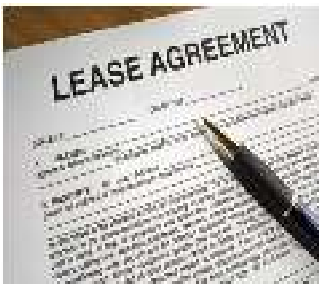
Audit Report Highlights

Facilities Revenue **June 2023**

Approx. Amount of Facilities Revenue[1] = $10 million **County Annual Budget[2] = $1.4 billion**

Why DIA Did This Audit



An audit was conducted to assess the adequacy of monitoring activities regarding facility revenue. This included reviewing processes relating to compliance with leasing policies and procedures and ongoing activities of property management. This was limited to leases in which the County was the lessor. The audit also included a review of non-lease revenue associated with County owned property usage. The audit was approved as part of the 2021 Audit Plan and then deferred until 2022. Leases posed an area of higher risk due to implementation of GASB-87 changes which were required for fiscal years ending December 31, 2022. The audit period under review was January 1, 2022 through December 31, 2022.

What DIA Found

The County does a good job managing the leases that are maintained. However, DIA did note the following internal control or compliance issues:

- There was a lack of Policy and Procedure Manuals for Property Management and PW-Fiscal.
- Lawson accounts receivable module was not consistently being used.
- Lack of tracking of capital improvements as required by leases at County Airport.
- Lack of understanding between County and City of Cleveland regarding the agreement for Justice Center shared costs.
- There was a missing payment for a lease associated with land owned by the County.
- There were payments being received by the County for an expired lease and leases in which the County did not have a copy of the lease agreement or evidence of renewal.
- Revenue from a lease was inappropriately accounted for in a special revenue fund.
- Lack of supporting documentation for lease payment based on gross receipts of lessee.
- Procurement Database of leases not complete.

Recommendations have been rated by priority: High, Moderate, Low, or Business Process Improvement.
The report contains 21 recommendations:

*3 **High** – 30 days to complete*
*14 **Moderate** – 90 days to complete*
*4 **Low** – 180 days to complete*
*0 **Process Improvements-** No action required*

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[1] Based on recorded 2022 lease revenue within Lawson. This includes lease revenue as well as Old Courthouse rentals, non-lease Airport revenue, and Justice Center shared usage revenue.
[2] The County Annual Budget includes operating appropriations from all County funds.

Audit Report Highlights

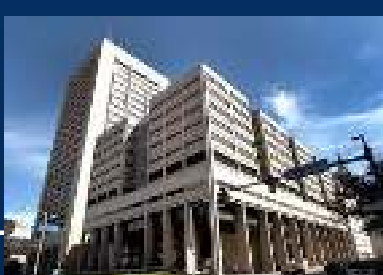
Facilities Revenue **June 2023**

Background

Public Works- Property Management is responsible for the setup, tracking, and general management of leases between the County and other parties. This includes instances in which the County is the lessee and lessor.

Public Works-Fiscal is responsible for the billing and tracking of payments received from revenue generating leases as well as other types of Facilities revenue. They may also follow-up upon late payments.

The Fiscal Office is responsible for implementing the GASB-87 requirements for lease accounting and reporting.



What DIA Recommended

DIA provided Public Works management with recommendations for improving internal controls. We provided these recommendations during fieldwork to lessen potential risks related to Facilities revenue. Doing so during the course of fieldwork rather than at audit completion allows the department a chance to remedy identified issues immediately and have no surprises when the report is written.

Public Works is working to address the issues noted in this report. Based on their responses, we believe corrective action will be taken to mitigate the risks identified. Management responses follow each recommendation in the report. Recommendations we made for management included:

- Developing Policies and Procedures Manuals for Property Management and PW-Fiscal.
- Utilizing the Lawson accounts receivable module for all Facilities revenue when available.
- Tracking capital improvements at the County Airport and other terms that are required as part of leases.
- Developing methodology for receivables from the City of Cleveland for usage of the Justice Center.
- Begin process of billing for current payments.
- Maintaining all current lease documentation.
- Place all lease revenue in the proper funds.
- Receive and review supporting documentation from lessee for lease payment based on gross receipts.
- Review to ensure all applicable leases are included in database.

Internal Audit would like to express our appreciation for the cooperation and assistance received from Public Works and Fiscal Office during this audit. The strides made help improve the County's efficiency and accountability.

Internal Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

Facilities Revenue Audit
Public Works
January 1, 2022- December 31, 2022

Director of Internal Auditing: Monica Houston, CPA, CGMA, CFE, CIDA

Audit Manager: Joshua Ault, CIA

Senior Internal Auditor: Jeremy Hejnal, CIA, CFE

Staff Auditor: Joe Balbier, Esq.

Release Date 07/12/2023

INTERNAL AUDIT REPORT
Facilities Revenue
Cover Letter

June 7, 2023

To: Public Works Director Michael Dever and current management of Public Works,

The Department of Internal Auditing (DIA) has conducted an audit of the organization's processes and procedures relating to revenue and receivables for facilities administered by Public Works-Property Management (referred to as Property Management throughout report) and Public Works-Fiscal (referred to as PW-Fiscal throughout the report) for the period of January 1, 2022 – December 31, 2022. Our objective was to assess the adequacy of monitoring activities regarding revenue generated from County owned facilities. This included processes to ensure ongoing compliance with leasing policies and procedures and the ongoing activities of property management including billings, collections, lease increases, etc. Our work was limited to leases in which the County was the lessor. Additionally, DIA assessed County processes for compliance with Governmental Accounting Standards Board (GASB) regulation GASB-87.

