreased, because the bank had collected enough money to manage the debt payment.

Performance Measures

The following performance measures were used to analyze the operations of the City of Cleveland's Division.

- Assess the Division's staffing, operation, and training;
- Evaluate the adequacy and comparability of parking rates including the policy of providing free or reduced parking to City employees;
- Evaluate the adequacy of monitoring procedures, to ensure the accuracy and completeness of gross revenues, expenditures and net revenue as reported by the private management companies. Also, determine that the Division performed a review of the private management companies' record retention;
- Evaluate adherence to internal policies, procedures, internal controls and rate structure; and
- Evaluate external stand-alone computer operations.

Findings / Commendations / Recommendations

Staffing, Operation, and Training

F13.1 Staffing structure and reporting relationships denoted on organizational **Chart 13-1**, are presented as of February 1, 2002. The chart includes both the Parking Lot Facilities and Metered Parking Sections of the Division. In January 2001, the Parking Manager was temporarily reassigned to the Port Control Department, in order to solely oversee airport parking operations. However, the Parking Manager and the related employment position was never officially made part of the Department of Port Control. He returned to his position on March 3, 2002. Therefore, **Chart 13-1** accurately reflects the Parking Manager as a filled employment position within the Division.

F13.2 The Metered Parking Section of the Division, is comprised of the parking enforcement and meter maintenance areas. The staffing, related to the parking enforcement area, includes two enforcement supervisors and nine enforcement officers. The staffing, related to the meter maintenance area, includes a meter maintenance foreman and four parking meter servicemen. In addition, two senior clerks are assigned to the Metered Parking Section. One of the clerks is responsible to process metered revenues while the other clerk is responsible to process payroll.

F13.3 The revenues generated by the Metered Parking Section are comprised entirely of money collected from City owned parking meters. These revenues are included as part of the financial activity of the Division Enterprise Fund. However, the salaries and employee benefits are charged to the General Fund as part of the Department of Parks, Recreation and Proprieties. The Division Enterprise Fund's net income was \$368,000 and \$131,000 for 2000 and 1999, respectively, and had a unrestricted cash and cash equivalents of \$2,568,000 and \$2,030,000 at December 31, 2000 and 1999, respectively. After discussion in recommendation 13.1, the remainder of this performance report does not include any tables, findings, or recommendations related to the Metered Parking Section

Best practices, related to financial reporting of governmental and non-governmental entities, suggest and/or often require the matching of revenues to the associated expenditures.

R13.1 The City should investigate and analyze the current practice of reporting salaries and employee benefits, of the Metered Parking Section, in the General Fund while reporting the associated revenues in the Division Enterprise Fund. The self-sufficiency of the Division and the effect, if any, of the bond covenant(s) should be considered and analyzed prior to changing this reporting practice.

There is no overall financial effect related to the implementation of this recommendation. However, the City's General Fund could realize an annual financial savings of approximately \$650,000 by reporting Metered Parking Section expenditures within the Division Enterprise Fund. Consequently, the Division Enterprise Fund would incur an additional financial outlay of the same amount. During 2000, this enterprise fund had a substantial increase in its cash balance, therefore this fund could have supported the additional expenses without requiring a transfer from the General Fund.

- F13.4 The Parking Lot Facilities Section of the Division, as of February 1, 2002, has nine full-time employees and seven part-time employees. The Administrative Office Section, of the Division, currently has five full-time employees, including the Parking Commissioner and Parking Manager. **Table 13-3**, presents the staffing sizes as of December 31st during calendar years 1999 through 2001 and the budget for calendar year 2002 compared with the total salaries and benefits during the same four year time frame.

Table 13-3: Division (Parking Lot Facilities) Staffing Size

	1999 Year Actual	2000 Year Actual	2001 Year Actual	2002 Year Budget
Administrative Office				
Commissioner	1 Full-time	1 Full-time	1 Full-time	1 Full-time
Parking Manager	1 Full-time	1 Full-time	1 Full-time	1 Full-time
Budget Analyst	1 Full-time	1 Full-time	1 Full-time	1 Full-time
Senior Clerks	1 Full-time	1 Full-time	2 Full-time	2 Full-time
Parking Lot Facilities				
Parking				
Parking Coordinators	3 Full-time	3 Full-time	3 Full-time	3 Full-time
Parking Attendants	7 Full-time 8 Part-time	7 Full-time 7 Part-time	7 Full-time 8 Part-time	7 Full-time 9 Part-time
Total Staffing Level	14 Full-time 8 Part-time	14 Full-time 7 Part-time	15 Full-time 8 Part-time	15 Full-time 9 Part-time
Total Salaries/Benefits	\$652,210	\$749,888	\$809,517	\$958,158

Source: Expenditure reports provided by (OBM); 2002 Division Budget (includes staffing); Supporting Documentation from the Division.

F13.5 The current employee staffing for the Parking Lot Facilities Parking Section, the spaces available, the average occupancy rate, and the regular hours of operation for the various City-owned parking garages or lots as of February 1, 2002, are presented in **Table 13-4**.

Table 13-4: Staffing, Spaces Available, Occupancy Rate and Hours of Operation Parking Facilities and Lots as of February 1, 2002

Parking Facility/Lot	Hours of Operation ¹	Number of Full-time Attendants	Number of Part-time Attendants	Number of Full-time Coordinators ²	Spaces Available in Facility/Lot ³	Average percent of occupancy
Willard Park Garage	5:00 A.M. - 11:00 P.M.	2	5	2	1,600	100%
North Mall "C" Lot	6:00 A.M. - 6:30 P.M.	1	0	0	150	93%
Canal Basin Lot	6:00 A.M. - 6:00 P.M.	0	1	0	225	67%
Northmost Municipal Lot	5:00 A.M. - 6:00 P.M.	1	1	0	1,900	89%
Chester Lot	5:30 A.M. - 6:00 P.M.	1	0	0	175	97%
Superior Lot	5:30 A.M. - 6:00 P.M.	1	0	0	550	73%
Convention Center Garage	6:00 A.M. - 6:00 P.M.	1	2	0	325	92%
All Garages/Lots		7	9	3	4,790	93%

Source: Supporting Documentation from the Division

¹ All Parking Lot Attendants are assigned a start and end time. For parking lots which are not garages the attendant scheduled end time is before the scheduled operation end time and the fees are paid at arrival.

² The Parking Lot Facilities Section has an additional full-time coordinator that is not associated with any one specific garage or lot and therefore is not reflected in the table above.

³ The Parking Division also operates a St. Clair Lot with 30 monthly spaces, 100% occupancy, and no attendants.

- F13.6 The current revenue generated by parking facilities and lots for the year ended December 31, 2001 are presented in **Table 13-5**.

Table 13-5: Revenues Generated by Parking Facilities, Parking Lots, and Parking Meters for the year ended December 31, 2001

Revenue Source	Revenue
City Owned and Operated	\$3,736,819
Gateway Parking Lease	1,904,152
Other Leases	180,000
Metered Parking	1,707,139
Other Charges for Service	4,818
Total Charges for Services	\$7,532,928

Source: 2001 revenue reports provided by the Office of Budget and Management (OBM)

- F13.7 As of February 1, 2002, the Parking Lot Facilities Section of the Division has seven full-time parking attendants who earn annual base wages of between \$18,812 and \$29,558. The average annual base wages, for these full-time employees, is \$25,006 per year or approximately \$12.02 per hour. Also, the Parking Lot Facilities Section has nine part-time parking attendants who each work an average of twenty-eight hours per week, at an hourly rate of \$8.90, for an annual wage of \$12,958. In addition, the Parking Lot Facilities Section has three full-time parking coordinators who earn an average annual wage of \$40,020 per year or approximately \$19.52 per hour, based on an eight hour workday. Finally, the Division has two full-time Senior Clerks, dedicated to processing the transactions of the Parking Lot Facilities Section. The two Senior Clerks earn an average annual base wage of \$21,403 per year or approximately \$10.29 per hour.
- F13.8 **Table 13-6** presents the calendar year 2001 staffing level, total overtime hours paid by position, total overtime paid by position, and average overtime paid by position.

Table 13-6: Calendar Year 2001 Staffing and Overtime Paid

Staff	Total Hours	Total Overtime Paid	Average Overtime Paid
Full Time Parking Coordinators (3)	1,100.7 hours	\$31,602	\$10,534
Full Time Parking Attendants (7)	1,594.1 hours	\$30,907	\$4,415
Part Time Parking Attendants (8)	391.6 hours	\$4,895	\$611

Source: Division Budget Analyst and Administrative Services

F13.9 The staffing size, related to the Parking Lot Facilities and the Administrative Office sections of the Division, appears to be adequate and not excessive to accomplish the duties and responsibilities outlined in the formal job descriptions. In addition, the position of Parking Coordinator, within the Parking Lot Facilities Section, is held by three employees who each have between fifteen and twenty years of experience (in daily parking operations) with the City. Finally, the Parking Commissioner and the Parking Manager appear to jointly possess extensive knowledge and experience related to daily parking operations and overall parking management. Both employees have been with the Division for more than thirty years. In addition, the current Parking Commissioner had prior experience with a private parking facility(ies) and has a degree in Business Administration from Bowling Green University.

R13.2 The Parking Manager's responsibilities and job duties, as they currently exist, need to be analyzed in conjunction with the overall needs of both the Airport and the Division. In addition, consideration needs to be made regarding the financial reporting of the Parking Manager's salary and benefit expenditures and any subsequent interdepartmental reimbursement during the time period at the airport. This will allow for a more accurate and complete reflection of the cost of Division operations.

While there is no direct financial implication(s) related to the implementation of this recommendation, an indirect implication exists related to the improvement of financial statement presentation, including the reporting expenditures within the appropriate department and division.

F13.10 The Division maintains job descriptions for all of the employment positions of the division. Each individual job description describes the duties and responsibilities that an employee(s), in a specific position, must perform as part of his/her employment. A copy of the applicable job description is provided, by the Civil Service Commission, to all applicants (including current employees bidding on new positions and outside sources) prior to filling the employment position.

Overall, the duties and responsibilities reflected in the formal job descriptions, appear to be fairly consistent with the actual duties being performed as supported by the informal control procedures, accounting policies and the overall organizational structure of the Division. However, the job description, related to the position of Senior Clerk, does not appear to be specific to the Division but rather applies to the City as a whole. This may reduce or eliminate the usefulness of the formal job description. Finally, our review of the formal job description document(s) indicates that a portion(s) may be outdated based on the current duties and responsibilities and the length of time since the document was created or modified.

