



**CLEVELAND LOCAL AIR AGENCY  
CUYAHOGA COUNTY**

**SPECIAL AUDIT REPORT**

**OCTOBER 1, 1994 THROUGH SEPTEMBER 30, 1998**



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**



<b>TITLE</b>	<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
Report of Independent Accountants		3
Supplement to the Special Audit Report		
Background Information		7
Relevant Individuals and Entities		9
Summary of Results:		
Issue 1 - Overview of State Grant Agreements		10
Issue 2 - Time Accounting System		13
Issue 3 - Payroll Expenditures		15
Issue 4 - Nonpayroll Expenditures		18

**This page left blank intentionally.**



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

## REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Jane Campbell  
Mayor

City of Cleveland  
601 Lakeside Avenue  
Cleveland, Ohio 44114

Based on information provided by the Ohio Environmental Protection Agency ("the Ohio EPA"), we have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report", for the period October 1, 1994 through September 30, 1998 ("the Period"). These procedures were performed solely to obtain an understanding of the Ohio Local Air Agency Contracts (the "grant agreements"), to identify procedures and controls over payment of employees wages in the Time Accounting System, and to determine if payroll and nonpayroll grant expenditures were allowable in accordance with Ohio grant agreements. This engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. We make no representation regarding the sufficiency of the procedures discussed below, for the purpose for which this report has been requested or for any other purpose. The procedures we performed and the results of those procedures are summarized as follows:

1. We obtained an understanding of the Ohio grant agreements associated with the air pollution control program.

Significant Results: Federal, state, and local funds were commingled in the City's accounting ledgers. Additionally, the reports which CLAA submitted to grantor agencies did not reconcile to the City's computerized expenditure ledgers. We issued Management Comments for each of these issues.

2. We reviewed the Time Accounting System of the CLAA to identify the procedures and controls in place governing the payment of employees' wages with federal, state, and local EPA grant funds.

Significant Results: The City did not develop policies and procedures related to the consistent use of the Time Accounting System to ensure employee wages were appropriately and accurately allocated to grants. Additionally, several weaknesses were noted in the system. We issued a Management Comment addressing both of these issues.

3. We reviewed job descriptions and the documented activities of employees compensated with the Ohio Local Air Agency Contracts to determine if employees were compensated for work associated with air pollution control as required by the grant agreements.

Significant Results: Of \$673,208 payroll expenditures reviewed, \$342,192 was inappropriately charged to the grant program. We also estimated CLAA may have inappropriately charged an additional \$401,241 of \$786,748 to the grant program for payroll expenses in which the employees' job titles did not appear to relate solely to air pollution control.

In total, we estimate CLAA inappropriately charged the Ohio Local Air Agency Contracts \$743,433 for payroll costs of employees who worked on non-grant projects. Of that amount, we estimate \$409,512 represents state program funds and \$138,528 represents local program funds. We recommended the City meet with the Ohio EPA to negotiate a settlement agreement to repay \$409,512 of potentially misspent state funds, and to consider whether to require the CLAA to repay the City's general fund \$138,528 of potentially misspent local funds.

Additionally, we issued a Noncompliance Citation for failing to comply with grant requirements.

4. We reviewed nonpayroll expenditures of the Ohio Local Air Agency Contracts to determine whether these payments were made in compliance with the grant agreements.

Significant Results: Of \$317,904 nonpayroll expenditures reviewed, \$240,315 were not supported by source documentation, for which we issued a Noncompliance Citation. Further, when we projected our review of certain nonpayroll expenditures to the entire population of such transactions, we determined approximately \$310,487 of state program funds and \$106,020 of local program funds may be unsupported. We recommended the City meet with the Ohio EPA to negotiate a settlement agreement to repay \$310,487 in potentially misspent state program funds, and to consider whether to require the CLAA to repay the City's general fund \$106,020 of potentially misspent local program funds.

5. On December 5, 2001, we held an Exit Conference with the following elected officials and administrative staff:

Kelly Clark, Director of Finance  
Frank M. Badalamenti, Manager of Internal Audit  
Michele C. Whitlow, Director of Public Health  
Cornell P. Carter, Chief of Staff  
Michael G. Konicek, Commissioner, Department of Public Health  
Mark Vilem, Chief Engineer, Department of Port Control  
Barry Bennett, Senior Budget Management Analyst, Department of Public Health

The attendees were given until December 14, 2001 to respond to this Special Audit. A response was received on December 12, 2001 and changes were made to this report as deemed necessary.

We were unable to obtain representations from former Mayor Michael White indicating the City had provided all records requested to perform our audit procedures; that all inquiries had been answered; and that he was unaware of any irregularities or illegal acts that would have an impact on our report. However, we did obtain a representation letter from Frank Badalamenti, Manager of Internal Audit, Michele Whitlow, Director of Public Health, and Barry Bennett, Senior Budget Management Analyst, with such representations.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report". Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the amounts or items referred to above. Also, we express no opinion on the City's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the City, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

JIM PETRO  
Auditor of State of Ohio

November 15, 2001

**This page left blank intentionally.**



# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## BACKGROUND INFORMATION

---

### Cleveland Local Air Agency

The Ohio EPA contracted with the City of Cleveland to create the Cleveland Local Air Agency ("CLAA"), which was to establish, maintain and operate air quality monitoring stations and other devices designed to measure air pollution. During the Period, the Ohio EPA entered into Local Air Agency Contracts (i.e., grant agreements) with CLAA for each federal fiscal year ended September 30. The amount of funding to be received was declared within each grant agreement. The CLAA was required to report expenditures of grant funds each quarter and at federal fiscal year end. As part of the reporting process, the CLAA was required to certify funds were used on air pollution control by signing, "I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents."