To accomplish our objectives DIA conducted interviews with management and staff regarding the procedures that Property Management and PW-Fiscal perform related to the life cycle of leases. The adequacy of monitoring activities regarding facility revenue agreements was assessed by reviewing lease and agreement terms, billings, payment collection procedures, payment amounts, lease increases, and lease approvals.

Our audit procedures disclosed the following internal control weaknesses:

- Lack of policies and procedures.
- Lease terms are not monitored for compliance.
- The Lawson financial system is not being used as intended for the accounts receivable process.
- Accounts receivable reconciliations were not performed, leading to a missed lease payment.
- Lease records were not retained.
- Lease receivables were not timely collected or appropriately written off.
- Leases were missing terms or continued without formal renewal.
- Lack of verification of rents paid.
- Revenue from a lease was incorrectly included in a special revenue fund.

We are confident corrective action has been taken or will be taken to mitigate the risks identified in this audit report. We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may weaken.

DIA would like to express our appreciation to Public Works staff and management, and interrelated departments that assisted throughout the process for their courtesy and cooperation during this audit. A draft report was provided to Public Works management for review. Management responses are included within the audit report.

Respectfully,

Monica Houston, CPA, CGMA, CFE, CIDA
Director of Internal Auditing

Cc: Cuyahoga County Council
Brendan Doyle, Interim Chief of Staff
Richard Manoloff, Law Director
Michael C. O'Malley, Cuyahoga County Prosecutor
Catherine Tkachyk, Chief Innovation Officer (Executive Agency Audit Liaison)

Contents

Glossary

Lessor	A person or entity that leases or lets land or property to another. The lessor is also known as a “landlord” and is the owner of the property.
Lessee	A person or entity that rents land or property from a lessor. The lessee is also known as a “tenant” and must uphold specific obligations as defined in the lease agreement and by law.
Lawson	County financial system that records revenues and expenditures.
Lawson Accounts Receivable Module (AR Module)	Module within Lawson that allows for receivables to be recorded within the system and for automated payment posting to the designated accounting units. The module is not currently functioning as intended and requires technical assistance before County-wide use can be implemented.
Justice Center	Downtown building at Lakeside Ave. and Ontario St. The complex is used by Cuyahoga County and City of Cleveland and houses the County Jail, Sheriff’s Office, County and City Courts, portions of the County Prosecutor’s Office, and Cleveland Police Headquarters (HQ). Cleveland Police HQ was sold to the County in 2018 and is currently leased to Cleveland. In addition to the lease agreement for Cleveland Police HQ, there is also an agreement for distribution of shared costs based on square footage of usage between City and County.
GASB-87	Governmental Accounting Standards Board (GASB) requirement that increases the usefulness of governments’ financial statements by requiring recognition of certain leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract.
ProLease	Lease administration database used by Property Management to track leases for the County. Documents can be uploaded to the system. Some members of PW-Fiscal have read only access to system.

Report Details

Purpose

The purpose of this audit was to conduct a comprehensive examination of the organization's processes and procedures relating to revenue and receivables associated with County owned property.

The Audit Committee approved DIA's 2021 audit plan to include an audit of revenue and receivables for facilities; however, the audit was deferred to 2022. Property Management is not a separate identifiable component of the Risk Assessment. Leases were considered an area of higher risk due to the changing requirements for leases as required by GASB-87.

The audit included review and evaluation of procedures, practices and controls as deemed necessary.

Audit Objectives

The objective of this audit was to assess the adequacy of monitoring activities regarding lease agreements and revenue associated with County owned facilities.

Scope

To accomplish our objectives, we focused on the review of processes that ensure compliance with leasing policies and procedures and the ongoing activities of Property Management and PW-Fiscal including billings, collections, reconciliations, contract term monitoring, lease increases, etc. This was limited to leases in which the County was the lessor for the period January 1, 2022 to December 31, 2022. Additionally, tests of transactions and controls were performed to determine if controls were operating effectively.

Methodology

DIA made inquiries to gain a general understanding of processes relating to the revenue process for facilities. DIA obtained all lease agreements active during the audit period and looked for noted approval of the agreement by the County legislative body.

DIA reviewed all payments received for leases and for County owned facilities usage in 2022 and compared to actual lease documentation or agreements to ensure all payments were made for the correct amount, payments were made in a timely manner as required by agreement, and payments were posted correctly to the Lawson financial system in a timely manner. DIA obtained supporting documentation for a sample of usage-based payments to ensure correct amounts were invoiced and paid.

DIA reviewed processes relating to the billing, collection, and recording of revenue associated with facilities. This also included reviewing procedures for reconciliation of revenue received and safeguarding of payments received, as well as systems utilized for accounts receivable.

DIA reviewed procedures in place for the monitoring of lease terms, for negotiations when leases were ending, and the setting of lease rates.

DIA inquired of Fiscal Office about what plans were in place and what work had been completed for GASB-87 implementation.

Finally, DIA reviewed any policies and procedures that were in existence for any of the departments' duties or processes and made recommendations for possible improvements.