- R13.3** The City's Division should periodically review the existing job description, for each employment position within the Division, along with the actual duties, responsibilities and procedures being performed. Revision(s) should be made, to the existing job descriptions, so that the duties and responsibilities reflected are more job specific, within the Division. Further, other revision(s) and/or modification(s) should be made so that the duties and responsibilities listed are consistent with the actual duties, responsibilities and procedures being performed by the Division employees.
- F13.11 The Division does not have a regular liaison, in Financial Reporting and Control, to answer financial questions pertaining to overall divisional revenues or expenditures, individual transaction postings and monthly reporting. This weakness has also been noted in the performance audit of the Financial Reporting and Control Division.
- F13.12 The majority of the Administrative Office Staff, as well as the Parking Manager, previously attended formal in-house training related to the City's PeopleSoft Computer System. Further, two of the Senior Clerks have had in-house computer training on the Excel, Access and Word Programs. Computer system in-house training was conducted by the Information System Services (ISS) Department of the City. No formal training exists or has been conducted over the daily control procedures, performed by the Administrative Staff, related to revenue collections, ticket sequences and report processing. In addition, no formal training exists or has been conducted over the daily control procedures performed by the parking attendants and coordinators at the various facilities/lots.
- F13.13 Instruction and supervision related to daily transaction processing, is provided to new employees on an "on-the-job" basis, by existing employee(s) and/or management. The Senior Clerks in the Administrative Office, have been cross-trained to perform each others duties and/or control procedures. The Budget Analyst has been cross-trained to perform the duties and/or control procedures of the four Senior Clerks. The Parking Manager has been cross-trained to perform some of the duties and/or functions of the Budget Analyst. The Senior Clerks have been cross-trained to perform the remainder of the duties and/or functions.

Table 13-7, presents the number of formal internal training hours attended by each of the Administrative Office employees, including the Commissioner and Manager, during calendar years 2000 and 2001. In addition, this table also reflects the direct cost of training, for each individual employee, along with the total cost for management and for the non-management Administrative employees.

Table 13-7: Division Training Hours and Average Cost

<u>Employee Position</u>	2000 Year		2001 Year	
	<u>Training Hours</u>	<u>Direct Cost of Training</u>	<u>Training Hours</u>	<u>Direct Cost of Training</u>
Parking Commissioner	None	None	None	None
Parking Manager	None	None	16 hours	None
Total Management	None	None	16 hours	None
Senior Clerk # 1	16 hours	None	None	None
Senior Clerk # 2	None	None	16 hours	None
Senior Clerk # 3	None	None	None	None
Budget Analyst	16 hours	None	None	None
Total Administrative Staff	32 hours	None	16 hours	None

Source: Division Budget Analyst, Information System Service

F13.14 As reflected in **Table 13-7**, the Division employees have participated in only a limited amount of training during the past two years. The sixteen hours of training, provided to four of the six Administrative Office employees and management, related to a basic introduction to the City's PeopleSoft computer system. This training was provided by the Information System Services (ISS) Division, but not at a direct cost to the Division. The ISS Division bills the various other City Departments and/or Divisions, a predetermined regular fee, on a monthly basis which is done through an interdepartmental charge. However, the portion that actually relates to any training provided can not be easily extracted from the total interdepartmental charge. Additional training is available to City employees, related to the Excel, Word and Access Programs and is provided through the ISS Division. However, since this training is geared toward providing entry level instruction and since the Division employees were already familiar with the programs, no additional training has been utilized by the Administrative Office Employees.

R13.4 The Division should set up a program to ensure that staff maintain professional proficiency through continuing education and training. The training should be directly related to the employee's job duties such as new computer training, City policy changes, customer relations, or general office conduct and morale.

Adequacy and Comparability of Parking Rates

F13.15 **Table 13-8** presents the various parking rates, including early bird, daily, monthly and special events, that were in effect as of January 1, 2002.

Table 13-8: Parking Rates - City Parking Lots and Facilities

Parking Facility	Early Bird Daily	Daily	Monthly City	Monthly Non-City	Special Events
Willard Park Garage	\$ 6.50	\$ 8.75	\$ 55.00	\$110.00	up to \$ 10.00
North Coast Municipal Lot	None	\$ 2.00	None	None	up to \$ 10.00
North Mall "C" Lot	None	\$ 7.00	\$ 55.00	None	up to \$ 10.00
Canal Basin Parking Lot	None	\$ 2.00	\$ 40.00	\$ 40.00	up to \$ 10.00
Convention Center Garage	None	\$ 7.00	\$ 65.00	\$ 130.00	up to \$ 10.00
Superior Parking Lot	None	\$ 4.50	None	None	up to \$ 10.00
Chester Parking lot	None	\$ 4.50	None	None	up to \$ 10.00
St. Clair Lot	None	None	\$ 45.00	\$ 45.00	up to \$ 10.00
Gateway North Garage	\$ 4.75	\$ 6.00	\$ 85.00	\$ 85.00	up to \$ 20.00
Gateway East Garage	\$ 3.75	\$ 6.00	65.00	\$ 65.00	up to \$ 20.00

Source: Supporting Documentation from the Division; Rate Ordinance(s) or Resolution(s)

F13.16 The Division conducted a survey in December 2001 related to the parking rate(s) charged by private facilities and/or lots that were in close proximity to City-owned lots or facilities. The survey included the rate(s) charged for early-bird daily, regular daily, monthly and special event parking. In addition, the survey included the minimum rate(s) charged and the related time period, where applicable.

The survey was broken down into two sections: one that compared the rates for the Chester and Superior City lots to the surrounding lots and a second section that compared the rates for Willard, Convention Center and North Mall "C" to the surrounding lots.

F13.17 The first section of the survey indicates that the City's daily rate of \$4.50, at the Chester and Superior Lots, was lower than the regular daily rate at the majority of the surrounding lots. The second section of the survey indicates that the City's daily early-bird rate of \$6.50 at the Willard Garage was lower than the early bird rates at the surrounding lots. However, several of the surrounding lots do not offer an early-bird daily rate and their regular daily rates were significantly higher than the City's early-bird daily rate. In addition, the regular daily rate of \$8.75 for the Willard Garage lot was lower than the majority of the surrounding lots.

The survey also indicates that the regular monthly Non-City employee parking rate of \$110 at the Willard Garage was significantly lower than the rate(s) of all surrounding lots. Finally, the Willard Garage charges a minimum of \$2.25 for vehicles parked up to and including one hour, while other surrounding lots and facilities charge a comparable rate, but for fifteen minute intervals. Therefore, patrons are able to park for up to an hour at the Willard Garage at a rate that is as much as one-third to one-fourth of the rate charged at the surrounding lots.

F13.18 The Division conducted a survey in November 2001 related to the parking rate(s) charged by private facilities and/or lots that were in close proximity to the two City-owned Gateway Garages. The survey included the rate(s) charged for early-bird daily, regular daily, monthly and special event parking. In addition, the survey also included the minimum rate(s) charged and the related time period (i.e., 1st fifteen minutes, 1st half hour, etc.), where applicable.

F13.19 The survey indicates that the monthly parking rates of \$65.00 and \$85.00 for the Gateway East and North Garages, respectively, were lower than the rates of the majority of the surrounding lots. In addition, the survey indicated the current range of special event rate(s), of up to \$20.00, was in effect at both Gateway Garages and was comparable to rate(s) or range(s) charged at the surrounding lots. However, the current rate(s) and/or ranges for the Gateway East and North Garages went into effect on September 25, 2001. Prior to September 25, 2001 the Division was regularly charging a special event rate of \$10.00 per vehicle. This special event rate was significantly less than the rate(s) charged by surrounding lots.

R13.5 The City should consider raising the parking rates or range of rate(s) charged at the City-owned parking lots and facilities, including the two Gateway Garages, in order to be more competitive with surrounding parking lots. Specifically, increases should be considered regarding the rates at the Superior, Chester, North Mall "C" lots, and the Willard Garage. In addition, increases to the existing monthly rate(s) should be considered for the Willard, Gateway East and Gateway North Garages to be more competitive with surrounding lots. Finally, the time period covered by the minimum parking rate, at the Willard Garage, should be decreased to a quarter hour, in order to be consistent with the surrounding lots.

To be consistent with nearby facilities, the City should consider a daily rate at North Mall “C” lots of \$8.00, a daily rate at the Chester and Superior lots of \$5.00, and an early bird rate at Willard Garage of \$7.25. In addition, the City should consider a monthly rate at Willard Garages of \$140, Gateway East and Gateway North Garages of \$100.

F13.20 Codified ordinance section 133.33, originally dated in 1976, permitted City employees to receive free daily parking at the Northmost Municipal Parking Lot. City Council adopted ordinance 926-96, dated May 22, 1996, which amended codified ordinance section 133.33 This codified ordinance revision modified the rate or range of parking fees, that were permitted to be charged, including the rate to be charged to City of Cleveland employees. Specifically, the Division was now permitted to set and charge City employees up to \$20 per month to park at the Northmost Municipal Lot. However, from the date of this codified ordinance revision to the present, the Division has yet to set a rate or charge City employees to park at this lot. In order to receive free parking, City employees are required to obtain a monthly parking pass. To obtain the monthly parking pass, the City employees are required to complete a parking pass application, at the Division and show their City identification card or provide a letter from the Payroll Department supporting employment.

The Parking Commissioner has estimated that approximately three hundred (300) to six hundred (600) parking spots are utilized, on a daily basis, by City of Cleveland employees on a free basis. **Table 13-9** reflects the incremental increase in annual charges for services parking revenue that can be derived by charging City employees a nominal monthly fee to park at the Northmost Municipal Lot.

Table 13-9: Northmost Municipal Lot - Free Parking Elimination

Estimated ¹ Annual Employee Usage	Annual Revenue Generation at \$1.00 Per Day	Annual Revenue Generation at \$1.25 Per Day	Annual Revenue Generation at \$1.50 Per Day	Annual Revenue Generation at \$1.75 Per Day	Annual Revenue Generation at \$2.00 Per Day
75,000	\$75,000	\$93,750	\$112,500	\$131,250	\$150,000
100,000	\$100,000	\$125,000	\$150,000	\$175,000	\$200,000
125,000	\$125,000	\$156,250	\$187,500	\$218,750	\$250,000
150,000	\$150,000	\$187,500	\$225,000	\$262,500	\$300,000

Source: Supporting Documentation from the Division

¹ Estimated Annual Usage was calculated based on a work year of approximately two hundred fifty (250) days, after taking into account ten paid holidays, times the daily employee usage, which was estimated to be between three and six hundred vehicles per day.

F13.21 **Table 13-9** reflects an estimate of the annual free parking usage at the Northmost Municipal Lot, by City employees, and the potential revenue generation appears to be significant. The annual usage is based on a work year of approximately two hundred fifty (250) days, after taking into account ten paid holidays, times the daily employee usage, which was estimated to be between three and six hundred vehicles per day. Conservatively, the City would realize an increase in revenues of between \$75,000 and \$150,000. However, the potential exists for increased revenues of between \$150,000 and \$300,000 based on the utilization of the daily parking rate charged to non-City employees.

R13.6 The location of the Northmost Municipal Parking Lot restricts the City in the daily and/or monthly parking rate that can be charged and still remain competitive with private parking facilities. However, the City should consider discontinuing the practice of providing free daily parking to its employees at this parking lot. The implementation of a daily or monthly parking rate(s), for City employees, should only be considered after a detailed analysis is performed on its feasibility. The analysis should take into consideration both the current volume of City employees and non-City employees utilizing this parking lot on a daily or monthly basis. Further, the analysis should take into consideration the other parking or transportation alternative(s) that City employees have available.

By charging City employees a nominal daily and/or monthly rate, to park at the Northmost Municipal Lot, the City could realize additional annual revenues of between \$75,000 and \$300,000. The actual revenue generation would depend on the rate charged and the annual volume of parking lot usage.

