

# Audit Report Highlights

**Sanitary Fiscal** **November 2023**

**Approx. Amount of Sanitary Revenue<sup>1</sup> = \$28 million** **County Annual Budget<sup>2</sup> = \$1.4 billion**

## Why DIA Did This Audit



An audit was conducted to assess the efficiency and effectiveness of the Sanitary system maintenance program as it relates to revenue and expenditure processes. This included reviewing processes relating to collection of payments, billing for services, accounting for municipal balances, and reconciliations performed. The audit was approved as part of the 2022 Audit Plan and then deferred until 2023. The Sanitary Department was considered an area of higher risk due, in part, to the high amount of revenue and expenditures associated with their operations, the collection of payments, high value of inventory, large number of employees that work in various locations, and the interaction of the department with other local governments. The audit period under review was January 1, 2022 through December 31, 2022.

## What DIA Found

Public Works does a good job managing the sanitary revenue and expenditures. However, DIA did note the following internal control or compliance issues:

- There was a lack of Policies and Procedures.
- A sewer district may be non-compliant with Ohio Revised Code related to cross-utilization of funds amongst sewer districts
- Lack of segregation of duties or timely deposit of funds received at Harvard Garage.
- Shared indirect costs are not allocated to Direct Bill communities.
- Other Revenue and Expenses are not tracked appropriately.
- Engineering and Inspection expenses charged were not adequately supported.
- Lack of review and approval of municipal balances.

*Recommendations have been rated by priority: High, Moderate, Low, or Business Process Improvement.*

*The report contains 18 recommendations:*

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

<sup>1</sup> Based on recorded 2022 sanitary revenue within Lawson. This includes revenue from property taxes, direct bills, permits, contractor licenses, inspections, and water tap-ins.

<sup>2</sup> The County Annual Budget includes operating appropriations from all County funds.

# Audit Report Highlights

Sanitary Fiscal

November 2023

## Background

Public Works-Sanitary is responsible for maintaining sanitary sewers, storm sewers, and pumping stations in 38 full service communities. Additionally, services may be provided to communities who are billed directly (taxes are not collected). Services provided include sewer line jetting, sewer line TV camera assessments, and construction/repair of sewer systems. These services can be performed by County personnel or by contractors.

Sanitary-Fiscal is responsible for maintaining the balance of revenue and expenses for the full member communities, submitting bills to communities, processing payments to contractors, and providing oversight of revenue collected for permits, licenses, and inspections.



## What DIA Recommended

DIA provided Public Works management with recommendations for improving internal controls. We attempt to provide these recommendations during fieldwork, when able, to lessen potential risks related to Sanitary revenue. Doing so during 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:

- Create Policies and Procedures.
- Take appropriate action to address the sewer district with a negative balance.
- Implement compensating controls to address the lack of segregation of cash handling duties at Harvard Garage.
- Develop procedures to share indirect costs with Direct Bill communities.
- Record Engineering and Inspection hours within the Sanitary Enterprise Asset Management (EAM) system.
- Maintain a complete itemized listing of Other Revenue and Expenses.
- Require that Public Works Management receive and approve Municipal Balances.

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

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# Internal Audit Report

**Sanitary-Fiscal 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 Barbier, Esq.**



*Release Date 12/06/2023*

**INTERNAL AUDIT REPORT**  
**Sanitary Fiscal**  
**Cover Letter**

November 09, 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 Sanitary Department processes and procedures relating to revenue and expenditures for the period of January 1, 2022 – December 31, 2022. Our objective was to assess the efficiency and effectiveness of the Sewer Maintenance Program as it relates to the revenue and expenditure processes. This included processes relating to accounting for municipal balances, billing for work performed, collection of payments, and reconciliations of revenue.

To accomplish our objectives DIA conducted interviews with management and staff regarding the procedures that Sanitary-Fiscal perform related to the funds used for operation of the Sanitary Department. The adequacy of monitoring activities regarding Sanitary revenue and expenditures was assessed by reviewing a sample of municipal balance entries for accuracy, controls relating to collection of payments at the Harvard garage satellite facility (Harvard Garage), and the reconciliation of revenue received.

Our audit procedures disclosed internal control weaknesses related to:

- Lack of Policies and Procedures.
- A sewer district may be non-compliant with Ohio Revised Code.
- Lack of segregation of duties or timely deposit of funds received at Harvard Garage.
- Shared indirect costs are not allocated to Direct Bill communities.
- Other Revenue and Expenses are not tracked appropriately.
- Engineering and Inspection expenses charged were not adequately supported.
- Lack of review and approval of municipal balances.

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,

A handwritten signature in blue ink that reads "Monica Houston". The signature is written in a cursive, flowing style.