Audit Procedures

Although every audit conducted by the DIA is unique, the audit process for most engagements consists of the following three phases:

- Planning
- Fieldwork
- Reporting

The planning phase of an engagement entails gathering sufficient understanding of the area being audited to identify and reduce key audit risks to an appropriate level. The DIA must document and develop a plan for each audit engagement, including the engagement's objectives, scope, timing, and resource allocation.

The fieldwork phase of an engagement entails executing the audit steps. This usually includes testing, reviewing, and analyzing data along with interviewing the appropriate personnel. Each audit has unique aspects and therefore the audit fieldwork and analysis performed on each audit segment should be customized for that assignment. See Methodology for a summary of fieldwork performed.

The DIA prepares written reports to communicate the results of each engagement. The format and nature of the report can vary depending on user needs and the type of engagement. Additionally, the DIA requires all engagements to receive an appropriate level of supervisory review and quality control as required by professional standards. At the time of report release, DIA resources required to complete the audit were as follows:

Stages		**Actual Hours**
Planning		295
Fieldwork		371
Reporting:		199
Review	23	
Draft Report	176	
	Totals	**865**

Background

Property Management is responsible for managing lease agreements involving the County. This may include obtaining necessary documents from lessee as required by the Purchasing Department, working with County Departments on needs for leases, and negotiating lease terms on behalf of the County. They also present the lease to the applicable County approval body (Board of Control or County Council) to ensure that leases have all the required approvals. Property Management will ensure any needed signatures from non-County leasing parties are obtained and are properly identified as the County contact for leasing concerns. Property Management utilizes Pro Lease software to track all leases in which the County is the lessor or lessee.

PW-Fiscal is responsible for invoicing lessees, ensuring payments are received, and that payments are properly posted to the County financial system (Lawson). If there are issues with payments, they work to resolve them as needed. There are approximately 20 revenue generating lease agreements, which accounted for approximately $5 million in payments to the County in 2022. There is also revenue associated with usage of County owned facilities, such as the Justice Center, Airport, and Old Courthouse. Rentals at these facilities accounted for approximately $4.9 million in 2022.

The Fiscal Office is responsible for ensuring County financial statements have all the required leases accurately accounted for and reported as required by GASB-87. The Fiscal Office outsourced the valuation of the leases to Auditor of State Local Government Services (AOS LGS) for an added fee. The Fiscal Office provides LGS with the necessary information regarding lease agreements and payment terms. LGS prepares lease valuations and financial statement disclosures. The Fiscal Office is responsible for the review and agreement of this information.

Commendable Practices

We commend and thank all of Public Works and the Fiscal Office for their cooperation during the audit. DIA especially thanks Property Management and PW-Fiscal employees for their time during the audit. Based upon the results of our audit, we believe lease processes relating to revenue are well managed. Specific commendable practices that DIA noted during the audit include:

- At the time of the audit, the Fiscal Office had already begun implementing GASB-87 requirements.
- Public Works meets monthly with the City of Cleveland regarding any issues on shared projects or to discuss various items. Issues regarding leases between County and City of Cleveland may also be discussed.
- PW-Fiscal utilizes the Lawson Accounts Receivable module (AR Module) for Airport lease billings and has payments sent to the County Lockbox.
- Payments were posted timely to Lawson (i.e. within one business day following deposit).
- Leases were appropriately approved by the County governing body.

Priority Level Criteria for Recommendations

High (P1)	**Highest-Ranking Officer's immediate attention** is required. Corrective action is strongly recommended (30 days).	
	• Financially material loss or potential loss • Lack of or failure of internal controls requiring considerable time and resources to correct • Non-compliance with laws, regulations, and policies resulting in significant loss of funds, fines, or restrictions • Significantly negative effect on the County's reputation or public perception	
Moderate (P2)	**Senior Management's attention** is required. Corrective action is recommended (90 days).	
	• Financial loss or potential loss • Internal controls exist but they are not effective, or they are not consistently applied • Non-compliance with laws, regulations, and policies resulting in loss of funds, fines, or restrictions • Negative effect on the County's reputation or public perception	
Low (P3)	**Management's attention** is required. Corrective action is recommended (180 days).	
	• Financial loss or potential loss is minimal • Internal controls exist, but could be improved • Non-compliance with laws, regulations, and policies is a minimal risk • No effect on the County's reputation or public perception	
Business Process Improvement (P4)	**Management or supervisory attention** recommended but not required	
	• Process improvement recommendation • Financial loss or potential loss is minimal or not applicable • Non-compliance with laws, regulations, and policies is a minimal risk or not applicable • No effect on County's reputation or public perception	

In an effort to assist the auditee in making the best use of their resources, we have prioritized the recommendations according to the table above.

Findings and Recommendations

PW- Facilities Revenue Findings

FINDING Lease Receivables Not Consistently Recorded or Timely Collected

Lease receivables are not consistently recorded and related payments are not timely collected.

During testing, DIA noted the following:

- The Lawson AR Module is not used for all facility billings and subsequent payments received. Use of the Lawson AR Module within Public Works is limited to certain divisions. As a result, payments cannot be sent to the Treasurer's Office Lockbox as the related receivable has not been recorded in the Lawson system. This also prevents the usage of automated reporting on accounts receivable status for monitoring and reconciliation purposes.
- Not all leases are billed. Billings were not produced by PW-Fiscal for three of 19 (16%) leases tested. PW-Fiscal relies on the lessee to self-manage the remittance of their annual payments.
- There were no formal receivable reconciliations performed by PW-Fiscal for any of the leases and facility revenue at the time of audit. Any spreadsheets maintained that showed revenue received were either incomplete or not approved by PW Management.
- A $4,200 annual payment for a lease agreement was not collected for 2021. It was later determined, after correspondence with the lessee, that a check for payment was sent to the County but never cashed. A repayment request was submitted, and the 2021 payment was subsequently received from the lessee on a check dated 4/20/2023.