F13.22 Codified ordinance section 133.33, originally dated in 1976, permitted City, County and Federal employees to receive reduced monthly daily parking at the Willard Garage. City Council adopted ordinance 926-96, dated May 22, 1996, which amended codified ordinance section 133.33. This codified ordinance revision modified the ranges of the monthly parking rate(s), that were permitted to be charged, to both City and County/Federal employees. Specifically, the Division was now permitted to set and charge a monthly rate of up to \$100, for City, Federal, and County employees, to park at the Willard Garage. However, from the date of this codified ordinance revision to the present, the Division has yet to increase the monthly rate(s) that City, Federal, and County employees must pay in order to park at this lot. Currently, City employees pay \$55 per month and County and Federal employees pay \$70 per month to park in the Willard Garage.

The Parking Commissioner has determined, through internal records and documents, the number of monthly City employee parking patrons to be approximately four hundred (400) and the number of monthly Federal/County parking patrons to be an additional four hundred (400). **Table 13-10** reflects the incremental increase in annual Charges for Services parking revenue that can be derived by increasing the monthly rate that City employees must pay in order to park at the Willard Garage. **Table 13-11** reflects the incremental increase in annual Charges for Services parking revenue that can be derived by increasing the monthly rate that County and Federal employees must pay in order to park at the Willard Garage.

Table 13-10: Willard Garage Monthly Rate Increase - City Employees

Estimated ¹ Annual Employee Usage	Annual Revenue Generation/Monthly Incremental Rate Increase			
	Monthly Rate Increase of \$10	Monthly Rate Increase of \$20	Monthly Rate Increase of \$30	Monthly Rate Increase of \$40
4,200	\$42,000	\$84,000	\$126,000	\$168,000
4,500	\$45,000	\$90,000	\$135,000	\$180,000
4,800	\$48,000	\$96,000	\$144,000	\$192,000
5,100	\$51,000	\$102,000	\$153,000	\$204,000

Source: Supporting Documentation from the Division, including City Council Ordinances and Car Count Sheet

¹ Estimated Annual Usage was calculated based on estimated monthly usage of between 350 and 425 parking patrons for twelve months

Table 13-11: Willard Monthly Rate Increase - County/Federal Employees

Estimated ¹ Annual County and Federal Usage	Annual Revenue Generation/Monthly Incremental Rate Increase		
	Monthly Rate Increase of \$10	Monthly Rate Increase of \$20	Monthly Rate Increase of \$30
3,900	\$39,000	\$78,000	\$117,000
4,200	\$42,000	\$84,000	\$126,000
4,500	\$45,000	\$90,000	\$135,000
4,800	\$48,000	\$96,000	\$144,000

Source: Supporting Documentation from the Division, including City Council Ordinances and Car Count Sheet

¹ Estimated Annual Usage was calculated based on estimated monthly usage of between 325 and 400 parking patrons for twelve months

F13.23 **Table 13-10** reflects an estimate of the total number of monthly parking passes sold to City employees for the Willard Garage during the calendar year. In addition, this table reveals that the potential revenue generation could be significant. The annual usage is based on a work year of twelve months, times the monthly employee usage, which was estimated to be between three hundred fifty (350) and four hundred twenty-five (425) vehicles per day. Conservatively, the City would realize an increase in revenues of between \$42,000 and \$51,000. However, the potential exists for increased revenues of between \$168,000 and \$204,000.

Table 13-11 reflects an estimate of the total number of monthly parking passes sold to County and Federal employees for the Willard Garage during the calendar year. In addition, this table reveals that the potential revenue generation could be significant. The annual usage is based on a work year of twelve months, times the monthly employee usage, which was estimated to be between three hundred twenty-five (325) and four hundred (400) vehicles per day. Conservatively, the City would realize an increase in revenues of between \$39,000 and \$48,000. However, the potential exists for increased revenues of between \$117,000 and \$144,000.

R13.7 The City should consider increasing the actual monthly parking rate(s) charged to City, County, and Federal employees at the Willard Garage. The governing ordinance that is presently in effect would permit a significant monthly rate increase for these types of employees. However, the implementation of any increase(s) in the monthly parking rate(s) should only be considered after a detailed analysis is performed on its feasibility. The analysis should take into consideration the current volume of monthly parking passes sold to City, County, and Federal employees along with non-City employees. Further, the analysis should take into consideration the other parking or transportation alternative(s) that City employees have available and could select instead of parking at the Willard Garage.

By increasing the monthly rate charged to City employees to park at the Willard Garage the City could realize additional annual revenues of between \$42,000 and \$204,000. In addition, by increasing the monthly rate charged to County and Federal employees the City could realize additional annual revenues of between \$39,000 and \$144,000. However, the actual revenue generation would depend on the monthly rate(s) increase and the actual number of City, County, and Federal monthly parking patrons.

Monitoring Procedures over Parking Management Companies

F13.24 The daily parking operations of the two Gateway Garages have been performed by outside management companies from the time the facilities were established to the present. Previously, the operations were managed by APCOA Parking through a formal lease that expired August 31, 2000, but was informally extended on a month-to-month basis through January 31, 2001. The operations are currently being managed by AMPCO based on a two year lease agreement dated February 1, 2001. This agreement contains a City option to continue the lease for up to three more consecutive one year lease periods, through February 1, 2006.

The current and past Gateway leases have permitted the management company to deduct monthly operating expenses and their management fee, from gross revenues, prior to submitting the net revenues to the City. Net revenues are submitted by the management company through a check, which is accompanied by a monthly reporting package. Collection, deposit, reconciliation and report preparation procedures, on daily revenues, are performed exclusively by AMPCO employees.

F13.25 The Division has historically monitored Gateway revenue collections based solely on the monthly reports generated and submitted by the outside management company. Supporting documentation for operating expenses, for payroll and non-payroll transactions, regularly were and continue to be reviewed by an internal auditor, from the Department of Port Control. However, the daily operating records and shift reports prepared by the management company, that support the revenue collections, were not regularly received and reviewed until October 2001. This extended review process was a result of recommendations made during the 2000 financial audit, but was not implemented until late September 2001.

The previous management company, APCOA, could not provide daily Gateway records related to revenue collection, for six dates in calendar year 2000. This weakness was brought to the Division's attention based on a recommendation in the 2000 financial audit. In addition, as of the date of this report, AMPCO could not provide Gateway records and/or supporting documentation for nine dates during April and May of 2001.

F13.26 The Internal Audit Division recommended the Division perform regular monthly audits, on the two Gateway Garages, related to the daily receipts, records and reports supporting the revenue collections. The Division began performing these audits, on a regular basis in October 2001. However, the policies and procedures over this monthly audit function have not been documented in written form. Further, the Division has not performed an analysis of the adequacy of divisional audit procedures, including the number of days selected each month, the records and/or documents to be reviewed, and the length of time required to perform these procedures.

The senior clerk, with the most experience, was chosen to perform this divisional audit function. The Division estimates that approximately sixty percent (60%) of the senior clerk's work week is spent on the divisional audit function and that it takes approximately four to five days to complete the audit of the records for one Gateway business day.

F13.27 The individual daily audit included reviewing the daily reports, counting tickets issued and collected, recalculating the revenues that should have been generated and reconciling actual revenues to those reported. In addition, the clerk's review included accounting for all voided and validated tickets for the date under audit. Beginning in November of 2001, the Division of Parking began auditing the daily revenues at the two Gateway Garages, on judgmental basis. Specifically, the Internal Audit Division suggested ten (10) days per month should be audited. In addition, the Internal Audit Division provided the Division with an audit form, on an excel spreadsheet, in order to document the result(s) of the daily audits. As of the date of this report, only minor discrepancies have been noted based on the results of the daily audits.

R13.8 The Division should formally document their internal audit policies and procedures that are performed over the daily records and reports of the two Gateway Garages. In addition, the Division should perform an analysis of the adequacy of the internal audit procedures, including the number of days selected each month, the records and/or documents to be reviewed, and the length of time required to perform these procedures. This analysis could be accomplished by having a supervisory employee, such as the Parking Manager or Budget Analyst, perform the entire internal audit function on one or more selected dates.

F13.28 The current management company, AMPCO System Parking, noted discrepancies in revenues reported at the Gateway North Garage during the months of April and May 2001. AMPCO calculated the lost revenues from these discrepancies and conveyed the information to the City's Division through a letter dated August 2, 2001. The City requested repayment of the missing money in a letter dated September 5, 2001. Also, in this letter, the Division informed AMPCO that an independent internal audit of the months of April and May 2001 was being conducted by the Internal Audit Division of the City. This audit was being conducted in order to verify the accuracy and completeness of the daily records and any missing money. In a letter dated November 5, 2001, AMPCO was notified the results of the audit which disclosed additional revenues not deposited as well as missing special event tickets, which represented additional potential revenue and money.

A settlement between the City and AMPCO was reached on January 3, 2002 whereby the City received a check for the total of the receipts not deposited plus a portion of the potential special event revenues not collected.

- R13.9** The City should consider the potential benefit that could be derived by eliminating the utilization of a private management company to operate the two Gateway Garages. The City would realize a significant increase in accountability and control over the daily gross revenue collections and the related supporting documentation. However, the City needs to analyze whether a financial savings or an additional financial burden would occur by eliminating the privatization of the Gateway Garage operations. Any potential cost increases associated with the elimination of the management company should be weighted against the benefits of increased accountability and control.

Internal Policies, Procedures, Controls and Rate Adherence

- F13.29 The Division has implemented various accounting procedures and/or controls over the revenue cycle for City-Owned facilities/lots related to the Parking Lot Facilities Parking Section. The controls consist of procedures performed by the lot attendants and coordinator(s) at the individual parking facilities/lots related to ticket issuance, collections, balancing, report preparation and revenue remittance to the Treasury Department. In addition, a Senior Clerk in the Division's Administrative Office reviews the daily shift and daily master reports prepared by the attendant(s) at each of the facilities/lots. These reports have been previously reviewed and approved by the coordinator, as evidenced by his/her initials, prior to their submission to the administrative parking office.

The Senior Clerk's review includes verifying ticket sequence(s), issued and redeemed, and the parking rate(s) utilized. Also, the Clerk enters the ticket sequence(s) utilized, sales information and revenue collections into a Monthly Sales Journal. The Monthly Sales Journal is prepared on excel spreadsheets within the Division's stand-alone computer system.

- F13.30 The Division has implemented various monitoring procedures and/or controls over the revenue cycle for City-Owned facilities/lots related to the Parking Lot Facilities Parking Section. The monitoring procedures are primarily performed by the Budget Analyst and the Parking Commissioner which occur on a monthly basis at a minimum. Revenues, receipts and deposit total(s), reflected on internally generated reports, are compared to the formal monthly PeopleSoft reports. In addition, the Budget Analyst performs spot checks on the receiving warrants issued, compared with the posting(s) within the PeopleSoft computer system.

Further, the Budget Analyst also performs surprise visit(s)/observation(s) at the various City-owned facilities/lots. The results of her surprise visit(s)/observation(s) are conveyed to the Parking Commissioner.

F13.31 As reflected in F13.29 and F13.30, it appears that the Division established sufficient application and monitoring controls over the processing of charges for services revenue at the City-owned parking facilities/lots. Further, the procedures and/or controls appeared to have been adequately communicated to all affected employees. However, the control procedures and policies were not formally documented in a written manner and were not distributed to all affected employees.

