

**CITY OF CLEVELAND HEIGHTS
CUYAHOGA COUNTY, OHIO**

MANAGEMENT LETTER

**FOR THE YEAR ENDED
DECEMBER 31, 2021**

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Certified Public Accountants

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To Members of City Council and
City of Cleveland Heights, Ohio

MANAGEMENT LETTER

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the City of Cleveland Heights, Ohio (the City) as of and for the year ended December 31, 2021, and have issued our report dated August 15, 2022.

Government Auditing Standards also require that we describe the scope of our testing of compliance with laws and regulations and internal control over financial reporting and report any irregularities, illegal acts, other material noncompliance, and significant deficiencies in the internal controls. We have issued a report dated August 15, 2022, on internal control over financial reporting and compliance required by *Government Auditing Standards* as of and for the year ended December 31, 2021.

The Uniform Guidance requires that we report all material (and certain immaterial) instances of noncompliance and deficiencies in internal control over compliance related to major federal financial assistance programs. We have issued the required report dated August 15, 2022, for the year ended December 31, 2021.

We are submitting for your consideration the following comments on the City's compliance with applicable laws and regulations and on its internal controls. These comments reflect matters that, while in our opinion do not represent material instances of noncompliance or significant deficiencies in an internal control condition, we believe represent matters for which improvement in compliance or internal control or operational efficiency might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations suggested below. However, these comments reflect our continuing desire to assist your government. If you have any questions or concerns regarding these comments, please do not hesitate to contact us.

Comments that are repeated during the current audit that relate to prior year deficiencies which remain uncorrected by the City are indicated with an asterisk *.

1. Accounts Receivables *

During our testing of accounts receivable for water, sewer, and landfill, we noted the probability of collectability of delinquencies certified to the County Auditor was estimated to be 100 percent. However, based on the history of actual collections of delinquent amounts, collectability of such amounts was estimated to be 90 percent, but the City recorded only one year of delinquency in utility billing. In addition, we noted the City's ambulance collections are low in relation to the respective accounts receivable.

Recommendation

We recommend the City consider historical collectability of delinquent accounts when estimating accounts receivable for utilities and ambulance billing, to ensure that accounts receivables are not overstated or understated for the amounts that are unlikely to be collected.

2. Purchase Order Dates

During our testing of cash disbursements, we noted several instances in which purchase orders were dated after the invoice and/or receipt for reimbursed goods. Ohio Revised Code Section 5705.41(D) states that..."no orders or contracts involving the expenditures of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated...". Purchase orders should be prepared and approved before items are received or ordered by other means. When purchase orders are not prepared and approved before items are purchased, there is a possibility that the City will not have adequate funds available for the obligation.

Recommendation

We recommend that all purchase orders be prepared and approved before items are ordered or received, in order to avoid purchases being made without adequate funds. This will also ensure the City is in compliance with Ohio Revised Code Section 5705.41(D).

3. Capital Assets

During our testing of capital assets, we noted the following:

- The City does not maintain an accurate detail Capital Asset Listing report. Additions and deletions are added to the prior year summary amounts to determine current year book value.
- The City did not use actual depreciation but, instead, the City uses prior year depreciation value and adds/deletes current year additions/deletions. Also, the City did not record depreciation expense for current year additions in the Refuse Fund.
- The City, upon further review of its capitalization process, deleted some construction-in-progress projects in the current year since these projects are considered maintenance, rather than extending the life of the respective assets.

These items resulted in immaterial adjustments to capital assets for financial reporting purposes.

Recommendation

We recommend the City follow the procedures to record capital asset additions and deletions timely using a formal form and consolidate all capital assets into one system. We also recommend the City maintain a detail listing of all capital assets to ensure the proper depreciation amounts are being reported rather than using the prior year values.

4. **Compensated Absences**

During our testing of compensated absences, we noted vacation time was being accrued for one employee, who was hired during 2021, at 2 weeks per year, rather than 4 weeks, as approved by Council. We discovered this isolated issue and the City corrected its accrual balance report at year-end as a result.

Recommendation

We recommend the City to review each employee’s vacation balance in a timely manner, to ensure the balances are correct. We also recommend the City review employee vacation accrual rates and if an error is discovered, the City should then timely update the system so that the City’s total compensated absence balance is properly reflected.

5. **Appropriations Exceed Estimated Resources**

During our testing of compliance, we noted various funds which had original appropriations exceeding estimated resources. Ohio Revised Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total estimated resources (estimated resources plus unencumbered fund balances). We also noted the City does not have estimated resources incorporated into its accounting system.

<u>Fund</u>	<u>Original Appropriations Plus Prior Year Encumbrances</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Excess</u>
<i>Special Revenue Fund</i>			
Community Development Block Grant - COVID Relief Grant	\$ 1,004,658	\$ 805,929	\$ (198,729)
<i>Capital Projects Fund</i>			
Police Facility Improvement	52,803	38,835	(13,968)

Recommendation

We recommend that the City follow the guidance provided in Ohio Revised Code Section 5705.39 by amending the appropriations to a level that does not exceed the amended certificate.

6. **Negative Cash Fund Balances**

Ohio Revised Code Section 5705.10 (I) requires monies paid into any fund be used only for the purposes for which said fund is established. Negative cash fund balances are an indication that revenues from other sources are being used to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the reduction of loss of future grant awards. During our review, we noted that the City had negative cash fund balances in the following funds at December 31, 2021:

	Balance at December 31, 2021
<i>Special Revenue Funds</i>	
Foundation Grants	\$ (25,236)
Community Development Block Grant - COVID Relief Grant	(78,305)
Lead Safe Cuyahoga	(31,032)

The above funds did not have a request pending with a grantor (if applicable) for additional funds at the end of the year.

Recommendation

We recommend that the City monitor its fund activity to ensure expenditures are not in excess of available resources. In those cases where additional funds are required, we recommend that resources be transferred or advanced to the fund in accordance with Ohio Revised Code Section 5705.10 (I).

7. **Severance Payouts**

During our testing of severance payouts, we noted one employee who had been paid out more vacation time than what is regularly allowable per City Ordinance. Ordinance 20-2021 states that an employee may be paid up to the employee's maximum annual vacation accrual amount. However, per City Codified Ordinance Section 139.20, the City Manager may establish or change vacation, sick leave, and other benefits of an employee when such action is necessitated by special circumstances. The City Manager shall advise Council of any action taken pursuant to this section.

This employee would have received 200 hours of vacation payout per Ordinance 20-2021, but instead received 259.8 hours of vacation payout, which was approved by the City Manager. The employee had originally requested to take vacation time of 59.8 hours prior to his retirement date and the remaining 200 hours would have been paid as severance pay upon retirement. However, the employee was needed to help the City finish a project prior to their retirement, as he was the only knowledgeable staff member to perform such a task by the expected deadline. The City Manager approved the additional 59.8 accrued vacation hours to be paid out based on these circumstances, however, it is not clear if City Council was notified.

Recommendation

We recommend that Council be notified by memorandum of any changes made by the City Manager in vacation, sick leave, and all other benefits of an employee.

Should you have any questions regarding the above matters, or should you desire our assistance in its implementation, we would be pleased to discuss this with you at your convenience.

We take this opportunity to express our appreciation for the cooperation and assistance of the management and staff of the City of Cleveland Heights to our representatives during the course of our review.

These comments are intended for the information and use of management, members of the City Council, and members of the Audit Committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "James G. Zupka, CPA, Inc." The signature is written in a cursive, flowing style.

James G. Zupka, CPA, Inc.
Certified Public Accountants

August 15, 2022