Ohio Revised Code (ORC) requires that the County maintain current financial records that are accurate and to provide financial reports on County operations on a monthly basis to Council and the general public. Having a system and procedures that ensure accurate and timely collection and recording of accounts receivables is important in maintaining compliance with ORC.

The County's accounting system (Lawson) has a module which performs all these functions for an efficient and effective accounts receivable process (AR Module). It allows for automated payment collection via the Treasury Lockbox and payment posting within Lawson.

The Lawson AR Module lacks an Intelligent Process Automation (IPA) that would allow receivables input on the accrual basis of accounting to be automatically converted to the cash basis. Without such an IPA, the Financial Reporting department would have to manually convert each receivable to cash basis using the deferred inflow processing account, and revenue would be generated upon the creation of a bill, and not when payment is received. Due to this, the Fiscal Office has restricted use of AR Module to certain divisions that were a part of testing of the AR Module.

PW-Fiscal did not bill or perform a reconciliation for the lease in which there was a missing payment. There were also no Policies and Procedures that required the usage of the Lawson Accounts Receivable module, billings to be sent for leases, or reconciliations of rent receivables to be performed.

Risk to the County if Not Corrected

By not utilizing Lawson for all billing and accounts receivable lease payments, the County is not fully utilizing the capabilities of its financial system. Also, by not billing for or performing revenue reconciliations for all leases there is an increased risk that payments may be missed. Also, improper billing and reconciliations can lead to a loss of revenue due to uncollected payments, and inaccurate financial statements.

Recommendations

1. (P1) All bills for leases and Facilities revenue should utilize the County's Lawson system once the IPA is available to automatically process receivables on the proper basis of accounting. The IPA is anticipated to be completed by late 2023 or early 2024.
2. (P1) Until PW-Fiscal can use the Lawson Accounts Receivable module, it should implement the following processes:
    - Bill lessees in accordance with lease terms for every payment.
    - Perform receivable reconciliations. Document the date and dollar amount of bills sent and payments received. This should be reviewed and approved by a supervisor to ensure all necessary bills have been sent and payments received, deposited, and posted to the financial system.
    - Maintain an updated list of current lessees and payment terms.
3. (P1) Once the accounts receivable reports can be run from the AR Module, they should be run and reviewed on a regular basis (i.e. monthly or other set time frame) to show money received versus billed from the Lawson system. Management should approve accounts receivable report reviews to ensure that monies have been properly received.
4. (P2) Procedures for billing and accounts receivable reporting should be included within the Policy and Procedure Manuals for PW-Fiscal recommended in the Policy and Procedure finding within this report.

Management's Response:
The Department of Public Works agrees with the noted condition and will take corrective action. However, Public Works would like to note that the AR module is not fully functional thus we have been unable to fully transition our account receivable to the AR module. Public Works previously utilized a spreadsheet for tracking and reconciling of all lease payments. This spreadsheet has been reinstituted and is currently being utilized.

Target Date of Completion: Early 2024 based on AR Module implementation

FINDING Lease Receivables for Justice Center Not Timely Collected or Written Off

Lease receivables are not timely collected or appropriately written off.

Historically, there have been variances between what the County invoices the City of Cleveland (Cleveland) and what Cleveland pays for shared costs of the Justice Center.

The County invoices Cleveland on an annual basis. Cleveland reviews the invoice and reduces any questioned or disputed costs from the payment. Per discussion with the PW-Fiscal Business Services Manager, the nature of the questioned or disputed costs varies from year to year and such is not provided by Cleveland until an inquiry is made. Based upon the work performed, it appears that the identification and resolution of the payment variances take greater than a year to resolve and often times are carried over onto invoices for subsequent years. DIA further noted that when reductions to the billed amounts are made by the County to resolve the dispute, there does not appear to be a valid approval process for the receivable write-off.

For 2022, the County invoiced Cleveland for $2,554,115.39. This included a $154,405.76 balance from the prior year's invoice. Cleveland paid $1,820,672.80 for the 2022 invoice. The $733,442.59 variance remains unpaid to date and the PW-Fiscal Business Services Manager could not provide insight as to what items were being disputed or why.

There should be a clear process between the County and Cleveland to address any questioned or disputed costs. Uncollectible amounts should be identified timely and written off as appropriate.

There is a 1972 agreement between the County and Cleveland, amended in 1993, for the ownership and usage of the Justice Center, a building that both entities have historically utilized for Courts, Jail, and Cleveland Police or Sheriff's Office Headquarters. Per the agreement, Cuyahoga County maintains and operates the facility. Cleveland is required to reimburse the County for shared costs. The agreement states in part relating to what Cleveland would pay for:

"Operating expenses of the Courts Building shall be apportioned between the County and the City in the ratio determined by dividing the area assigned to the exclusive use of the City by the total area assigned to the exclusive use of the City and the County. Operating expenses shall include: electricity, steam, gas, sewer, water, and other utilities required in connection with the operation and maintenance of the Courts Building and underground parking facilities."

"Wages and benefits of County employees performing services in connection with the operation and maintenance of the Courts Building and underground parking facilities."