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

Cc: Cuyahoga County Council  
Erik Janas, Chief of Staff  
Richard Manoloff, Law Director  
Michael C. O'Malley, Cuyahoga County Prosecutor  
Debbie Berry, Chief of Staff Integrated Development

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## Glossary

**Full-Service  
Communities**

Communities which have an agreement with the County for sanitary services. Sanitary sewer maintenance rates are established by the Sanitary Department and approved by Cuyahoga County Council with input from the communities and paid to the County via property tax payments. Work is performed throughout the year and the community is given a report at year end that details work performed and expenses incurred. Sanitary-Fiscal keeps track of each communities' balances of revenues and expenditures.

**Direct Bill  
Communities**

Communities in which County Sanitary Dept. may perform services but no tax revenue is collected and bill is sent after work is completed for payment.

**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.

**Enterprise Asset  
Management  
(EAM)**

System utilized for tracking hours worked on projects within various municipalities. As well as record payments received for licenses, inspections, and permits.

## Report Details

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### **Purpose**

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The purpose of this audit was to conduct a comprehensive examination of the organization's processes and procedures relating to revenue and expenditures associated with Sanitary Department.

The Audit Committee approved DIA's 2022 audit plan to include an audit of revenue and expenditures for Sanitary; however, the audit was deferred to 2023. The Sanitary Department was considered an area of higher risk due, in part, to the high amount of revenue and expenditures associated with their operations, the collection of payments, high value of inventory, large number of employees that work in various locations, and the interaction of the department with other local governments.

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

### **Audit Objectives**

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The objective of this audit was to assess the efficiency and effectiveness of the Sanitary System Maintenance Program as it relates to revenue and expenditure processes.

### **Scope**

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To accomplish our objectives, we focused on processes for the accounting of the municipal revenue and expenditure balances, controls over collection of payments, accuracy and reconciliation of billing function, and compliance with various Ohio Revised Code (ORC). This was limited to revenue and expenditures 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**

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DIA made inquiries to gain a general understanding of processes relating to the revenue and expenditure of the Sanitary Department. DIA also reviewed applicable ORC relating to fiscal aspects of Sanitary operations.



DIA obtained the Public Works maintained municipal balances for year-end 2021 and 2022. DIA reviewed all revenue and expense entries for sampled municipalities, obtained supporting documentation, and performed recalculations to ensure municipal balances were being correctly accounted for. The municipal expense balances were also compared to reports issued to the municipalities on annual expenses to ensure accuracy.

DIA reviewed processes around the collection, safeguarding, deposit, and reconciliation of payments received for contractor licenses and sewer permits and inspections.

DIA reviewed the procedures relating to billing and reconciliation of revenue for Direct Bill communities. This included comparison to agreements to ensure correct rates were utilized.

## **Audit Procedures**

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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		249
Fieldwork		418
Reporting:		197
Review	47	
Draft Report	150	
<b>Totals</b>		<b>864</b>

## Background

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The Public Works Sanitary Department currently operates in 38 communities, maintains more than 1,500 miles of sanitary sewers, 1,100 miles of storm sewers, and operates 67 sewage-pumping stations. There are approximately 120 employees within the Sanitary Department.



The Sanitary Department is focused on the maintenance and repair of aging sewer lines, sewer system needs assessment, engineering feasibility studies, and other infrastructure related issues. Some of the services provided by the County include sewer line jetting, sewer line TV camera assessments, and construction & repair of sewer systems. These services may be performed by

County employees or by contractors.

There are also administrative and review functions performed by the Sanitary Department. This may include issuing connection permits, licensing and permitting for contractors, maintenance of record drawings, project management and inspection, and capital planning for future projects.

Sanitary-Fiscal is responsible for the tracking of revenues and expenses for the Sanitary Department. This includes the following:

- Maintaining community balances of revenue and expenses. This is communicated to Sanitary Management for planning purposes of future projects.
- Billing and account receivables for communities that pay directly for specific projects instead of payment via property taxes.
- Processing payments to contractors.

- Providing oversight for revenue collection and deposits for permits, licenses, and inspections collected at the Harvard Garage.

## **Commendable Practices**

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

- Utilization of Lawson for billing and assisting with reconciliations. Also, for utilizing the Treasurer's Office Lockbox location for payment remittance.
- EAM reporting allows for efficient tracking of hours and dates worked in each municipality with the applicable truck rates for Operating expenses.