Best practices, related to the processing of revenue transaction, including application and monitoring controls suggest the creation of formal written policies and procedures. Further, as an additional best practice, the formal written policies and procedures should be distributed to the appropriate employee(s) performing each applicable function. Feedback, from the affected employees, related to the formal written policies and procedures should be obtained and/or considered.

R13.10 The Division should formalize its control procedures and policies over City-owned parking facilities/lots including those that effect the processing of charges for service revenue and those that relate to subsequent monitoring. This could be accomplished through the creation and implementation of a written policies and procedures manual.

F13.32 The rate(s) and/or range(s) for parking fees are established by City Council for the City-owned Parking Lot Facilities Parking facilities/lots and by the Board of Control for the two Gateway Garages. Changes to the actual parking rate(s) to be charged are conveyed by the Parking Commissioner to the applicable Parking Coordinator(s) in charge of the various facilities/lots and to the employee(s) from the outside management company.

In addition, the current rate(s) and/or range(s) were provided to and are maintained by the Administrative Office staff as a listing(s). This allows the Senior Clerk(s), Budget Analyst and Parking Commissioner to monitor revenues in conjunction with tickets issued and the rate(s) charged.

F13.33 During calendar years 2000 and 2001 the Division collected parking fees for City-owned lots in accordance with the rate(s) or range(s) authorized by ordinance. However, during calendar year 2000, the Division increased the early-bird parking rates charged at the two Gateway Garages without receiving formal approval from the Board of Control. This problem was corrected during calendar year 2001, through the Board of Control's approval of a contract with a new management company, which included an exhibit detailing the parking rate(s) or range(s) to be charged. Discussion with the Parking Commissioner and our review(s) of daily Gateway records indicate during calendar year 2001 the parking fees were charged and collected in accordance with the authorized rate(s) or range(s).

Stand Alone Computer Operations

F13.34 The Division is located in the Convention Center across from City Hall. Although the City has installed fiber optic cable to the Convention Center to connect it to the City's network, wiring inside the building has not been installed. Without access to the network, the Division cannot access the City's PeopleSoft financial system. The Parking Commissioner, Parking Manager and Administrative Office staff attended PeopleSoft training classes, however, they have not had the opportunity to use the system.

Microsoft Access, Excel and Word have been installed on several standalone computers which the Division uses for daily operations. Excel is used for recording revenues and sales as described in finding F13.35. The Access database software is used for billing, collection, and accounts receivable information for monthly customers at two of the city lots. The Financial Reporting and Control Division posts revenue and expenditure transactions and generates monthly reports which are delivered to the Division.

The Division has to rely on information supplied by the Financial Reporting and Control Division to reconcile the month end reports to internal documentation. The reports are not received by the Division until half way through the next month, so errors may not be detected and corrected for up to six weeks.

R13.11 The City should provide the Division with access to PeopleSoft. The Parking Commissioner, Parking Manager and Administrative Staff should receive additional PeopleSoft computer training. This would permit the Division Staff to utilize the PeopleSoft system to track daily revenues and expenditures and correct errors in a timely manner.

The financial implication of this recommendation relates to the cost of PeopleSoft computer training and wiring inside the Convention Center. However, some of the cost may be offset by the operational efficiencies gained through using PeopleSoft and automated ticket writers.

F13.35 The Division has a senior clerk assigned to each of the three major revenue sections. These sections include the City-owned lots and/or facilities, the Metered Parking Section and the Gateway Garages. Each senior clerk is responsible for processing daily transactions and/or reports for their section, including posting sales and revenue information, within the stand-alone computer system.

It is estimated that it takes one senior clerk approximately twenty hours per week to enter daily sales and revenue information for City-owned lots and facilities into the stand-alone computer system. Further, it takes a different senior clerk approximately fifteen (15) hours per week to enter daily sales and revenue information for the two Gateway Garages into the stand-alone computer system. Finally, it takes the third senior clerk approximately eight (8) hours per week to enter daily sales and revenue information for metered parking into the stand-alone computer system. This clerk spends an additional twenty-seven (27) hours per week entering accounts receivable information and parking ticket information.

F13.36 The Budget Analyst performs a monthly review of the internally generated reports in conjunction with the PeopleSoft system reports. It is estimated that the Budget Analyst spends approximately sixteen (16) hours per month to perform this review process. Insignificant differences are regularly noted between the two set(s) of reports which can be attributed to the timing of the data entry of revenues. Any significant differences in revenue postings, between PeopleSoft and the internally generated reports, are investigated and reconciled by the Budget Analyst. However, the performance of the monthly review and reconciliation process is not formally documented or evidenced through some other method.

R13.12 The Division should formally document the performance of the monthly review and reconciliation process that occurs between the internally generated reports and the formal PeopleSoft System reports. At a minimum, the Division should evidence the review and reconciliation process through the initialing or signing of the reports reviewed. However, when significant difference(s) are noted between the two reports any investigation performed and resolution(s) generated should be formally documented and provided to the Parking Commissioner for review. The Division could also gain operational efficiencies through the interfacing of the stand-alone system and PeopleSoft.

Conclusion Statement

The Division's overall staffing structure and needs appear adequate to operate the Parking Lot Facilities Section including the City-owned and operated garage facilities or lots and the two Gateway Garages. We performed analyses and documented findings related to staffing size, hours of operation and training. Improvement(s) can possibly be made as follows:

- *Metered Parking Revenue and Expenditure Reporting* - matching revenues with expenses; and
- *Job Descriptions* - updating job descriptions to more closely match the duties being performed.

The Division's rate and range structure needs to be reviewed and/or revised to be competitive with surrounding lots. We performed analyses and documented findings of comparison(s) of the rates or range of rates charged at private lots. Improvement(s) can possibly be made are as follows:

- *Overall Parking Rate and Range Structure* - increase rate(s) or range of rate(s) at various City-owned/operated facilities and the two Gateway Garages to be more competitive with surrounding lots;
- *Northcoast Municipal Lot* - eliminate free parking for City employees and implement a reasonable rate structure after analyzing the potential rate(s) that can be charged; and
- *Willard Garage* - eliminate or reduce the discount given to City, County, and Federal employees after analyzing the potential rate(s) that can be charged.

The Division's monitoring procedures over the gross revenues at the two Gateway Garages and the operating expenditures that reduce gross revenues were reviewed along with the divisional internal audit function. Overall, the Division should be commended for implementing an internal audit function over the gross revenues and operating expenditures related to these garages, however, from the findings noted, improvement(s) can possibly be made as follows:

- *Private Management Company Elimination* - consideration should be made to eliminate the use of a private management company for Gateway Garage operations due to continued problems with missing or incomplete records, questionable operating expenditures and daily revenue discrepancies; and
- *Formalizing Internal Audit Policies/Procedures* - consideration should be made to formalizing, through written policies and procedures, the divisional internal audit function over daily Gateway records and reports.

The Division established and/or generally adhered to all internal policies, procedures, controls and local ordinances related to parking rates and revenue collections. However, the Division should formalize its control procedures and policies over City-owned parking facilities/lots including those that effect the processing of charges for services revenue and those that relate to subsequent monitoring. This could be accomplished through the creation and implementation of a written policies and procedures manual.

The Division's utilization of a stand-alone computer system was reviewed, including various findings on the procedures. The more significant issues from this section relate to the Division not having on-line access to the PeopleSoft computer system, the inadequacy of PeopleSoft training previously provided, and the formal documenting/supporting of the monthly reconciliation process between the stand-alone computer system and the PeopleSoft computer system as it relates to reports generated and transactions noted.

Central Collection Agency

Background

This section summarizes the performance review of the City of Cleveland's income tax operations. The City of Cleveland's Division of Taxation operates a centralized collection facility known as the Central Collection Agency (CCA) for the purpose of collecting municipal income tax for the City of Cleveland (Cleveland) and any other municipality that wishes to outsource this process. An annual financial report, independently audited, is issued separately from the City of Cleveland's General Purpose Financial Statements.

CCA will be reviewed only at the operations level as it pertains to Cleveland. This will involve reviewing internal controls over billing, collection, depositing, and maintenance of delinquent accounts of Cleveland. Areas, such as client relations, creation of new clients, or other services will not be reviewed. For the purpose of illustrating various operational issues, comparisons are made throughout the report with the Ohio Department of Taxation, the Internal Revenue Service, and the Regional Income Tax Administration (RITA), a similar income tax agency.

Income tax rates statewide range from 0.40 percent to 2.85 percent, with Cleveland having an effective municipal income tax rate of 2.0 percent. Historically, income tax collections represent approximately 57 percent of Cleveland's General Fund revenue.

Organization Function

The Central Collection Agency is charged with the administering of income tax ordinances for Cleveland and other municipalities. CCA's tax collection services include, but are not limited to, the following:

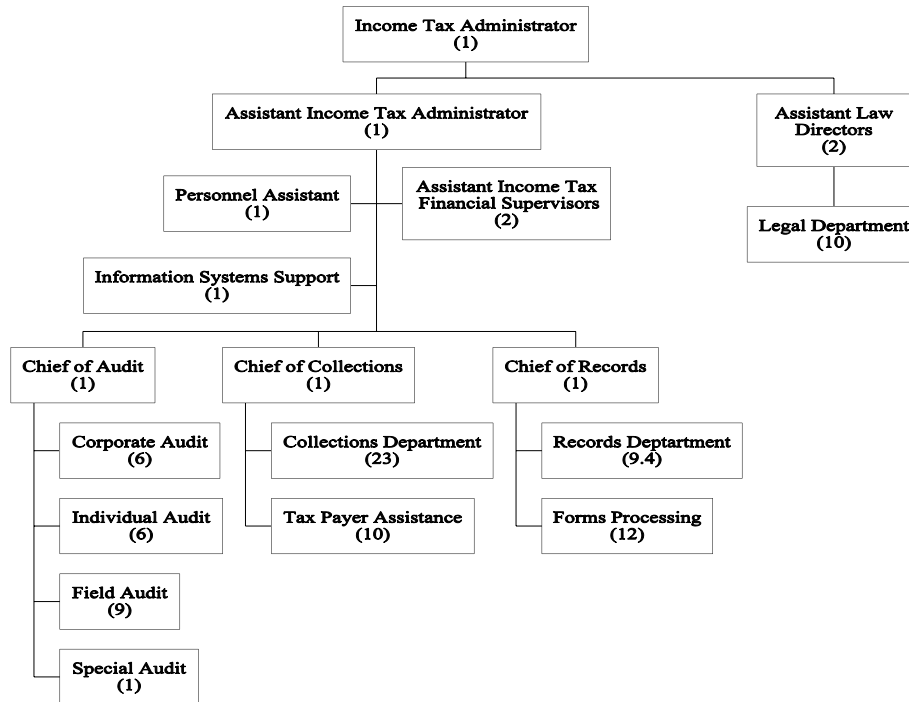
- Reviewing returns;
- Processing payments;
- Billing taxes overdue;
- Assessing penalties and interest;
- Depositing Collections;
- Issuing refunds;
- Mailing delinquency notices;
- Preparing court cases; and
- Distributing the taxes collected to the municipalities.

The only function not performed by the CCA for their member communities is the filing of court cases against delinquent tax payers.

Organizational Chart

Chart 14-1 depicts the organizational structure and staffing levels of CCA, as of January 1, 2002.