"Other expenses and costs reasonably necessary to be incurred for the purpose of operating and maintaining the Courts building and underground parking facilities."

"The City's current percentage of use of the Tower portion of the Justice Center and its related underground parking facilities is 29.66%."

The agreement terms relative to necessary maintenance and operating expenses are ambiguous. Thus, there is a clear lack of understanding between the County and Cleveland as to what maintenance and operating expenses should be shared or what type of documentation would be provided to support the amounts invoiced. The county also lacks clear policies and procedures relative to the write-off of lease receivables.

Risk to the County if Not Corrected

Lack of understanding with Cleveland as to agreed upon expenses, or the support to be provided, has resulted in continued instances of unresolved discrepancies and untimely payments. Revenues and receivables may therefore be overstated. Additionally, resources may not be utilized efficiently as the additional effort for PW-Fiscal to work with Cleveland regarding disputed expenses is significant.

Recommendations

1. (P2) PW-Fiscal should develop procedures relative to how costs will be invoiced and collected from the City of Cleveland for the reimbursement of the shared costs of the Justice Center. This should include criteria for qualified expenses to be invoiced costs as per the agreement with Cleveland.
2. (P2) These procedures should be provided to Cleveland to clarify what the County will be invoicing for and the type of support they will be receiving. If there are questions raised, PW-Fiscal should work with Cleveland to come to an understanding on agreed upon expenses and/or the invoicing process. This may require a legal opinion on contract language or updating the agreement to clarify the terms of shared costs.

3. (P2) If there is ever need to write off a portion of the invoice, (i.e. continuation of discrepancies between what is invoiced and what is paid), Management approval should be required.

   Management's Response:

   Public Works will meet with the Fiscal Office to discuss the timing of receiving payments from Cleveland and the process used to collect amounts owed. Public Works will continue to work with Cleveland, with continued communication and maintaining documentation of questions raised by Cleveland to see if further changes can be implemented to the billing and accounts receivable process to make it more efficient and timelier. Public Works over the years have developed a spreadsheet for reporting expenditures to the City of Cleveland. This spreadsheet was created in collaboration with the City and captures all agreed upon expenditures in a format that is acceptable to the City. The City in their due diligence audits these expenditures once the invoice and spreadsheet are received. Cleveland traditionally remits a partial payment until all audit questions have been answered. Once all questions have been answered the City remits the remaining monies. There is never a need to write off expenses. All space maintenance costs are allocated to a building and if there is an error in allocation, the expenditures are reallocated to the correct building.

   Target Date of Completion: Meeting with Fiscal Office July 2023

FINDING Airport Lease Terms Not Monitored for Contract Compliance and Enforcement

County Airport lease terms are not monitored for contract compliance and enforcement.

During testing, DIA noted the following:

- Six of 14 (43%) Airport lease contracts reviewed required the lessee to perform capital improvements to their building(s) or surrounding area at the County Airport. For all 6 (100%), there was no evidence that the work had been performed in the required timeframes or that required improvement amounts were spent.

It was further noted, that written policies and procedures that ensure contract compliance and enforcement by Property Management or PW-Fiscal did not exist.

There were also no written procedures for these processes to be performed by any division of Public Works.

The most common lease agreement terms at the County Airport are long-term land leases with tenant ownership of the building and any improvements. As the tenants own their building, they are completely responsible for its maintenance.

These long-term land leases include language that requires a certain dollar amount of capital improvements within a certain timeframe. The specific language of each contract will vary in the amount of time, dollar amount, and exact improvement terminology. The following table illustrates the lease and improvement terms found in the lease agreements:

Lessee	Improvement Timeframe	Improvement Amount
1	1996-2023	$100,000
2	2020-2022	$150,000
3	1993-1998	$2,000,000
4	2007-2009	$4,000,000
5	2021-2026	$14,000,000
6	2018-2028	$3,000,000
Total		**$23,250,000**

The lease contracts require that capital improvement documentation be submitted to the County so it can review plans prior to construction or costing information after construction. Despite these provisions, Public Works did not possess any documentation regarding the lessees' capital improvements. By not providing capital improvement documentation required in the contract, the lessees are in non-compliance with lease terms.

Review of capital improvement requirements or certain lease requirements was never established as a Public Works division's duty within a Policy and Procedure Manual. The current Property Management system either is not or cannot be utilized to monitor specific lease terms. Usually, only basic information is input into Property Management software (ProLease) such as term dates for revenue-generating leases, as ProLease was not designed for use by lessors but for tenants or lessees.

Risk to the County if Not Corrected

Lack of lease term monitoring may result in lessee non-compliance and failure to take timely action to enforce the contract. Lack of contract enforcement may lead to the ineffective use of land assets that results in property devaluation. By not ensuring that capital improvement requirement leasing terms are met, buildings on County property could become in a state of disrepair. Additionally, the county could experience a potential loss of rental revenue due to the lack of asset appreciation as investments in capital improvement oftentimes incentivize lessees to renew their lease at the end of the period.

Recommendations

1. (P2) Property Management should have all applicable lease terms input within Property Management software or another database (if current lease software is not sufficient, to facilitate timely review of applicable lease terms). This includes information such as years and payment amounts, as well as any terms that would require the County to receive documentation from the lessee to support work performed or payments due. This may necessitate changing the current lease management software or creating own database. Property Management should then obtain and maintain supporting documentation showing applicable lease terms were met.
2. (P2) Property Management should incorporate lease term monitoring within the Policies and Procedures recommended in the Lack of Policy and Procedure findings in this report. This should detail the process for reviewing if capital improvements have occurred and for obtaining all required lease term documentation.