## Priority Level Criteria for Recommendations

<b>High (P1)</b>	<b>Highest-Ranking Officer's immediate attention</b> is required. Corrective action is strongly recommended ( <u>30 days</u> ).
	<ul style="list-style-type: none"> <li>• Financially material loss or potential loss</li> <li>• Lack of or failure of internal controls requiring considerable time and resources to correct</li> <li>• Non-compliance with laws, regulations, and policies resulting in significant loss of funds, fines, or restrictions</li> <li>• Significantly negative effect on the County's reputation or public perception</li> </ul>
	<b>Senior Management's attention</b> is required. Corrective action is recommended ( <u>90 days</u> ).
	<ul style="list-style-type: none"> <li>• Financial loss or potential loss</li> <li>• Internal controls exist but they are not effective, or they are not consistently applied</li> <li>• Non-compliance with laws, regulations, and policies resulting in loss of funds, fines, or restrictions</li> <li>• Negative effect on the County's reputation or public perception</li> </ul>
<b>Low (P3)</b>	<b>Management's attention</b> is required. Corrective action is recommended ( <u>180 days</u> ).
	<ul style="list-style-type: none"> <li>• Financial loss or potential loss is minimal</li> <li>• Internal controls exist, but could be improved</li> <li>• Non-compliance with laws, regulations, and policies is a minimal risk</li> <li>• No effect on the County's reputation or public perception</li> </ul>
<b>Business Process Improvement (P4)</b>	<b>Management or supervisory attention</b> recommended but not required
	<ul style="list-style-type: none"> <li>• Process improvement recommendation</li> <li>• Financial loss or potential loss is minimal or not applicable</li> <li>• Non-compliance with laws, regulations, and policies is a minimal risk or not applicable</li> <li>• No effect on County's reputation or public perception</li> </ul>

In 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

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### PW- Sanitary Fiscal Findings

#### **FINDING Sewer District Has Insufficient Cash Balance**

Accounting of a County sewer district may not comply with Ohio Revised Code (R.C.).

During the audit, DIA noted a sewer district (with a negative starting balance) incurred expenses that exceeded revenues during 2022. Surplus revenue collected from other districts was necessary to compensate for the services received by the deficient sewer district.

The district had a negative balance of \$1,501,406 as of 12/31/22.

Ohio Attorney General Opinion 2016-009 provides that:

“If surplus moneys in the sanitary engineer fund were contributed by sewer districts other than the district that did not have sufficient revenue, or if the other sewer districts contributed additional moneys to cover the district’s deficiencies, the expenditure of those moneys was contrary to the plain language of R.C. 6103.02(G), R.C. 6117(C), and R.C. 6117.02(D).”

“The expenses of the sanitary engineering department, or the portion of those expenses that certain districts are unable to pay, may be paid with an appropriation by the board of commissioners from the county general fund provided that the available general fund moneys have not been appropriated for another purpose. See R.C. 6117.01(C).”

Public Works was unaware of the district accounting requirements within R.C. Additionally, Public Works lacks policy and procedures to document guidance on processes when a municipality or district carries a negative balance (See *Lack of Policy and Procedures* finding).

The deficient sewer district is comprised of only one municipality. There are other municipalities that have a negative balance. However, those municipalities are in sewer districts with other municipalities that have enough excess revenue to keep the sewer district positive balance. Public Works was able to fund sanitary work for the single district that had expenses exceeding revenues because the remaining districts all had sufficient positive fund balances and revenues exceeding expenses for 2022.

## **Risk to the County if Not Corrected**

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A sewer district that continues to have its sanitary work funded through surplus from other districts may not be complying with Ohio law. The Ohio Attorney General states that if revenue is not reimbursed properly, there is a possibility for a potential finding for recovery pursuant to R.C. 117.28 or the imposition of liability in a civil action against public officials responsible for the expenditure or misapplication.

## **Recommendations**

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1. (P1) Public Works should develop and implement an appropriate action plan to address the sewer district with a negative balance. This action plan should include consulting with the Fiscal Department and County Council to consider:
  - A. Consolidating districts to prevent any district from maintaining a negative balance or incurring expenses that exceed revenue.
  - B. Appropriating funds from the general fund to pay for sanitary services provided to an unprofitable district. This money could be paid back to the general fund when the municipality makes the appropriate payments; or
  - C. Having the municipality that comprises the deficient sewer district pay the negative balance in an expedited manner.
  
2. (P1) District and municipality cash balances should be sent to Sanitary-Operating and Public Works management on a regular basis for monitoring and review.
  
3. (P1) Public Works management should develop policies and procedures to monitor sewer districts that have or are nearing a negative balance. These policies and procedures would prompt Public Works management to document an action plan to address deficient districts after consulting with relevant municipalities in that district. The action plan may consider such things as decreasing work in the municipality to lower expenses or methods to increase revenue.

