



**CITY OF LAKEWOOD
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2007



Mary Taylor, CPA
Auditor of State

CITY OF LAKEWOOD
CUYAHOGA COUNTY

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CITY OF LAKEWOOD
CUYAHOGA COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Western Reserve Area Agency on Aging</i>						
Nutrition Program for the Elderly	N/A	10.570	\$0	\$8,419	\$0	\$8,419
Total U.S. Department of Agriculture			<u>0</u>	<u>8,419</u>	<u>0</u>	<u>8,419</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
<i>Direct Program</i>						
Community Development Block Grant - 2006	B-06-MC-39-007	14.218	1,385,569	0	1,385,569	0
Community Development Block Grant - 2007	B-07-MC-39-007	14.218	897,271	0	1,435,700	0
Total Community Development Block Grant			<u>2,282,840</u>	<u>0</u>	<u>2,821,269</u>	<u>0</u>
Emergency Shelter Grant - 2006	S-06-MC-39-007	14.231	51,676	0	51,676	0
Emergency Shelter Grant - 2007	S-07-MC-39-007	14.231	65,447	0	62,069	0
Total Emergency Shelter Grant			<u>117,123</u>	<u>0</u>	<u>113,745</u>	<u>0</u>
<i>Passed through Cuyahoga County Housing Consortium</i>						
HOME Investment Partnerships Program Grant	CE-0400-354-01	93.556	415,000	0	396,484	0
Total U.S. Department of Housing and Urban Development			<u>2,814,963</u>	<u>0</u>	<u>3,331,498</u>	<u>0</u>
U.S. DEPARTMENT OF HOMELAND SECURITY						
<i>Direct Program</i>						
Federal Emergency Management Agency Equipment Grant	EMW-2003-FG-11517	97.036	44,098	0	46,615	0
Total U.S. Department of Homeland Security			<u>44,098</u>	<u>0</u>	<u>46,615</u>	<u>0</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Western Reserve Area Agency on Aging</i>						
Title III, Part B - Special Programs for the Aging	N/A	93.044	131,552	0	131,552	0
Title III, Part C - Nutrition Services	N/A	93.045	58,225	78,792	58,225	78,792
Medical Assistance Program	N/A	93.778	131,010	0	131,010	0
Total U.S. Department of Health and Human Services			<u>320,787</u>	<u>78,792</u>	<u>320,787</u>	<u>78,792</u>
Total			<u>\$3,179,848</u>	<u>\$87,211</u>	<u>\$3,698,900</u>	<u>\$87,211</u>

The accompanying notes are an integral part of this schedule.

**CITY OF LAKEWOOD
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Note A – Significant Accounting Policies

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) summarizes activity of the City of Lakewood's (City) federal award programs. The Schedule has been prepared on the cash basis of accounting.

Note B – Subrecipients

The City passes-through certain federal assistance received from the U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As described in Note 8, to the basic financial statements the City records expenditures of federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these federal programs. Under OMB Circular A-133, the City is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

Note C – Matching Requirements

Certain federal programs require that the City contribute non-federal funds (matching funds) to support federally funded programs. The City has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.

Note D – U.S. Department of Housing and Urban Development and the HOME Program Grants

The City has established a revolving loan program to provide low-interest loans to persons from low to moderate income households to rehabilitate their homes. The U.S. Department of Housing and Urban Development (HUD) grants money for these loans directly to the City. The initial loan of this money is recorded as a disbursement on the accompanying Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on this Schedule. These loans are collateralized by mortgages on the property. At December 31, 2007, the gross amount of loans outstanding under this program is \$2,561,210. The Emergency Shelter Grant is directly received by the City. The U.S. Department of Housing and Urban Development HOME Program grant is passed through the Cuyahoga County Housing Authority Consortium.

Note E – U.S. Department of Health and Human Services

The U.S. Department of Health and Human Services grants are passed through the Western Reserve Area Agency on Aging.

Note F – Food Distribution

Non-monetary assistance, such as meals received from the Western Reserve Agency on Aging, is reported in the Schedule at the value of \$2.65 per meal served. Of the value of an individual meal served, the U.S. Department of Agriculture allocates \$1.00 per meal and the U.S. Department of Health and Human Services allocates \$2.65 per meal. For the year ended December 31, 2007, the City served 29,733 and 26,394 meals through the City's Office on Aging congregate meal program and home delivered meal program; therefore, the U.S. Department of Agriculture allocation was \$8,419 and the U.S. Department of Health and Human Services allocation was \$78,886.

CFDA – Catalog of Federal Domestic Assistance



Mary Taylor, CPA

Auditor of State

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

City of Lakewood
Cuyahoga County
12650 Detroit Avenue
Lakewood, Ohio 44107

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakewood, Cuyahoga County, Ohio, (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated October 2, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2007-001 through 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 2, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 2, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Lakewood
Cuyahoga County
12650 Detroit Avenue
Lakewood, Ohio 44107

To the City Council:

Compliance

We have audited the compliance of the City of Lakewood, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Lakewood complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more than inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated October 2, 2008.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 2, 2008

CITY OF LAKEWOOD
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grant – CFDA #14.218
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2007-001

Proper Encumbering – Noncompliance and Significant Deficiency

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

CITY OF LAKEWOOD
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)

FINDING NUMBER 2007-001 (Continued)

Proper Encumbering – Material Noncompliance and Significant Deficiency (Continued)

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time the contract or order was made (“then”), and at the time the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expenses. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Six of the 33 non-payroll expenditures (18%) tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City’s funds exceeding budgetary spending limitations, we recommend the Finance Director certify the funds are or will be available prior to obligation by the City. When prior certification is not possible, “then and now” certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The fiscal officer should deny payment requests when prior certification or “then and now” certification are not obtained.