Management's Response:

The Department of Public Works agrees with the noted condition and will take corrective action in future agreements, including creating a process for and obtaining required capital improvement documentation. However, the aforementioned capital improvements were from work required and performed in many instances literally decades ago. The Department of Public Works Property Management Division nor other divisions do not have records from that time frame. The specified required airport capital improvements were for a one-time build-out of airport hangar buildings themselves. The completion of each of these capital improvements is in itself self-evident as the buildings currently exist on site. Current ongoing capital improvements such as the FlexJet campus are currently ongoing and thus are not ripe for current documentation at this time.

Target Date of Completion: September 5, 2023

FINDING Leases and Payments with Various Parties Not Appropriately Documented

Lease receivables for sub-lease agreements are not tracked and may not be properly or timely recorded.

There were leases and payments between the County and various third parties which were not appropriately documented. The following was noted during testing:

- A payment was received in 2023 for a lease with a term that ended in January 2022. The payment was noted for a period of 2023-2024. There was no updated lease agreement between the parties.
- Regular monthly payments in the amount of $230 were received from a party currently leasing office space at the County Airport. These payments were not a part of the lease terms and documentation could not be provided supporting the reason for the payments.
- There was a payment received for $625 from a party sub-leasing a portion of land from a lessee. Documentation supporting the payment noted that an annual $625 payment was established as part of a 2005 agreement between the sub-lessee and the lessee. Public Works did not have a copy of the actual 2005 agreement that supported this payment requirement. The original agreement with the County and lessee does not include a term requiring an annual payment of $625. Also, the original lease agreement between the County and the lessee required written consent prior to subleasing. No documentation was available that confirmed written consent was obtained.

There were also no written procedures for the storage and retention of documents or for processes relative to the renewal of leases when ending.

The obtainment, preservation, and recordation of all revenue generating lease contracts and making sure they are current is essential to ensuring that lease terms are enforced, that the County is legally leasing land or space to parties, and that billings and payments are accurate.

Property Management lacks a Policy and Procedure manual to provide guidance on record retention of leases or procedures for lease renewals.

Risk to the County if Not Corrected

By not maintaining copies of all current lease contracts, the County is at an increased risk of not collecting proper amounts of revenue or not having the documentation necessary to enact proper enforcement when issues arise between the County and the lessee.

Recommendations

1. (P2) Updated and current copies of all lease agreements or revenue generating agreements, with the County as a party, should be in use and maintained. Lease agreements should indicate all lease terms and conditions.
2. (P2) Expired leases still in effect should be renewed with an updated agreement.
3. (P2) Property Management should create Policies and Procedures that detail the process for renewing leases and storage of documents, as noted in Policy and Procedure finding and recommendation in this report.

Management's Response:

The Department of Public Works agrees with the noted condition and will take corrective action. Property Management personnel will rectify the lack of a formal agreement with T&G Flying Club for T-hangar office space via the use of a standard month to month hangar lease form utilized for other T-hangar rental agreements. Property Management will also obtain all current lease agreements and sub-lease agreements in which the County is a party or in which the County receives payments.

Target Date of Completion: September 5, 2023

FINDING Rents Paid Not Properly Verified

Leases receivable and/or rents paid are not properly verified.

PW allowed certain lessees to self-report rents payable and did not consistently request, receive, or review adequate support documentation from the lessee to ensure the lease payments remitted were accurate.

During the audit, DIA requested support for 2021 and 2022 gross receipts of the lessee, as PW had not received any. Rent statements provided stated a total amount of gross receipts that the lessee used to calculate its rent due to the County. Further documentation from the lessee's point of sales (POS) system, financial reporting records, and tax returns was provided. However, the documentation was inconsistent with the rent statements' gross receipts. DIA was unable to validate the revenue reported on the rent statements supporting the minimum rental payment.

Based upon DIA analysis, the likelihood of material impact as a result of underreporting revenue or incorrect tax credit is low.

There is one lease agreement in which the County is paid based upon a percentage of gross receipts of the lessee, or a minimum annual amount, whichever is greater.

The 1987 original lease and subsequent amendments states in part:

"Lessee shall pay to the County an amount based upon a percentage of the gross receipts or the minimal rental payment, whichever is higher, as shown in the following rental payment schedule":

Percentage of Gross Receipts	
1%	up to $399,999
3%	$400,000-$450,999
5%	$451,000-$500,999
10%	$501,000-$550,999
12%	$551,000 and up

Lease Year	**Minimum Annual Rent**
1st-6th	$10,000
7th-10th	$25,000
11th-15th	$45,000
16th-20th	$60,000
21st-25th	$62,500
26th-30th	$65,000
31st-35th	$67,500(***current minimum***)
36th-40th	$70,000
41st-45th	$100,000
46th-50th	$105,000

"The percentage payments due the County shall be based on gross receipts, exclusive of State of Ohio sales taxes." Also, *"The County shall credit the lessee for any payments of the amusement tax."*

The original lease also states in part:

"The Lessee shall furnish the County or its representatives a statement of evidence by cash register or other approval automatic or computer concepts the readings showing gross receipts from all transactions."