Chart 14-1: CCA Organizational Chart



Summary of Operations

At the inception of CCA, Cleveland’s first municipal income tax of 0.50 percent was enacted January 1, 1967. **Table 14-1** depicts the historical changes in City Cleveland’s income tax rate.

Table 14-1: Historical Effective Dates and Income Tax Rates

Effective Dates	Effective Tax Rate
January 1, 1967 through December 31, 1967	0.50%
January 1, 1968 through February 28, 1979	1.00%
March 1, 1979 through February 28, 1981	1.50%
March 1, 1981 through current	2.00%

Source: Central Collection Agency’s website www.ccatax.ci.cleveland.oh.us/effect.htm

CCA’s mission and primary objective is to efficiently collect the maximum amount of tax at the least possible cost.

Cleveland enacted Income Tax Ordinance 2393-66 effective November 28, 1966. This ordinance contained a provision granting the tax administrator the authority to enter into agreements on behalf of Cleveland with any other municipal corporation for administering the income tax laws of that municipal corporation as its agent and for providing a central collection facility on behalf of that municipality.

CCA started with fourteen member communities on January 1, 1967. During the period from 1967 until 1971, CCA grew to sixty-three municipalities and collections of nearly sixty-six million dollars a year. All communities were sharing tax on a 75 to 25-percent basis under a reciprocity agreement. During 1971, several municipalities began cancelling their reciprocity agreements. When Cleveland cancelled its agreement with the communities, forty-one communities pulled out of CCA. Many of these municipalities joined together to organize a Regional Council of Governments (RCOG) which later formed RITA.

Twenty-two municipalities remained with Cleveland and formed the framework for the current organization. The Central Collection Agency now has forty three-member communities and during fiscal year 2000 collected in excess of \$430,000,000.

CCA is governed by an Advisory Board and an Executive Committee. The Income Tax Administrators of each member community, in addition to the Income Tax Administrator of CCA comprise the Advisory Board. The Advisory Board is responsible for informing, consulting, and advising the Executive Committee of problems of common and mutual interest.

Four members of the Advisory Board and the Finance Director for Cleveland, comprise the Executive Committee. The Finance Director for Cleveland is the only permanent member. Presently, the income tax administrators of the cities of Willoughby, Painesville, Rocky River, and the Village of Bratenahl comprise the nonpermanent members of the Executive Committee. The Executive Committee establishes policy and addresses major issues related to CCA's staffing and budget.

CCA uses the Municipal Income Tax Information System (MITIS™) to process tax data. MITIS™ was developed by McHale US Connect in 1993 and was implemented at CCA in September 1994. The CCA Information System Services (ISS) personnel maintain the MITIS™ application. MITIS™ is a Windows-based application with an icon-driven interface. All aspects of tax collection, from processing returns to enforcing collections, are available through one interface.

Staffing

CCA is comprised of nine departments. There are the four audit departments: Corporate Audit, Field Audit, Individual Audit, Special Audit and five other departments: the Collections Department, the Forms Processing Department, the Legal Department, the Records Department, and Tax Payers Assistance. As of January 30, 2002, CCA has employed 95 full-time employees and 13 part-time employees. Staffing levels, job descriptions by classification, and corresponding salary ranges as of January 30, 2002 are noted in **Appendix A**.

Financial Data

Table 14-2 represents CCA's reported net collections, before reductions for overhead, in fiscal years 1998, 1999 and 2000. Amounts distributed to Cleveland represent, approximately, 69 percent of the total amount CCA distributed in FY 2000.

Table 14-2: Net Collections

	1998	1999	2000
Total Net Collections	\$392,699,784	\$415,346,899	\$427,460,694
Net Collections distributed to Cleveland	\$269,095,565	\$286,020,028	\$302,756,013
City of Cleveland as a percentage of the total net collections	68.52%	68.86%	70.83%

Source: Net Cost spreadsheets prepared by the Assistant Income Tax Administrator on a cash basis

Note: The gross amount collected in fiscal year 2001 for Cleveland was \$ 296,875,935. Net totals for 2001 were not available at the time of this report.

Table 14-3 represents CCA's reported actual expenditures in fiscal years 2001, 2000, and 1999 and the budgeted expenditures for 2002.

Table 14-3: Expenditures

Operating Expenses	Actual 1999	Actual 2000	Unaudited Actual 2001	Budgeted 2002
Employee Salary and Benefits:	\$3,130,703	\$ 3,650,486 ¹	\$3,895,314 ²	\$4,768,459 ³
Other Expenditures:	\$2,307,071	\$1,919,032 ¹	\$2,166,062	\$3,038,932 ³
Total	\$5,437,774	\$5,569,518	\$6,061,376	\$7,807,391
City of Cleveland's share of total CCA expenditures:	\$ 3,077,768.70	\$ 3,221,915.55	N/A ⁴	N/A ⁴

Source: Central Collection Agency 2000 Financial Statements and Mayor's Estimate for 2002

Footnotes:

¹ The variance between actual 1999 and 2000 salary expenditures are the result of an increase in number of employees and agency-wide step increases. The decrease between 1999 and 2000 other expenditures is the result of information systems expenditures being reduced to zero. Additionally, costs for office supplies decreased significantly, by approximately \$300,000.

² Salary expenditures increased in 2001, due to agency-wide step increases.

³ Salary expenditures are expected to increase in 2002, due to a proposal to increase staff, although the majority of the request is in the lower cost, seasonal student-aide area. There will also be additional salary expenditures for a 27th payroll this year.

Additionally, other expenditures are expected to increase due to increases in office supplies, professional services, office equipment, and interdepartmental charges.

⁴ Calculations are not available for unaudited figures.

Table 14-4 presents a comparative analysis, between CCA and RITA, for the number of forms processed.

Table 14-4: Number of Forms Processed

Form Type (per 2001 totals):	CCA	RITA
Employer Withhold	370,215	281,508
Net Profit Estimates	28,106	40,299
Net Profit Annuals	42,934	40,502
Employment and Residence Estimates including penalty and interest service.	293,232	362,654
Employment and Residence Annuals	464,435	446,022
Totals	1,198,922	1,170,985

Source: CCA's Year-End Summary of Distribution by form type and a Transaction lists provided by the Regional Income Tax Agency

Performance Measures

The following performance measures were used to analyze the Central Collection Agency:

- Analyze the efficiency of billing;
- Analyze the effectiveness of internal controls over the collection, depositing, and reporting cycles;
- Evaluate the management of delinquent accounts; and
- Analyze the adequacy and effectiveness of the organizational structure and staffing.

Findings/Commendations/Recommendations

Billing Efficiency

F14.1 All expenses of CCA are charged to Cleveland and its other member communities on a cost reimbursement basis for income tax collection services performed. Appropriately, the expenditures of CCA are presented in an Internal Service Fund. The amount of cost allocated is based on a two-factor formula. The first factor is the percentage calculated by dividing the revenue collected for Cleveland by the total revenue collected by CCA. The second factor is the percentage calculated by dividing the number of transactions CCA staff performed for Cleveland by the total transactions performed for all of the communities serviced by CCA. The cost allocated to Cleveland is calculated by multiplying the average of these two percentages by the final audited figure for total expenditures. The actual amounts, owed to CCA, are not finalized until the release of the CCA regular audit.

By comparison, RITA, also calculates charges for services to their communities using the same two-factor formula.

F14.2 Because actual amounts owed to CCA are not finalized until the release of the regular audit, CCA monthly deducts overhead amounts that would approximate the actual charges. Overhead amounts, charged monthly, are based on a percentage applied to gross collections. The percentage applied is determined from the last audited totals for cost and revenues. Therefore, the percentage is adjusted during the year as new audited information becomes available.

In October, the Assistant Income Tax Administrator determines if the current percentage for overhead cost will cover estimated year-end expenses. If overhead does not cover the estimated expense, a monthly incremental charge, will be applied until the end of the year.

At the end of their regular audit, audited expenditures are used to determine the amounts actually owed. This figure is then compared against the amounts deducted throughout the year. Adjustments are made accordingly.

F14.3 Effective and efficient billing for monthly overhead is evident if the total amounts retained from collections closely mirror the actual amounts due. Since collections for Cleveland are remitted daily after the second week each month, investment opportunities would be lost if amounts are needlessly retained and refunded in the subsequent year.

In comparison, RITA charged monthly retainer fees to the communities based on a negotiated fixed rate. For most cities this rate is 3 percent.

Table 14-5 represents a comparative analysis of monthly overhead under the following scenarios:

- Calculation of overhead retained monthly, using the current calculation used by CCA;
- Calculation of overhead, using RITA’s formula of a fixed rate of 3 percent of net revenue; and
- Variance from actual amounts due using both methods.

Table 14-5: Comparison of Calculations Used to Determine Overhead Withheld for Cleveland

Tax Year	1998	1999	2000
Actual amounts due:	\$3,155,666	\$3,077,769	\$3,221,916
Estimated Overhead Charged by CCA:	\$3,400,000	\$3,600,000	\$3,200,000
Variance between amounts actually due and CCA overhead percentage:	\$244,334	\$522,231	(\$21,916)
Variance as a percent of Net Revenue using current CCA calculation:	0.09%	0.18%	-0.01%
Overhead calculated using RITA’s formula of a fixed rate of 3%	\$8,072,867 ¹	\$8,580,601 ¹	\$9,082,680 ¹
Variance between amounts actually due and RITA’s Fixed Rate Calculation :	\$4,917,201	\$5,502,832	\$5,860,765
Variance as a percent of Net Revenue using RITA’s Fixed Rate Calculation:	1.83%	1.92%	1.94%

Source: Collection of Net Cost spreadsheets for 2000, 1999, 1998

¹Figure was calculated by multiplying net collections for Cleveland noted on the Collection of Net Cost spreadsheets by 3%.

C14.1 As noted in **Table 14-5**, using current CCA procedures, the total overhead retained until final disposition will be less than if they had used a fixed rate of 3 percent. Amounts retained differ from actual amounts due by an average of \$262,827. Using a fixed monthly percentage of 3 percent to retain collections, overhead retained would differ to actual amounts due by an average of \$5,426,933. Therefore, Cleveland has more funds to invest over a twelve month period using the CCA method. Current procedures in calculating monthly overhead are determined to be the most cost effective for the City.

F14.4 CCA bills for the following: any delinquencies; the overhead deducted from member communities as a charge for the income tax collection service; and the taxpayers for estimated income and net profit tax. CCA’s Rules and Regulation dealing with the Declaration of Estimated Tax (Tax on Income Not Collected at Source), requires a declaration of estimated tax will be filed by every taxpayer who anticipates receiving taxable income not subject to withholding.

Declaration of the estimated tax is filed on an entity’s net profit return or an individual’s annual city tax form. Taxpayers reporting on a calendar year basis will file a declaration of estimated tax on or before April 30 of each year or within four months of the date the taxpayer becomes subject to the tax for the first time. Taxpayers reporting on a fiscal year basis will file a declaration of estimated tax within four months of the date the taxpayer becomes subject to the tax for the first time.

Estimates for the current year could be paid immediately or in quarterly installments. If the latter is chosen, one fourth of the estimate is due on or before April 30th. The payment due, as noted on the form, is entered into MITIS™. Quarterly, MITIS™ remits billings of equal installments for the remaining quarters. Amounts are due on or before the last day of the months of April, June, September and January.