### ***Management's Response:***

***Management/Department agrees and has been aware of the noted condition and has already taken action over the past year and a half regarding decreasing/eliminating the storm operating deficit within the community. District/ Municipal cash balances are sent to management on a quarterly basis for review. The Business Services Manager meets as well as emails management and discusses how deficit communities will be addressed. Recommendations include but are not limited to reducing maintenance activities as well as the funding of capital repairs. Potential rate increases are also discussed. Current projections show that the overall deficit will be reduced to***

***approximately \$500,000 by year-end. The Department will be exploring various options to eliminate the current operating deficit in the account.***

***Target Date of Completion: Recommendation numbers 2 and 3 have been on-going and implemented years ago. Management will develop and implement an action plan to deal with the current negative balance in the account by 3/31/24.***

## **FINDING    Lack of Timely Deposit of Revenue**

Deposit of public money may not be in compliance with Ohio Revised Code (ORC).

Payments are received at the Harvard Garage for permits, inspections, or licenses. There is usually one static employee at the Harvard Garage who collects the payments and deposits the payments at the bank the next day. However, if that employee is out, there are other employees who can collect payments, but they do not make the deposits. This delay in deposits has led to violations of ORC 9.38.

DIA performed an analysis of the 740 deposits totaling \$363,501 during 2022 for licenses, permits and inspections. There were 27 payments (3.6%) for \$5,815 noted as being deposited five or more days from the noted payment receipt date.

*ORC 9.38 states in part "A person who is a public official other than a state officer, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next 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 next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited."*

There is only one employee who makes deposits from revenue received at the Harvard Garage. The volume of payments received at the Harvard Garage has not risen to a level which justifies the assignment of a second employee to collect funds or make deposits.

There were also no written Policies and Procedures regarding the handling of payments at the Harvard Garage or making deposits.

### **Risk to the County if Not Corrected**

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Failure to have a procedure in place for making deposits if the regular employee is not available may result in non-compliance with ORC 9.38. This may result in audit findings in the financial or single audit of Cuyahoga County. Funds left undeposited for longer periods of time increase the risk of misappropriation.

### **Recommendations**

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1. (P3) Policies and Procedures should be put in place to ensure that there is compliance with Ohio Revised Code 9.38 regarding payment deposits. This would include:
  - Having a second employee available to make deposits;
  - Implementing policy relative to holding funds for periods that exceed next business day deposit as long as still within statutory limitations;
  - Documentation to be maintained or sent to Sanitary-Fiscal for deposits;
  - Any necessary approvals or secondary review of documentation.

#### ***Management's Response:***

***Management/Department agrees with noted condition and has already taken corrective action. A second as well as a third employee are now available to make deposits. Documentation of deposits are already submitted to Sanitary-Fiscal for deposits. Approvals/and or secondary review of documentation is already taking place. All public monies are safeguarded at the Harvard facility. Findings were de minimis with only 3.6% of the deposits analyzed exceeding the statutory deposit time frame. This was mainly due to an employee taking time off.***

***Target Date of Completion: Already Implemented***



## **FINDING Sanitary-Fiscal Lacks Policy and Procedure Manual**

Sanitary-Fiscal lacks an established policy and procedure manual that adequately addresses all facets of Sanitary-Fiscal staff duties.

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

- Process for tracking and reporting of municipal balances. This includes where to get expenditure and revenue information from and the timing of doing so.
- Processes relating to the allocation of indirect costs to municipalities. This includes costs such as space maintenance, grit disposal, and other expenses allocated to Sanitary by the Office of Budget and Management (OBM).
- Consideration of direct labor rates that are used for Sanitary services and if they are appropriate to achieve balance of direct expenses and overhead.
- Guidance on process for when municipality or district is running out of funds in sanitary account.
- Accounts Receivable process for direct bill communities.
- Review of deposits and documentation sent for payments collected at Harvard Garage.

During testing, it was also noted that indirect cost allocation was not consistently based on a formula or quantitative method that could be duplicated by DIA.

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.

The Government Finance Officers Association (GFOA) recommends in its guide, "Best Practices Indirect Cost Allocation" that governments prepare indirect cost allocation plans where "the methodology used in the allocation should be fair, rational, and consistently applied." Quantitative determinations of percentages used to allocate indirect costs minimize the risk that the allocations are not consistently applied, and that they follow the GFOA's guidance.

Sanitary-Fiscal has never been required to create a Policy and Procedure Manual. The current staff is knowledgeable about current processes. Also, Sanitary-Fiscal determined that following one standard of allocating indirect costs to municipalities would not be an effective method of cost allocation.