"Lessee agrees to deliver to County complete copies of the Schedule C which he shall file as part of his Federal Income Tax Returns (Form 1040C) annually for the years covered by this agreement."

It is essential for PW to review and have the adequate knowledge required to validate lessee gross receipt amounts to ensure the appropriate amount of rent is paid. This includes obtaining sufficient support documentation supporting gross receipt amounts.

Public Works (PW) Fiscal lacks a verification process for gross receipts from a lessee as required by the lease agreement. Additionally the language regarding gross sales verification was limited to the 1987 original lease and not mentioned as part of the subsequent amendments. While the terms from the original lease are still in effect, there have been no updates to language regarding gross sales verification or attempts by PW to request further documentation to help validate lessee reported gross sales.

Risk to the County if Not Corrected

By not consistently receiving appropriate yearly reports on gross receipts (such as POS reports and tax filings), the County cannot accurately determine if the proper amounts of lease payments are being billed or paid. There is also an increased risk that lessee reports received are not accurate if the supporting documentation of gross receipts is not reviewed and understood by PW. This may cause a loss of County revenue if gross receipts or tax payments are understated by the lessee. It is also non-compliant with the original lease agreement to not receive gross sales verification documentation.

Recommendations

1. (P2) PW should require yearly or monthly reports of gross receipts from the lessee to ensure the proper amount is billed and collected from the lessee.
2. (P2) Supporting documentation of gross receipts and taxes paid should be from an official reporting system (i.e. POS system) and/or official tax documents and checks as required by original lease.
3. (P2) PW should come to an understanding with the lessee about how the rent being paid is derived from the lessee's supporting documentation such as POS system reports, financial accounting system reports, and tax returns. PW should use this understanding to review the lessee's supporting documentation on an annual basis.

4. (P3) If language regarding gross sales verification is considered outdated, PW should consider amending the lease agreement to clarify appropriate requirements to report gross receipts, or other payment terms from the lessee, in a format desired by the County.

   Management's Response:

   The Department of Public Works agrees with the noted condition and will take corrective action. This will include obtaining the required support for lessee gross receipts and taxes paid. Public Works will follow up with lessee if there are any questions about the documents.

   Target Date of Completion: September 7, 2023

FINDING Unrestricted Revenue Erroneously Posted to Special Revenue Fund

PW-Fiscal erroneously posted unrestricted revenue to a special revenue fund.

Revenue from Cleveland's lease of parking space on Lakeside Avenue have consistently been posted to a Road & Bridge accounting unit that is accounted for as a special revenue fund. The three most recent payments are $80,240.36 per year for a total of $240,721.08.

Statement No. 54 of the Governmental Accounting Standards Board ("GASB 54") states that, "Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects." The GASB 54 definition of a special revenue fund is also acknowledged by Cuyahoga County in its 2021 Annual Comprehensive Financial Report.

There is an agreement between the County and the City of Cleveland (Cleveland) to lease parking space located on Lakeside Avenue. The proceeds from Cleveland's lease of the parking space are not restricted or committed to a specified purpose. Therefore it is not appropriate to use an accounting unit that is accounted for under a special revenue fund.

This lease has been managed by the Road & Bridge division within the Department of Public Works ever since the County transitioned to a charter form of government. The leased premises were initially purchased by the former County Engineer. As such, PW-Fiscal inaccurately believed that the proper accounting unit was one categorized under Road & Bridge.

Risk to the County if Not Corrected

By not accounting for lease revenue in the proper fund, the County is not compliant with established rules regarding government fund accounting.

Recommendations

1. (P3) PW-Fiscal should collaborate with the Fiscal Office to adopt an appropriate accounting unit to record the revenue from Cleveland's use of parking space.
2. (P3) PW-Fiscal should conduct a review of all lease revenue to determine if there is any further revenue being recorded in an accounting unit accounted for in a special revenue fund.

Management's Response:

The Department of Public Works will consult with the Fiscal Office regarding the recommendations so it can adopt appropriate accounting units for lease revenue.

Target Date of Completion: September 2023

FINDING Lack of Policies and Procedures-Property Management

The Property Management division of Public Works lacks an approved policy and procedure manual.

During the audit, DIA noted that the processes necessary to ensure all applicable lease terms are recorded, tracked, and monitored do not exist. The processes lacking within Property Management include:

- Obtainment, and retention of, applicable documentation that demonstrates lease terms are being met;
- Procedures for leases that are coming to an end (renewal or ending of agreement);
- Criteria for when consultants are necessary to determine appropriate lease rates or if other methods can be used to determine fair lease rates;
- Consideration of terms for late payments, prior to termination of lease agreement;
- Establishment of procedures that ensure Property Management's responsibilities to inform PW-Fiscal of lease terms for accurate financial reporting.

Policies and procedures are important tools to ensure the effectiveness and efficiency of operations, accuracy of financial reporting and compliance with regulations. They also reinforce management expectations of its employees, provide a source of training, and pass knowledge of operations onto future employees which promotes consistency of work.

Property Management has never been required to create a Policy and Procedure Manual. Variability of lease agreements and terms may make it difficult to document the exact steps that will be performed on each lease contract.

Risk to the County if Not Corrected

Failure to have adequate internal guidance may result in inconsistent operations that lead to financial statement inaccuracies, non-compliance with regulations, and less than expected operational results. It also makes it difficult for new employees to learn job responsibilities and department processes after employee turnover.