If the original estimate needs to be changed during the year, the taxpayer must file an amended declaration of estimated tax on or before any quarterly payment dates or may indicate the amended amount on the quarterly billing forms. The new estimate would be entered into MITIS™. MITIS™ would then change subsequent bills to reflect the change of the estimate.

F14.5 When the taxpayers’ annual tax forms and net profit forms are pre-audited at CCA, W-2’s and federal returns are used to determine tax due. When a specific taxpayer account is pulled for processing, MITIS™ would indicate the estimate amounts paid during the year. Failure to pay 80 percent of current tax due by January 31 of the following year or failure to pay an estimate based on 100 percent of the prior year tax liability by January 31 will result in a penalty of 1.5 percent and interest charge of 1.5 percent on the entire remaining tax balance per month after January 31st until the balance is paid.

In comparison, the Regional Income Tax Agency (RITA) also employs these exact rules called “safe harbor”. The IRS requires slightly stricter rules, requiring 90 percent of the tax due or 100 percent of the prior year tax liability is to be paid.

If a declaration of estimated tax is not completed on the annual or net profit tax form, CCA will not automatically bill that taxpayer. CCA uses the penalty deadline to receive timely payment from the taxpayer. Conversely, under RITA, if the estimate portion on the annual return is left blank, an estimate would be created and billed to the taxpayer based on prior year liability and distribution. It was noted though that CCA’s policies mirror the IRS, who also does not create estimated bills, if estimated tax forms are not completed.

Internal Controls Over Collections, Deposits, and Reporting

F14.6 **Table 14-6** illustrates the significance of income tax collections, which accounted for 57 percent of the total General Fund revenue and 41 percent of all Governmental Fund revenue. Unlike **Table 14-2**, the following information is taken from Cleveland’s General Purpose Financial Statements.

Table 14-6: Income Tax Collections

Year of Collections	Total Income Tax Revenue for Cleveland of All Governmental Fund Types	Income Tax as a Percentage of Governmental Funds Revenues	Income Tax as a Percentage of General Fund Revenue
2000	\$291,514,000	43.99%	56.79%
1999	\$285,947,000	38.79%	56.64%
1998	\$272,309,000	41.04%	56.58%

Source: City of Cleveland FY 2000, 1999, and 1998 Comprehensive Annual Financial Reports

Amounts restricted to particular funds are determined by city ordinance. Eleven percent of Cleveland's income tax is restricted to capital expenditures and debt service. Some restricted funds are also included in the Special Revenue Fund. All other income tax proceeds are credited to the General Fund. Operating expenditures, related to the collection of municipal income tax are accounted for in the Municipal Income Tax Administration Fund, maintained in Cleveland's Internal Service Fund.

F14.7 Returns for any municipality, including Cleveland, are collected in batches of thirty, by collection cashiers, members of CCA's Collection Department. Each batch of tax forms is entered into the MITIS™ system. MITIS™ programming controls validate the taxpayer identification (ID) number, and prevent the assignment of a non-valid tax ID number. Into the MITIS™ system, the first cashier enters the type of form, filing date, taxpayer ID, the period ended, and the dollar amount. Payments received are then entered into the MITIS™ system by a second cashier, thus providing for segregation of duties. Payment totals and taxpayer form totals are compared to ensure that all monies due have been collected and accounted for. MITIS™ does not permit further processing unless the two total amounts are in agreement. If there is an imbalance due to the cashier entering an incorrect amount on the form, the corrections must be made by supervisory personnel, which have been authenticated through a user name and password scheme.

The head cashier summarizes the cash received per the balanced batch totals and completes a deposit slip. Daily deposits should total daily batch sheets printed out by MITIS™. Deposits are made once a day with all monies collected after the predetermined cut-off time being applied to the following day. The head cashier then creates a receiving warrant from the deposit slip. Copies of the receiving warrants, along with additional journal entry forms (including payroll, advances, transfers, purchase requisitions) are sent, via a courier, to Cleveland's Treasury Department and Division of Accounts to be authorized and signed. Amounts are then entered into the PeopleSoft application by Financial Reporting and Control (FRC). A copy of the deposit slip and the authorized receiving warrants are returned to the administrative office. Deposits are sent via a courier to Key Bank, and the batches are marked as deposited in the MITIS™ system.

F14.8 CCA also uses the lockbox services of Key Bank for receipt and deposit of the majority of tax payments. Key Bank groups tax forms processed into form type (Individual annual or quarterly; Corporate annual or quarterly; tax assessments, and withholdings [W-3]) into thirty count batches. The bank then prepares forms noting the taxpayer ID and payment amounts in a particular batch, a daily summary of a particular Post Office (P.O.) Box, a daily total of all P.O. Boxes for scannable forms and other lockbox forms, advices of deposit, and daily deposit slips. A magnetic tape, copies of the deposits slip, and the forms mentioned above are then sent to CCA. The ISS department uploads the information on the tape to MITIS™. The department would then generate a “sequence report” noting the taxpayer ID, city code, period end, form type, and the amount of the payment. The forms are forwarded to the cashiers where they are balanced. Because the dollar amounts are already in the MITIS™ system and cash amounts are deposited, only one cashier enters the amount on the form as a balancing procedure to ensure that all data has been received from the tape. The head cashier then creates a receiving warrant from the deposit slip from the bank. The warrant is then sent to City Hall and a copy of the deposit slip is sent to the administrative office. The batch of forms will then be available to be pre-audited.

In comparison to the deposit transactions performed by CCA, RITA maintains a policy to send all payments and forms, even those mailed directly to RITA or paid in person at RITA to the bank to be handled through lockbox procedures.

C14.2 The MITIS™ system used by CCA, has incorporated many security features that automatically promote internal controls over collections. Through password security, MITIS™ will not allow any of the cashiers to perform more than one function. A segregation of duties between entering amounts paid and updating taxpayers accounts cannot be compromised. In addition, the system automatically maintains a record of all employees’ transactions at any stage of the collection process.

C14.3 The use of lock boxes is in conformity with best practices as described by the Government Finance Officers Association. They recommend the use of lock boxes to gain advantages in the areas of efficiency, accuracy, and cash flow. Concerning the high volume of income tax received, all three areas degree of efficiency is maximized by the use of lock boxes.

R14.1

CCA should create an electronic interface between MITIS™ and PeopleSoft, the primary computer system of Cleveland. Instead of manually writing receiving warrants and having a courier take the amounts to the Division of Accounts and Treasury for them to input into PeopleSoft, entries could be electronically entered into PeopleSoft. Online entries would eliminate the time expended to manually write up the warrants and physically transport them to City Hall. This would also reduce the amount of paper that is produced and stored. Currently, PeopleSoft system software has been provided to only one terminal at CCA.

The electronic interface would also increase efficiency if PeopleSoft was also used for all other journal entries and procedures. Journal entry forms, manually recorded for advancing amounts to Cleveland, or refund and administrative/payroll transfers would be eliminated. Current refund procedures, include producing a tape of the refund and payment information from MITIS™ and sending it by courier to City Hall to upload into PeopleSoft, would be more efficient if set up an electronic interface between MITIS™ and PeopleSoft.

An interface would also allow CCA to gather account information from PeopleSoft. Queries, used to extract data entered into PeopleSoft, are not performed at CCA, because of a lack of training and access to PeopleSoft.

While all employees should have access to PeopleSoft, for security purposes, only the Income Tax Administrator, Assistant Income Tax Administrator and the Assistant Income Tax Financial Supervisors should have the ability to update CCA financial data on the PeopleSoft system. All positions should be offered training for the specific applications within PeopleSoft.

F14.9

All forms are then sent through a “pre-audit” process. Within this process, the MITIS™ application recalculates the tax liability of each tax payer. W-2 information, provided by the taxpayer is entered into MITIS™ by the Collection Department to recalculate the taxes due. Any errors found by the auditor in the pre-audit process, resulting in the assessment of additional taxes, are billed directly to the taxpayer. Errors, which resulted in an overpayment of taxes, are credited to the taxpayer’s future returns.

All approved, pre-audited tax forms are then forwarded to the Collection Supervisor. The system compares the batch total to the total of the pre-audited forms to determine if any inconsistencies are present. Batches with no inconsistencies are marked as “finalized” within MITIS™. All other batches are adjusted for the payments sent and marked as estimated payments within MITIS™. These batches can now be marked as finalized. After a batch has been finalized, only senior level management can make changes.

F14.10 All finalized forms are then sent to the record room. The supervisor in the record room enters into MITIS™ that the form has been received. MITIS™ then marks the form as “filed.” The forms are then microfilmed and stored. Microfilm cartridges containing check amounts and form images are stored in filing cabinets in the record room.

R14.2 CCA should investigate the costs of electronically imaging tax forms as opposed to using microfilm. Electronic imaging would reduce the need for keeping the forms onsite, allowing more physical space. Also, since the image is electronically stored, the need to manually catalog and file microfilm would be eliminated. The time taken to find the microfilm or the actual form can be time consuming. Instead, the image of the form could be efficiently found online using a programmed search tool and electronically downloaded to an employee’s computer station. This improvement can be helpful in resolving taxpayer issues. If taxpayers’ forms are readily available, taxpayer issues can be resolved more efficiently.

This capability was available in MITIS™, when it was first installed in CCA. However, when CCA’s internal ISS department switched over from using Novel NetWare to Microsoft’s Windows NT, the application failed, because Windows NT was not compatible with the imaging software. The ISS department is currently looking for ways to get the software operational again. They have estimated that the cost will be approximately \$23,000.

F14.11 End of the month procedures at CCA include a reconciliation of all monies received via the lockbox deposits and the CCA deposits to the total monies distributed by the MITIS™ system. Reconciliations are performed by the Assistant Income Tax Supervisors with help from the Collection Supervisors. Any differences are investigated and corrected by the Collections Supervisor or the Head Cashier. No tax form whose check has already been deposited during the month can be held in the “pre-auditing” phase at the month end close.

R14.3 Reconciliations are not signed or initialed to give evidence of a supervisory review. We recommend the Tax Administrator or Assistant Tax Administrator initial or sign the monthly reconciliation after their review to document this key internal control.

F14.12 When the final total for the month is reconciled, a “voucher” statement is run from MITIS™ for each of the member cities indicating the total receipts, refunds, adjustments and overhead, and the expected net payment that will be wired to the member communities’ accounts. The statement serves as the official remittance advice, notifying the member communities of the monthly remittance they should expect to be wired into their accounts. However, for Cleveland, since estimated amounts are advanced from the CCA on a daily basis, this serves as a remittance advice for amounts to be distributed that day.

The “voucher” statement is attached to other MITIS™ reports run by the ISS Department and mailed to Cleveland by the Assistant Income Tax Administrator’s office. Each member community, including Cleveland, also receives the same spreadsheet reports each month which note net collections, monthly “voucher” amounts, and a breakdown of cash transactions paid.

The Assistant Income Tax Supervisors ensures that the respective reports reconcile to the amounts noted in the MITIS™ system.

R14.4 The annual financial reports are not generated directly from MITIS™. Instead the annual totals are calculated by transferring monthly amounts reported by MITIS™ over to Excel spreadsheets. MITIS™ should be utilized to produce management information reports to alleviate the manual intervention for Excel spreadsheets. With a direct interface to PeopleSoft, the internal division of the ISS department should pursue the possibility of producing reports directly from PeopleSoft, thereby reducing the chances of manual error.