## **Risk to the County if Not Corrected**

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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**

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1. (P2) Sanitary-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:
  - a. Basic daily functions and procedures for the various positions within Sanitary-Fiscal.
  - b. Procedures for handling payments received, including recording of when checks are received, segregation of duties between receiving payments, reconciling payments, depositing payments, and safeguarding of payments prior to deposit.
  - c. Procedures for accounts receivables, including usage of Lawson financial system, billing procedures, accounts receivable reporting and reconciliations.
  - d. Quantitative methods used for allocation of indirect costs that can be calculated consistently for all districts.
  - e. Consideration or analysis of direct labor rates used for Sanitary work.
  - f. Steps for tracking and reporting municipal balances.
  - g. Time frame of steps to be completed.
  - h. List of documents or processes that require supervisor review and approval.
  - i. Any documented standards that should be adhered to.
  
2. (P2) If it is determined that qualitative methods are needed to adequately and fairly allocate indirect costs, factors for the allocation should be documented including why it was necessary to deviate from a quantitative approach.

### ***Management's Response:***

***Management/Department agrees with noted condition and will take corrective action.***

***Sanitary/Fiscal currently is working to document the complicated processes noted in the recommendations. Indirect costs are currently being allocated using a quantitative method that can easily be duplicated. Qualitative factors will not be used even though an explanation was given to DIA.***

**Target Date of Completion: April 30, 2024**

**FINDING    Inconsistent Engineering and Inspection Records**

Sanitary engineering and inspection records do not support the expenses charged to municipalities.

DIA compared the 2022 inspection records (costing sheets) of engineering and inspection expenses charged to 5 of the 38 municipalities that participate in the Sanitary program. The hours recorded on engineering and inspection costing sheets did not support the expense reports calculated from the Access database used to charge the sampled municipalities. The below table illustrates the amounts in which expenses charged exceeded the costing sheets by a net total of \$10,105:

<b>Municipality</b>	<b>Engineering: Expenses Charged minus Costing Sheets</b>	<b>Inspection: Expenses Charged minus Costing Sheets</b>
Brecksville	\$0.00	\$2,100.00
Brooklyn Heights	\$180.00	\$140.00
Highland Hills	(\$60.00)	\$0.00
Maple Heights	\$780.00	(\$735.00)
Parma	\$4,200.00	\$3,500.00
<b>Total:</b>	<b>\$5,100.00</b>	<b>\$5,005.00</b>

DIA also noted that the total of Access database transactional detail differed from the summarized report total generated from the Access database by \$60 for the City of Brecksville. DIA could not identify why the difference occurred and considered it immaterial as all other municipalities tested matched exactly.

Sanitary Maintenance Services provides engineering and inspection services for construction projects of new sanitary sewers and connections of service laterals to existing sewers. These

services are charged at an hourly rate. Employees record hours worked for engineering and inspection projects on a costing sheet which is reviewed and manually signed off by a supervisor. The hours from approved costing sheets are then manually input into an Access database that Sanitary-Fiscal uses to calculate expenses for municipalities. A summarized engineering and inspection expense report is then generated from the Access database.

An automated system for tracking expenses is ideal for efficiency. It eliminates the need for multiple systems, manual entries, and prevents data entry errors. Calculating accurate costs promotes trust from municipalities that Public Works accurately tracks municipal balances of funds for sanitary services.

The manual processes of logging hours worked into costing sheets and transferring those records to the Access database may have resulted in data entry errors. Also, unclear handwritten alterations made by supervisors on the hourly costing sheets can add confusion in reading the hours worked increasing the risk of data entry errors. Further, Sanitary-Fiscal lacks policy and procedure requiring a review of data input into the Access database.

### **Risk to the County if Not Corrected**

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Manual entry can lead to input errors and inaccurate reporting. Without accurate calculations of engineering and inspection costs between costing sheets and Access, municipalities may be incorrectly charged. The inability to maintain accurate records of its balance of funds for sanitary services could result in a loss of trust and the potential loss of municipality business for sanitary services provided by the County.

### **Recommendations**

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1. (P2) Sanitary -Fiscal should work with IT and Public Works to assess the feasibility of automating engineering and inspection hours and total dollar charges logged into the EAM system instead of manual inputs into an Access database. This will prevent discrepancies in internal records.
2. (P2) If it is determined that engineering and inspection hours cannot be input into EAM and current process continues, management should document its review of these records to ensure consistency and accuracy.
3. (P2) Procedures to ensure engineering and inspection expense accuracy should be included within a Policy and Procedure Manual. See *Policies and Procedures Finding*.