Recommendations

1. (P2) Property Management should create a policy and procedure manual to reflect current practices and desired daily operations. The policy and procedure manual should be approved by Public Works management. It should also be reviewed and updated on a regular basis. At a minimum, the following should be included:
    - Basic daily functions and procedures for the various positions within Property Management;
    - Time frame of steps;
    - Storage of lease records and documents;
    - Documented considerations as to how lease rate was established;
    - Lease terminology or standards to include;
    - Process for assuring all required documents or terms of leases have been received or fulfilled;
    - List of documents or processes that require supervisor review and approval;
    - Reporting relationship with PW Fiscal;
    - Any documented standards that should be adhered to.

Management's Response:

The Department of Public Works agrees with the noted condition and will take corrective action. Property Management personnel will draft an approved policy and procedures manual specific to the Division of Property Management based on a review of compliant other departments and division policies.

Target Date of Completion: September 5, 2023

FINDING Lack of Policies and Procedures- PW-Fiscal

The Fiscal division of Public Works lacks an established policy and procedure manual which adequately addresses all facets of the revenue process and PW-Fiscal staff duties.

DIA noted specifically the following processes/procedures as needing to be documented:

- Billing and the usage of Lawson Accounts Receivable module;
- Monitoring of late payments;
- Check or payment handling, including segregation of duties;
- Receiving necessary lease or contract terms from Property Management;
- Approval process for accounts receivable reporting and reconciliations.

Policies and procedures are an important tool to ensure the effectiveness and efficiency of operations, accuracy of financial reporting and compliance with regulations. They also reinforce management expectations of its employees, provide a source of training to new employees in the department, and pass knowledge of operations onto future employees which promotes compliance with laws and consistency of work.

PW-Fiscal has never been required to create a Policy and Procedure Manual. PW-Fiscal did have some procedures documented on various topics including utilizing the Lawson system to record revenue received and process payments to vendors, and payment handling for Courthouse rentals. However, procedures were not comprehensive to all activities that PW-Fiscal staff perform or formally approved.

Risk to the County if Not Corrected

Failure to have adequate internal guidance may result in inconsistent operations that lead to financial statement inaccuracies, non-compliance with regulations, and less than expected operational results. It also makes it difficult for new employees to learn job responsibilities and department processes after employee turnover.

Recommendations

1. (P2) PW-Fiscal should create a policy and procedure manual to reflect their current practices and desired daily operations. Their policy and procedure manual should be approved by Public Works management. It should also be reviewed and updated on a regular basis. At a minimum, the following should be included:
    - Basic daily functions and procedures for the various positions within PW-Fiscal;
    - Procedures for handling payments received, including recording of when checks are received, segregation of duties between receiving payments, reconciling payments, and depositing payments, and safeguarding of payments prior to deposit;
    - Procedures for accounts receivables, including usage of Lawson financial system, billing procedures, accounts receivable reporting and reconciliations;
    - Procedures for receiving necessary information from Property Management and outlining responsibilities between divisions;
    - Time frame of steps;
    - Late payment procedures (including how long after delinquent is considered late, process for contacting, documentation of lateness);
    - List of documents or processes that require supervisor review and approval;
    - Any documented standards that should be adhered to.

Management's Response:

As noted in the root cause there is an existing policy and procedure manual that relates to accounts receivable. Public Works acknowledges the recommendations and agrees to include additional procedures as noted in the recommendations.

Target Date of Completion: September 7, 2023

FINDING Procurement Database is Incomplete and Non-Compliant with County Code

The County's Procurement Database is incomplete and does not comply with County Code.

There is a searchable database of contracts posted to the County website ("Procurement Database"). The database includes various lease contracts and amendments. DIA assessed completeness by performing a comparison of known leases to the County's Procurement Database as required by County Code 501.23. Results found by entering "lease" as a keyword for searching did not return a full listing of County leases. Some leases could only be located by searching by applicable vendor or department. DIA could not locate all known leases in the database that, per the requirement, should have been included in the database (initiation date of September 30, 2011 or after).

Cuyahoga County Code Section 501.23(A) states in part:

"All executed purchases, sales, leases (as either lessor or lessee) of real estate. The database shall be searchable by purpose, vendor, purchaser, dollar amount, funding source, department, transaction date, and other relevant factors."

County Code Section 501.23(G) states in part:

"The databases provided for in Sections 501.23(A) of this Chapter shall be required to include only transactions executed on or after the initiation date of each part of these databases."

Date was established as September 30, 2011 per County Code Section 501.23(F).

The completeness and searchability of the database is dependent upon the completeness and accuracy of information entered into the County's document management system (OnBase). It appears that the information necessary to flag leases was not consistently captured within the system. Thus the system is unable to appropriately identify the lease for inclusion in search results.

Risk to the County if Not Corrected

Failure to have a complete and easily searchable database of leases creates a lack of transparency with the public about what properties are being leased. Additionally, it will result in a lack of compliance with County Code.

Recommendations

1. (P3) PW should work with Purchasing and Information Technology (IT) to ensure the accuracy and completeness of the Procurement Database on the County website. A review to ensure that all applicable leases are included in the database is recommended. Such review would also include verification that lease information is entered completely and flagged correctly in OnBase to ensure that it would appear in a search of leases in the Procurement Database.

   Management's Response:

   The Department of Public Works agrees with the noted condition. PW will work with Purchasing and Information Technology (IT) to ensure the accuracy and completeness of the Procurement Database on the County website.

   Target Date of Completion: September 7, 2023