Delinquency Management

F14.13 For CCA to maintain its objective of collecting the maximum amount of income tax, CCA has to use any available resource to identify delinquent taxpayers. CCA does employ both internal and external resources to identify delinquent taxpayers and delinquent withholders.

Internal efforts are performed to locate delinquent taxpayers who have an account in the MITIS™ system. One method involves annually querying MITIS™ for non-filers of two prior tax years. Another method, performed every three years, involves querying MITIS™ to pull non-filers over the prior five taxable years. These methods are performed separately for Cleveland and then for CCA’s other member communities.

F14.14 The first external effort is canvassing. This technique involves CCA's field auditors going door to door to businesses in a designated location to identify any businesses who have not filed with CCA. Currently, CCA is canvassing downtown Cleveland, including the "Flats" area. Canvassing of the entire city of Cleveland was last performed in 1996. CCA performs canvassing for their other member communities upon request.

A second external method of recovering unpaid taxes is an amnesty program. CCA has not implemented an amnesty program in more than fifteen years. The amnesty program must first be approved by the Mayor and Council. The Ohio Department of Taxation had just recently completed an amnesty program.

A third external method involves using tapes furnished by the Ohio Department of Taxation. The information on the tape, sorted by zip code, maintains a list of taxpayers filing state tax returns. After the zip codes of non-CCA communities are extracted out, the tape is then run against MITIS™ tax filers to determine individuals that do not have an account with CCA. The listing is then reviewed to locate anyone exempt from local filing requirements such as retirees or individuals less than 18 years of age. The names and addresses of those not exempt from filing are highlighted and letters notifying the person to complete the delinquent tax year(s) return and to send all of the necessary forms and support to CCA.

A fourth external source that CCA utilizes is real estate listings. Listings were gathered from the Plain Dealer. Recently, names and addresses have been excluded from these listings rendering this method useless.

The fifth external source is CCA's Legal department has access to listings of persons applying for credit. The listings are applied to MITIS™ to determine whether they have an account with CCA.

Finally, CCA utilizes a state sharing program with the IRS that, like the State of Ohio tape system, provides information, sorted by zip codes (restricted only to Cleveland), of all taxpayers filing any federal return. Information from the IRS can be manipulated to gather information on reported amounts filed on returns, such as taxable income reported or withholdings paid, by using data compression software, called STAX, purchased from Data Compression Technologies. This software is approved by the IRS and is used in other cities, such as the City of Toledo. Only certain employees from CCA are chosen by the IRS to use this software. This allows CCA, not only the ability to locate non-filers, but the ability to audit the amounts reported on the local returns against amounts reported on their federal returns.

CCA also uses the following external listings:

- Review of Cleveland’s building and occupancy permits issued; and
- Post office records.

F14.15 CCA does not have a specific department to handle delinquencies. Delinquencies of individual taxpayers have been managed on an agency-wide basis. The initiative starts with the Records department or the Chief of Collections and is then delegated to employees in different departments to locate delinquencies.

The employees, as delegated by the Chief of Collections, send out mailings to notify delinquent taxpayers to file forms for the tax year(s) noted on the letter. Letters are also sent to filed taxpayers, who made partial payments or did not calculate tax correctly. After first and second notices are mailed, a final notice is remitted to non-filers to send forms to CCA during a 10-day period in November, called RB Week or their account will be forwarded to the Legal Department for legal action. The Legal Department would then coordinate times with a judge to handle court cases.

These projects are only performed in the last quarter of the year, when activity in the Collections Department is slow.

Table 14-7 shows the number of delinquent cases forwarded to the Cleveland Prosecutor’s Office for 1999 through 2001, categorized by criminal and civil case load.

Table 14-7: Delinquent Cases

Year	Criminal	Civil	Total
2001 ¹	53	71	124
2000	154	259	413
1999	391	377	768

Source: Information was obtained by the Assistant Director of Law from a case management system entitled Amicus, used to track court cases

Footnote:

¹ The decrease in the number of cases filed in the past three years is primarily due to the Legal department’s shift of focus to CCA’s other member communities as they dealt with a large influx of lawsuits regarding S-Corporation filings.

The Corporate Audit did not perform projects to locate delinquent corporate entities in the past year, due to personnel issues, one of which was helping the Collections department during heavy filing seasons and helping to process a large influx of refunds. The next delinquency projects are scheduled for May 2002.

R14.5 CCA should consider creating a specific department to handle all delinquency projects, individual and corporate throughout the year. Presently, RITA maintains a separate department specifically for the management of delinquencies. CCA should also consider increasing the size of the legal staff to handle the influx of lawsuits.

Additionally, CCA does not maintain formal written procedures for delinquency management. Policies and procedures should be documented in a formal manual.

F14.16 Employers within the communities serviced by CCA are required on a monthly basis to withhold income taxes on employee compensation and remit withheld amounts to CCA by the 20th of each month. The exception would be employers withholding less than \$100 whereby remittances and payments could be filed quarterly and due by the 20th following the close of the quarter.

On or before the last day of February, following any calendar year in which such deductions have been made by any employer, such employer will file with CCA, an information return for each employee from whom municipal income tax has been withheld, specifying the municipality for whom the tax has been withheld showing all information required by the Federal Government on Federal Form W-2 or its equivalent. Information returns must also be submitted for each person receiving payments on a commission or fee basis as non-employees.

In addition to such information returns, the employer must file with CCA Form W-3 to enable CCA to reconcile the sum total of compensation paid and taxes withheld as disclosed by the total of W-2's. The W-3's is also reconciled to prior remittances and returns filed by the employer during the tax year with respect to taxes withheld.

The mere fact that the taxes are withheld from the employee will not relieve the employer of the responsibility of filing a return and remitting the tax on the compensation received.

F14.17 Annually, procedures to identify employers who did not file and remit monthly withholdings are performed by the Compliance department at CCA. The department would ask their ISS department to run a program to prepare a file of all monthly withholders with an active status during a specified time period. They are currently starting tax years 1998 to 2000. Criteria are used in the MITIS™ application, to create a list of those employers who are missing any filings or withholding payments within that the specified time period. These delinquent accounts are then compiled and broken down by community.

Field auditors would then receive this listing and review the accounts a second time in MITIS™. Field auditors then send out a notice to the employer to return the delinquent filings and payments. After a second notice is sent and there is no response, a final notice/appearance letter, is sent, notifying the employer to appear at CCA, with the delinquent filings and payments, or supporting documentation showing they are in compliance.

If a satisfactory response is not received by the date of the appearance, two field auditors appear at their place of business and demand documentation. If auditors do not receive a response, the account is pulled and forwarded to the Legal department to file criminal charges.

Similar to RITA, the statute of limitations to recover open assessments of municipal income taxes, and the penalties and interest on these amounts, is three years after the tax was due or when the return was filed. If the return was not filed, prosecution must commence after six years.

Effectiveness of the Organizational Structure and Staffing

F14.18 In **Appendix A**, are brief descriptions of each position at CCA and the minimum educational and experience requirements for the classification. The descriptions give a general overview of the duties for that classification. However, classifications, such as Accountants, Income Tax Tracers, Tax Auditors, and Auditors, may have specific duties within different departments that are not documented or presented only with a brief overview of the duties or responsibilities.

In comparison, RITA engaged KPMG Consulting to assist with the development of a documented agency-wide strategic plan. The descriptions give greater detail for the specific duties and responsibilities, as well as the general overview.

F14.19 CCA does not maintain annual performance evaluation techniques. At CCA, new hires are evaluated at the end of their probationary period. No subsequent evaluations are performed.

R14.6 CCA should develop job descriptions that document specific duties and responsibilities of each classification in a specific department. This description should be drawn together from the employee(s) presently working in this area, the applicable supervisor(s) input, along with the present agency description. Only when all these factors are considered, can a specific job description, with general responsibility be created.

In addition, CCA should employ quarterly performance evaluations. The evaluation process helps identify both employee strengths and weaknesses and is a valuable promotion tool and determination of pay rate.

F14.20 The City has been reluctant to fund the use of seasonal staff in the Collections Department, during peak collection seasons. CCA also has a concern that seasonal employees will not honor the confidentiality of taxpayer's returns and classified information and there is a high learning curve in this department teaching the employees how to operate MITIS™.

However, during heavy tax filing season, many people from other departments are assigned to the Collections Department to perform the "pre-audit" of the tax forms. This procedure, takes the employees away from performing their everyday duties.

In comparison, RITA hires seasonal employees and they are pleased with the results.

R14.7 Many important activities have been delayed in order to schedule the work-load around peak seasons. The City should examine funding CCA's request to employ seasonal staff from an agency that specializes in employees with extensive tax experience. This staffing will allow CCA to pursue projects that have been delayed.

F14.21 In selecting lower-level staff for CCA, the supervisors devised a small exam, consisting of number-key tests and knowledge of governmental entities. Administrative staff is required by Cleveland to take written exams to gather their knowledge of governmental agencies and tax codes.

F14.22 Once hired, an employee is assigned a mentor to work with for the first few weeks or as long as it takes the new hire to understand MITIS™ and the details of their jobs.

R14.8 CCA should consider a formal class to teach new employees about MITIS™. Also, CCA should update their booklet detailing MITIS™ and offer for an off-duty study period.

Conclusion Statement

Overall, CCA is efficiently managing the processes, document flow, and staff at their financial operations level. The performance audit mirrored the results of the fiscal 2000 financial audit, concerning operations and financial reporting. However, there are areas that CCA should review and initiate change.

An accurate billing calculation for monthly overhead is evident, since the total amounts, retained from collections, closely mirror the actual amounts due after year-end audit procedures take place. CCA's current process for billing Cleveland for monthly overhead charges for income tax collection services was accomplishing the purpose of allowing Cleveland to maximize its investment opportunities. This was supported by calculations that noted the total overhead retained differed from actual amounts due by an average of only .09 percent of total annual collections.

The internal controls over collections, deposits and reporting was analyzed and were found to be effective. The MITIS™ system used by CCA, incorporates many security features, that automatically promote internal controls over collections. However, in the assessment of internal controls, it was determined that CCA could benefit from electronic imaging as opposed to using microfilm. Also, it was determined that reconciliations performed as an internal control should be signed or initialed to give evidence of a supervisory review.

CCA should also consider creating an electronic interface, if possible, between MITIS™ and PeopleSoft, the primary computer system of Cleveland. Instead of manually writing receiving warrants and having a courier deliver the warrant to City Hall to be input into PeopleSoft, entries could be electronically entered into PeopleSoft. An electronic interface would also increase efficiency if used for other journal entries and procedures. Journal entry forms manually recorded to advance amounts daily to Cleveland, or for refund and administrative/payroll transfers would be eliminated. Improvements to the current refund procedures would occur if MITIS™ had the ability to upload into PeopleSoft.

Other uses for PeopleSoft would involve inquiring whether MITIS™ is capable of producing a daily tally of collections received allowing only one entry into PeopleSoft to be made. Also, year-end financial reports are not generated directly from MITIS™. Instead the yearly totals are calculated by transferring monthly amounts reported by MITIS™ over to excel spreadsheets. The interface capability between PeopleSoft and MITIS™ should be explored by CCA's internal ISS department.