#### ***Management's Response:***

***Management/Department agree with the noted condition and will take corrective action. It should be noted that recommendation 1 was looked at approximately a year***

*and a half ago and at the time it was determined that engineering logged into EAM was not feasible. Currently inspection is being worked on by IT for inclusion into the EAM system. Management will document the review and reconciliation of engineering and inspection records on a quarterly basis. The procedure for this task will be documented in the Policy and Procedure manual for Fiscal-Sanitary.*

**Target Date of Completion: March 31, 2024**

## **FINDING    Lack of Segregation of Duties or Controls Relating to Payment Collections**

Payment collection for permits, licenses, and inspections lack adequate segregation of duties or compensating controls.

Sanitary receives mostly check and some cash payments for permits, licenses, and inspections at their Harvard location. The Permit Coordinator is responsible for recording all transactions within the Enterprise Asset Management (EAM) system, collection of payments, and recording and making daily deposits with the bank. Additionally, the Permit Coordinator can void transactions for permits without approval or reasoning for the void.

Supporting documentation of deposits is sent to Sanitary-Fiscal for review. This includes a copy of the deposit slip, bank receipt, original inspection agreement with the amount paid, and the EAM transaction report. The EAM transaction report contains permits, inspections, and licenses paid and marked for deposit for the subject day. A listing of permits voided or documentation of all sequential permit numbers is not provided to Sanitary-Fiscal for use in their review. Additionally, a report of all EAM transactions that are not marked as deposited is not provided to Sanitary-Fiscal.

Deposit reviews are performed daily by Sanitary-Fiscal for payments received at the bank and deposit support documentation. However, these reviews do not include formal approval.

DIA reviewed the EAM reports containing permits issued during 2022 for sequential numbering and noted gaps. Some of the gaps in permits on the EAM report were associated with conversion errors while transitioning from a manual paper permit process to EAM in mid-2022. Others were voids; however, void reasons are not documented. Thus, DIA could not assess if voids are being used appropriately.

Segregation of duties is a best business practice and primary concept in a system of internal control to reduce the risk of errors and fraud. Duties should be segregated so that one person does not perform processing from beginning to end without adequate oversight.

There should be appropriate compensating controls when appropriate segregation of duties cannot be achieved. Regular reconciliations and review are common compensating controls to ensure errors and/or fraud is prevented. Compensating controls should include a review of voided transactions.

The Permits Coordinator works at the Harvard location primarily alone with limited back up. This makes it difficult, if not impossible, to establish adequate segregation of duties or require pre-approval to void transactions. Additionally, there are no Policies and Procedures for Sanitary Fiscal that require reconciliations to be performed, reviewed, or approved. The Policies and Procedures also do not specify the documentation required to perform these functions.

### **Risk to the County if Not Corrected**

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Without appropriate segregation of duties and/or compensating controls, such as approved reconciliations or review of voids, there is an increased risk of errors or fraud going undetected.

### **Recommendations**

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1. (P2) Daily or weekly reconciliations of deposits and EAM transactions should be implemented and approved by a member of Sanitary-Fiscal. This would require a listing of all EAM transactions or confirmation that a report of deposits is complete.
2. (P2) A listing of all permit numbers should be sent to Sanitary-Fiscal on a regular basis so they can be aware of any voids in permits issued and the reason for them.
3. (P2) The performance, review, and list of documents to be sent for reconciliations should be noted within a Policies and Procedure Manual (see *Policy and Procedures recommendation*).

#### ***Management's Response:***

***Management/Department agree with the noted condition and will take corrective action on the recommendations that have yet to be completed. Daily and /or weekly reconciliation of deposits and EAM transactions are already being done by an employee of Sanitary- Fiscal. They confirm that the deposit is complete. A listing of permit numbers is being sent to Sanitary- Fiscal; however, we will make sure the submissions***

*are timely. Any permits that have been voided out will be highlighted with the reason for the void. The procedures will be included in the Fiscal Policy and Procedures Manual.*

**Target Date of Completion: March 31, 2024**

**FINDING    Lack of Support for Other Revenue and Expenses**

Documentation to support “Other” revenue and expenses is not sufficiently maintained.

Sanitary-Fiscal could not provide an exact accounting of transactions that comprise Other revenue as shown on the 2022 record of municipal balances sheet. After revenues and expenses are allocated to the municipalities and certain direct bill communities, what is leftover is categorized as Other on the internal record of municipal balances.

During the audit, DIA requested Sanitary-Fiscal prepare an itemization of Other Revenue and expenses. The following amounts were shown as Other on the 2022 municipal balances sheet and the Sanitary-Fiscal itemization provided as supporting documentation:

	<b>Municipal Balance Sheet Amounts</b>	<b>Support Documentation Provided</b>	<b>Variance</b>
Other Revenue	\$1,429,113	\$1,711,513	\$282,400
Other Operating Expenses	\$905,029	\$905,029	\$0

These totals include, but are not limited to, such items as property tax refunds, sale of assets, various Road and Bridge chargebacks, interest expenses, expenses categorized by Sanitary-Fiscal as miscellaneous, and transfers to the debt retirement fund.