Officials’ Response

The City of Lakewood Finance Department acknowledges and appreciates this finding and recommendation from the Auditor of State’s Office. The Department’s leadership is currently undergoing a thorough review of policies, procedures and practices to prevent future occurrences.

**CITY OF LAKEWOOD
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)**

FINDING NUMBER 2007-002

Timely Depositing – Material Noncompliance

Ohio Rev. Code Section 9.38 provides, in part, that any public official and/or employee who receives public monies shall deposit said monies with the treasurer of the public office or with a properly designated depository on the next business day following the day of receipt, if the total amount received exceeds one thousand dollars. If the total amount of public money received does not exceed one thousand dollars, the person shall deposit the moneys on the next business day following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy must include provisions and procedures to safeguard the monies until the time of deposit.

During our testing, we noted seven of the 60 license and permit receipts (11.7%) and twelve (12) of the sixty (60) income tax receipts (20%) tested were not deposited in accordance with the requirements mentioned above.

Failure to deposit public money in a timely manner increases the City's exposure to theft, loss, or potential loss of interest income.

We recommend the City adopt a policy requiring all monies collected be deposited with the Finance Director or properly designated depository on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the amount does not exceed \$1,000, the City's policy should either require the moneys be deposited on the next business day following the receipt or permit a different time period, not to exceed three days following the day of receipt, in accordance with the Revised Code section noted above. Additionally, the policy must include procedures to safeguard the monies until the time of deposit.

Officials' Response

Division of Municipal Income Tax acknowledges and appreciates this finding and recommendation from the Auditor of State's Office. The Division is currently working with our financial institution to institute a lockbox system to insure more consistent compliance with Ohio Revised Code Section 9.38. The Income Tax Division will continue to evaluate this situation and change the policy regularly as technological advances become available.

FINDING NUMBER 2007-003

Negative Fund Balances – Material Noncompliance

Ohio Rev. Code Section 5705.10(H) states that money paid into any fund shall be used only for the purposes for which such fund is established.

During our testing we noted the following funds had negative fund balances at December 31, 2007:

	<u>Negative Fund Balance</u>
Special Revenue Funds	
CDBG Fund	\$537,578
HOME Investment Program Fund	25,607
Family to Family Fund	14,661

**CITY OF LAKEWOOD
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)**

FINDING NUMBER 2007-003 (Continued)

Negative Fund Balances – Material Noncompliance (Continued)

We recommend the District utilize cash advances to these funds or other appropriate measures to ensure negative fund balances do not exist throughout the year.

Officials' Response

The negative CDBG Fund was due to a timing issue. Although the CDBG Draw Downs were processed on 12/28/2007, the funds were not wired to the city's bank account until after the end of FY 2007. The City's Fiscal Year usually ends at midnight December 31st of every year. The funds were not wired until January 1, 2008. It was too late to be accounted for in FY07.

FINDING NUMBER 2007-004

Workers Compensation – Significant Deficiency

The City is self-insured for workers compensation and has contracted with KKSG and Associates (KKSG) for the processing of billings and quarterly trend analysis. However, KKSG does not provide assurances to the City that it is properly processing the billings for the City.

In order to reasonably ensure the completeness and accuracy of workers compensation billings and the associated claims processed by KKSG, a Statement of Auditing Standards No. 70 (SAS 70) Tier II report which prescribes testing and reporting standards for audits of billing processing controls in place at the service organization should be provided. Therefore, the City should obtain a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" from KKSG. Such a report, if unqualified, would provide evidence to the City's management that workers compensation billings are being processed in conformance with the contract between KKSG and the City. Failure to obtain such a report puts the burden on management to provide evidence that billings are accurate and complete under the contract.

Officials' Response

The City of Lakewood Finance Department acknowledges and appreciates this finding and recommendation from the Auditor of State's Office. The Department will discuss this finding with the vendor, and will work to amend the current contract to require a SAS-70 Tier II report.

**CITY OF LAKEWOOD
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC 5705.41(D)(1) - Ten of the 67 non-payroll expenditures (15%) and 18 of the 40 accounts payable expenditures (45%) tested were not certified by the fiscal officer at the time the commitment was incurred.	No	Repeated as Finding 2007-001
2006-002	ORC 9.38 - 17 of the 60 income tax receipts (28%) tested were not deposited in a timely manner.	No	Repeated as Finding 2007-002
2006-003	The City did not obtain a tier II SAS 70 report for the company that performs workers compensation billings.	No	Repeated as Finding 2007-004
2006-004	There was no evidence that an annual on-site review was conducted during fiscal year 2006 or that an independent audit report was obtained and reviewed for CDBG deficiencies for 4 of the 8 subrecipients.	Yes	