Concerning staffing, prioritizing objectives in line with seasonal output, should be explored. Delinquency management should be performed on a year long basis. Seasonal help in the Collections Department should also be explored. Also, to improve the effectiveness of the employees, CCA should implement formal classes to teach new employees about MITIS™. Finally, a quarterly employee performance evaluation process should be implemented.

Appendix A

Table 14-8 displays CCA staffing levels, including part-time employees:

Table 14-8: Staffing

Position	Salary Range	Budget 2001	January 30, 2002	Budget 2002
Income Tax Administrator	\$41,312 - \$116,035	1	1	1
Assistant Income Tax Administrator	\$26,274 - \$61,684	1	1	1
Chief of Bureau Accounts/Collections	\$22,333 - \$53,538	1	1	1
Tax Auditing Bureau Chief	\$22,333 - \$55,412	1	1	1
Tax Records Bureau Chief	\$22,333 - \$53,538	1	1	1
Junior Cashier	\$5.24/hr - \$14.01/hr	5	4	5
Accountant I Clerk	\$5.15/hr - \$13.51/hr	1	1	1
Accountant II Clerk	\$5.46/hr - \$14.60/hr	9	9	9
Income Tax Tracer	\$10.39/hr - \$14.74/hr	24	18	25
Typist	\$9.63/hr - \$12.70/hr	1	1	1
Personnel Assistant	\$16,525 - \$38,070	1	1	1
Assistant Director of Law	\$26,250 - \$65,671	2	2	2
Tax Auditor I	\$10.60/hr - \$15.48/hr	20	19	20
Tax Auditor II	\$12.41/hr - \$17.11/hr	15	15	15
Project Leader Applications	\$30,215 - \$75,041	1	1	1
Assistant Income Tax Financial Supervisor	\$19,785 - \$47,849	3	3	2
Income Tax Supervisor	\$18,886 - \$47,849	8	8	7
Income Tax Files Supervisor	\$18,886 - \$47,849	1	0	1
Income Tax Financial Supervisor	\$22,333 - \$53,538	1	0	1
Auditor	\$22,333 - \$49,523	4	4	4
Paralegal	\$16,044 - \$36,782	2	2	2
Data Conversion Operator	\$9.63/hr - \$12.70/hr	1	1	2
Senior Data Conversion Operator	\$10.80/hr - \$15.21/hr	2	2	2
Student Aide/Seasonal	\$8.70/hr	8	12	20
Total		114	108	126

Source: Mayor's Estimate 2001, Mayor's Estimate 2002, and Antoinette Foster, CCA Personnel Assistant

Job Descriptions by Classifications

Income Tax Administrator

Duties include managing all aspects of the municipal income tax process. The Administrator is responsible for planning, organizing, and directing the work of CCA. The Administrator develops procedures and the applicable forms for use within the Agency. The Administrator issues administrative orders and rulings and resolves special tax cases where an interpretation of the ordinance is required. The Administrator prepares preliminary budget estimates, forecasts income tax revenue, and prepares new or related ordinances, and rules and regulations for the approval of the Executive and Legislative branches.

Qualifications:

Education: Requirements include a Bachelor's Degree in Business Administration or Accounting.

Experience: Requirements includes ten years of experience in processing tax records in a governmental tax office, of which, five years have been in a supervisory capacity.

Assistant Income Tax Administrator

The Assistant Income Tax Administrator (AITA) is responsible to the Income Tax Administrator for managing the daily operation of the Agency. The AITA advises the Administrator of problems, prepares progress reports, and consults with accountants, controllers, and other officials of communities concerning all problems. The AITA may initiate procedural and policy changes and interpretations for the approval of the Tax Administrator. Also, the AITA is in charge of the Agency in the absence of the Tax Administrator.

Qualifications:

Education: Requirements include a Bachelor's Degree in Business Administration or Accounting. Two years of full-time experience may substitute for one year of the educational requirement.

Experience: Five years of full-time experience in processing tax records in a governmental setting, with two years being in a supervisory capacity. Must be knowledgeable with Database Management Systems and proficient in Microsoft Office 97/2000 and various software accounting packages.

Chief, Bureau of Accounts and Collections

Administers the accounts and the collections operation within CCA. Responsible for all incoming mail, tax returns, checks, and correspondence. Oversees daily deposits and examines payments remitted directly by bank lock boxes. Assists in the development of new and revised tax forms and processes checks and forms of a problem nature.

Qualifications:

Education: Requirements include a Bachelor's degree in Accounting or Finance.

Experience: Ten years experience is required in management, preferably in a tax environment.

Chief, Tax Auditing Bureau

Manages the audit function within CCA. Directs the work performed by auditors and clerical personnel, submits written and oral reports to the Assistant Tax Administrator, conducts spot checks, and reviews the work of Bureau employees. Monitors the auditing of taxpayer books and records to ensure compliance with tax laws and regulations. Assigns audit projects to supervisors, reviews, and update CCA Rules and Regulations. Assists in the exchange of information with Federal and State Governments.

Qualifications:

Education: Requirements include graduating with a Bachelor's Degree in Accounting or Finance.

Experience: Ten years experience is required in management, preferably in a tax environment.

Chief, Income Tax Records Bureau

Oversees the systems and operations of Data Entry Information Center and Records Center within the Agency. Coordinates application of data processing to tax collection procedures and maintain production records of Bureau personnel. Oversees mass mailings of withholding reports, estimates, forms, and all other mailings. Analyzes production reports and identify opportunities for improved productivity. Provides educational and training opportunities for the Bureau staff.

Qualifications:

Education: Requirements include a four year degree in Finance/Business related fields. Master Degree is preferred.

Experience: Experience in the area of information systems and management is required.

Junior Cashier

Under supervision, receives and processes the collection of funds and sets up and balances accounts. Also, performs general clerical activity, assists other cashiers, prepares bank deposits, and provides courier services when required. Performs other job-related duties as assigned

Qualifications:

Education: Requirements include at least a high school diploma or equivalent.

Experience: This position must have good math skills, the ability to use 10-key calculator, and computer experience is required.

Accountant Clerk I

Duties include processing income tax returns including pre-auditing functions and coding, and opening and sorting mail. Performs other job-related duties as required.

Qualifications:

Education: Requirements include at least a high school diploma or equivalent.

Experience: This position must have good math skills, knowledge of bookkeeping and computer experience.

Accountant Clerk II

Under supervision, duties include performing routine recording of accounting information manually or on a computer. Performs other job-related duties as needed.

Qualifications:

Education: Requirements include at least a high school diploma or equivalent.

Experience: This position must have good math skills, and knowledge of bookkeeping and computer experience.

Income Tax Tracer

Under supervision, investigates and verifies the status of tax delinquents. Establishes taxpayers' legal status, place of employment, and residence, type of employment, sources of income, and determines ownership of real and personal property. Performs other job-related duties as needed.

Qualifications:

Education: A two-year college degree with minimum of six credit hours in principals of accounting is required.

Experience: Must have good math skills.

Typist

Under supervision, types correspondence, reports, requisitions, and other materials. Performs routine clerical work, answers telephones, takes messages, directs callers, operates office equipment and computers as needed. Performs other job-related duties as needed.

Qualifications:

Education: Must be a high school graduate.

Experience: Must have good math skills.

Data Conversion Operator

Duties include converting source document data into computer format. Verifies the correctness of data entries. Codes, reports and maintains computerized files. Resolves errors in source document data. Assists in the training of new operators. Performs other job-related duties as required.

Qualifications:

Education: Must be a high school graduate.

Experience: Must have good math skills.

Personnel Assistant

The Personnel Assistant is responsible for performing a variety of technical subprofessional personnel duties for CCA, including payroll management.

Qualifications:

Education: High school diploma with college degree preferred, but not required.

Experience: Administrative experience.

Assistant Director of Law

Duties include preparing and presenting tax cases in Municipal Court. Supervises and directs the operations of the Compliance Department which handles delinquent taxpayers.

Qualifications:

Education: Must have a Law Degree, and license to practice law in Ohio.

Experience: Experience in municipal taxes preferred.

Tax Auditor I

Responsible for performing either field or office accounting and auditing functions. Performs the investigation of businesses and individuals who are delinquent in filing tax returns. Assists in the preparation of tax returns and performs related duties.

Qualifications:

Education: College degree in accounting or business is required.

Experience: Minimum of two years of Income Tax Tracer experience.

Tax Auditor II

This position audits, conducts investigations, and assists in the preparation financial records of businesses and individuals subject to City tax.

Qualifications:

Education: Must have a college degree in accounting or finance.

Experience: Eight years experience as a Tax Auditor I is required.

Assistant Income Tax Financial Supervisor

Under supervision, this position prepares financial control statements for CCA. This position posts cash receipts and distribution payments and issues purchase requisitions and payment of vouchers. This position maintains control of journal entries and transfers and performs other job-related duties as required.

Qualifications:

Education: Requirements include graduating with a Bachelor's Degree in Accounting or Business.

Experience: Two to five years of accounting and financial reporting is required.

Project Leader/Applications

The Project Leader reviews data processing project proposals with users to determine project definition and scope. This position provides estimates of time required for project development and installation. This position provides technical direction and supervision to project group participants and leads project feasibility studies, develops and presents project proposals, and determines requirements for different control functions.

Qualifications:

Education: Requirements include graduating with a Bachelor’s Degree

Experience: Ten years of extensive information systems experience.

Income Tax Supervisor

This position ensures that all corrections to tax forms are made and batches finalized month-end closings. This position trains new employees on the pre-audit methods and maintains and updates mailing lists, handles return mail, and seeks proper addressing.

Qualifications:

Education: Requirements include graduating with a Bachelor’s Degree in Accounting, Finance, or related field. Two years of full-time experience may substitute for one year of the education requirements.

Experience: Five years of progressively responsible full time experience in administrative operations. Three years in governmental systems and various processing software (Kronos and PeopleSoft) is required.

Income Tax Supervisor/Supervisor of Income Tax Files

Performs the duties of an Income Tax Supervisor including supervising the income tax records’ storage operation within CCA to ensure compliance with legal and departmental requirements. Performs other job-related duties as required.

Qualifications:

Education: Requirements include graduating with a Bachelor’s Degree in Accounting, Finance, or related field. Two years of full-time experience may substitute for one year of the education requirements.

Experience: Five years of progressively responsible full time experience in administrative operations. Three years in governmental systems and various processing software (Kronos and PeopleSoft) is required.

Auditor

Under supervision, audits and/or examines various cities or divisional accounts. This position prepares various required financial and/or audit reports using standard accounting procedures. This position performs other related duties as required and reports to the Assistant Prosecutor for CCA.

Qualifications:

Education: Requirements include graduating with a Bachelor's Degree in Accounting, Finance, or business related field.

Experience: Five to seven years of investigative audit work and tax experience is preferred.

Paralegal

Under the supervision of the Assistant Director of Law, the paralegal performs legal research, compiles citations, summarizes depositions, prepares and maintains court and case files, files legal forms, and maintains the docket.

Qualifications:

Education: Must be a high school graduate and have paralegal certification from an accredited American Bar Association program.

Experience: Municipal tax experience is preferred, but not required.

Student Aide

Duties include filing tax returns. This position performs temporary accountant clerk duties.

Qualifications:

Education: High School student or graduate with good math skills.

Experience: This position must have the ability to type and use the computer terminal. Prior tax office experience helpful, but not mandatory.

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