DIA noted that despite the difference between the support documentation and the municipal balance records of Other Revenue noted in the table above, the total of revenue and expenses on the Municipal Balance Sheet agrees to the accounting records maintained in the County’s financial system (Lawson). Some of the revenue noted in the support documentation provided may have been allocated directly to municipalities. The Sanitary-Fiscal revenue database used to track municipality revenue and Lawson entries lack a common reference that would allow for effective reconciliation.

Sanitary-Fiscal tracks and designates miscellaneous revenue and expenses that cannot be directly related to any single municipal balance of a city, and is not allocated as overhead, within an “Other” category.

GFOA Best Practices of Adopting Financial Policies and Policies and Procedures Documentation guides governments to document proper accounting policies and procedures. All revenue and expense information should be properly categorized to ensure that the accounting for municipalities’ balances is accurate. Maintaining an accurate accounting of Other revenue and expenses is important to reconcile the total revenues and expenses within Lawson to the various municipalities in the Sanitary program.

Sanitary-Fiscal lacks a policy and procedure requiring Other revenue and expenses to be documented and reconciled with municipal balances and Lawson as current staff is knowledgeable about what amounts are classified as Other.

### **Risk to the County if Not Corrected**

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Without consistent calculations of Other revenue and expenses based on documented policies and procedures, there is an increased risk that business activity is mistakenly classified as “Other” when it should affect a Full-Service Community’s balance of funds available for sanitary services. Also, monitoring balances in Other revenue and expenses is necessary to ensure that there is enough fund balance to cover future expenses that are not allocated to municipalities, and ensures that revenue is used for sanitary purposes, as there is no general fund impact to the Sanitary program.

### **Recommendations**

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1. (P2) Sanitary- Fiscal should maintain a complete accounting of all revenue and expenses that make up the Other category. The Other revenue and expenses should, when taken with all municipality revenue and expenses, agree to Lawson accounting of revenue and expenses.
2. (P2) The process of maintaining a listing of Other revenue and expenses should be documented in a Policy and Procedure Manual. *See Policies and Procedures recommendation.*

#### ***Management’s Response:***

***Management/Department agree with the noted condition of documenting the process of maintaining other revenue and expenses. In addition to maintaining balances for Full-Service Communities, a complete detailed accounting of revenue and expense categorized as Other will be maintained. Currently, other revenue as well as expense***



*agrees with Lawson's accounting of revenue. Total revenue and expense on the municipal balance sheet agrees with the accounting records maintained in the County's financial system (Lawson). All revenue and expenses are fully reconciled with Lawson.*

***Target Date of Completion: March 31, 2024***

## **FINDING    Lack of Controls Over Municipal Balances and Billing Reconciliation**

Sanitary-Fiscal lacks appropriate controls to ensure accuracy of municipal fund balances and appropriate segregation of duties over billing of customers and reconciliation of payments.

Municipal fund balances for Full-Service Communities are calculated and maintained in a manual spreadsheet. There appeared to be no controls that ensured the accuracy of the inputs and calculations or the integrity of the spreadsheet (i.e. spreadsheet controls) and the spreadsheet was not reviewed or approved by management.

Sanitary-Fiscal performs reconciliations of account billings and payments regularly. However, the reconciliation is performed by an employee who is also solely responsible for the billings.

The Government Finance Officers Association (GFOA) provides in its "Internal Control and Management Involvement" Best Practices guide that "prudence in the management of public funds requires that there be adequate control procedures in place to protect those funds," and a "sound framework of internal control is necessary to afford a reasonable basis for finance officers to assert that the information they provide can be relied upon." Management review of Full-Service Community balances would provide greater transparency to the balances determined by Sanitary-Fiscal and would adhere to GFOA Best Practices.

Also, segregation of duties is a best business practice and primary concept in a system of internal control to reduce the risk of errors and fraud. Duties should be segregated so that one person does not perform processing from beginning to end without adequate oversight.

There should be appropriate compensating controls when appropriate segregation of duties cannot be achieved. Regular reconciliations and review are common compensating controls to ensure errors and/or fraud are prevented.

Sanitary-Fiscal has traditionally sent the quarterly expenses for each municipality to Public Works management. There are no Policies and Procedures regarding review of reconciliations, documentation of review, or type of support needed for review. Further, no municipalities have dissented with their balance as calculated by Sanitary-Fiscal, and therefore Public Works management has not been required to review Sanitary-Fiscal's work.

## **Risk to the County if Not Corrected**

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A lack of management review over municipal balance determinations increases the risk that a municipality's balance is misstated. Inaccurate municipal balances may affect how projects are planned for by Public Works. Further, inaccurate accounting of revenues and expenses that affect the municipal balances could create inaccurate reporting in the Sanitary Engineer Fund as reported in County's financial statements.

Without appropriate segregation of duties and/or compensating controls, such as approved reconciliations, there is an increased risk of errors or fraud going undetected.

## **Recommendations**

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1. (P2) Public Works-Fiscal management should document its approval of municipal balances on at least an annual basis.
2. (P2) Monthly reconciliation of billing and payments received should be reviewed and approved by a supervisor that is not performing the reconciliation.
3. (P2) Public Works-Fiscal should document in its policies and procedures that Sanitary-Fiscal submits the municipal balances and any supporting documentation deemed necessary to management for approval as well as review of reconciliation of billing and received payments (*see Policy and Procedures recommendation*).

### ***Management's Response:***

***Municipal balances are reviewed by management on a quarterly basis. The review will now be documented. Finance directors of our various Full-Service Communities review balances and notify us if any potential discrepancies exist or adjustments need to be made. Documentation regarding the approval process will be memorialized in the Policy and Procedure section regarding municipal balances. Monthly reconciliation of billing and payments is currently being performed and will be documented moving forward. Additionally, it should be noted that during the audit, no discrepancies were found when DIA audited the specific revenue and expenses of the communities they analyzed.***

***Target Date of Completion: March 31, 2024***

## **FINDING Direct Bill Municipalities Not Allocated Indirect Costs**

Direct bill municipalities are not charged indirect or overhead costs for sanitary services.

Direct Bill municipalities are only billed for direct costs (hours worked by Sanitary crews and equipment cost) on municipal projects, task orders, or other services directly related to the municipality. Indirect costs are currently allocated only to Full-Service Communities that have contracts with the County. In 2022, there was a total of \$4,246,418 indirect costs that were allocated to municipalities. These municipalities pay by designating an amount of property tax collections to be remitted to the County for the services. Indirect costs consist of:

- Costs such as salaries, benefits, utilities, shared services, and equipment purchases and use.
- Space Maintenance at Sanitary Garage (Harvard Garage).
- Grit removal services.
- Indirect costs allocated by OBM.
- Purchase and further construction of the Harvard Garage.

The below table indicates the number of municipalities in each type of member status and the approximate revenue each generates.

<b>Billing Type</b>	<b>Municipalities</b>	<b>Approximate Revenue 2022</b>
Full-Service Communities	38	\$25,430,575
Direct Bill	14	\$2,056,979

The Sanitary Engineering Division has two primary types of municipal customers:

- Full-Service Communities are municipalities that have contracts with the County to receive ongoing sanitary services. Payment for services to Full-Service Communities is made through the collection of real property taxes. Any balance is carried forward to the following year.
- Direct Bill municipalities pay directly on a per project or task order basis.

Indirect costs are those not directly identifiable to a particular project. As a best business practice, indirect costs should be properly allocated amongst all communities to share costs in a

fair and equitable manner. Ohio Revised Code 6117.02(E) provides the requisite guidelines of a cost allocation plan for Sanitary rates. These guidelines require that allocable costs be necessary and reasonable expenses properly attributable to the entity being charged.

It has never been required to allocate indirect or overhead costs to Direct Bill municipalities. It is difficult to calculate the indirect costs chargeable to a direct bill community on individual billings as many are produced before all indirect costs are known. Public Works management is also cautious of increasing rates of Direct Bill municipalities seeking to minimize costs for sanitary services.

### **Risk to the County if Not Corrected**

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The municipalities that pay for indirect costs receive a disproportionately high allocation if all communities that receive sanitary services from the County are not required to pay for these costs. This outcome may incentivize communities to leave the payment program to be directly billed.

### **Recommendations**

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1. (P3) Sanitary- Fiscal should implement methods to reasonably allocate indirect costs to the Direct Bill municipalities. Methodologies should be documented within the recommended policies and procedures manual (See the *Lack of Policies and Procedures* finding).

#### ***Management's Response:***

***Current direct bill agreements base billings on hours worked and the associated hourly rate for the task. No overhead is mentioned in the agreements. Direct bill communities may balk at including any overhead to the hourly rates. Additionally, only 2% of total operating costs are associated with direct bill communities. Full-service communities utilize the services of Sanitary staff on a much broader basis as compared to direct bill communities which operate on individual, infrequent issuing of task orders. Overhead costs associated with direct bill communities are de minimis and implementing an indirect cost allocation would prove difficult. Management will investigate the possibility of allocating overhead to direct bill communities and analyze the feasibility of such an allocation.***

***Target Date of Completion: April 30, 2024***