### Request for Special Audit

We received a letter from Christopher Jones, Director of the Ohio EPA, requesting that we perform a Special Audit of the CLAA regarding the use of state funds for employee payroll, computers, office equipment, and motor vehicles during the period October 1, 1994 through September 30, 1998.

According to Director Jones, allegations of misspent funds by the CLAA came from two sources. First, the Director of the Environmental Health Division of the Cuyahoga County Board of Health reported to Ohio EPA in 1998 his belief that employees of the CLAA were being improperly paid for air pollution control work while performing unrelated duties. This allegation was reported to the Auditor of State through the Governor's office on April 6, 1998.

Secondly, on August 26, 1998 a former CLAA employee filed a lawsuit under the False Claims Act (commonly known as the "whistle-blower statute"), alleging numerous abuses of CLAA grant funds. On June 16, 1999, the U.S. Department of Justice intervened in this lawsuit, alleging that of the \$2,382,286 in US EPA funds received during the Period, the CLAA had misspent at least \$423,942 in federal funds. This amount was determined based on an audit conducted by federal auditors in support of the "whistle-blower" complaint. (Note: The lawsuit alleged misused federal funds only; state and local funds received by the CLAA in addition to the federal grant were not included in this amount.)

### Preliminary Investigation by the State Auditor

On December 1, 1999, we spoke with Clay Brown, Special Agent, US EPA Office of Inspector General, who stated the US EPA conducted an audit of the CLAA for the FY 95-98 federal programs. The audit report prepared by his office estimated \$429,158 of US EPA monies were misused, including \$366,367 in payroll costs and \$62,791 in other direct costs.

Special Agent Brown's audit working papers reflected the CLAA's payroll Time Accounting System was deficient due to several control weaknesses, including the ability to alter prior period information. For purposes of determining the correct allocation of payroll expenditures, the US EPA auditors interviewed employees and reviewed job descriptions to estimate a percentage of time spent on air pollution control work. The CLAA had no official documents which provided a breakdown of cost percentages for payroll.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

On March 30, 2000, we spoke with Jaime Saucedo, the US EPA Auditor who performed the audit fieldwork during the federal investigation of the CLAA. Mr. Saucedo informed us the CLAA did not use the City's FAMIS accounting system to report program costs to the grantor agencies. Instead, costs were accumulated in manual spreadsheets which the US EPA could not reconcile to the City's FAMIS system. As was the case for our special audit, the US EPA used these manual spreadsheets of air pollution control expenditures to select items for review during the Period.

### Declaration of Special Audit

On November 2, 1999, the Auditor of State's Special Audit Committee considered this information and voted to initiate a special audit of the City of Cleveland Local Air Agency.

### Ohio EPA Program Review

Throughout the planning phase of this engagement, we were in contact with Jesse Hemphill, of Hemphill and Associates, who had previously been engaged by the Ohio EPA to conduct an agreed-upon procedures engagement of state-wide local air agencies for the federal fiscal year ended September 30, 1996. The scope of his engagement included a review of the Time Accounting System, cost reports, and expenditures of the local air agencies. On August 10, 2000 we visited Mr. Hemphill's office to review the working papers from his program review, which documented unsupported nonpayroll expenditures and weaknesses in the Time Accounting System, just as the federal audit reported.

### Settlement of Federal Lawsuit

In a statement issued by the City of Cleveland on December 28, 1999, it was announced the City had settled the federal lawsuit, agreeing to pay the US EPA \$643,737, which included a 50% penalty.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

### **RELEVANT INDIVIDUALS AND ENTITIES**

---

Frank Badalamenti, Manager of Internal Audit, Department of Finance, City of Cleveland

Michele Whitlow, Director of Public Health, City of Cleveland

Barry Bennett, Chief of Finance, Department of Public Health, City of Cleveland

Lee Carpenter, Fiscal Grant Administrator, Department of Finance, City of Cleveland

Mark Vilem, Commissioner, Department of Public Health, City of Cleveland

Clay Brown, Special Agent, Office of Inspector General, United States Environmental Protection Agency

Jesse Hemphill, CPA, Partner, Hemphill and Associates, Inc.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## SUMMARY OF RESULTS

---

<b>ISSUE 1 - Overview of State Grant Agreements</b>
---

We obtained an understanding of the Ohio Local Air Agency Contracts (the “grant agreements”) associated with the air pollution control program.

### PROCEDURES

1. We obtained copies of the Ohio grant agreements which the CLAA received during the Period. We read and documented specific regulations related to expenditures, and maintained copies of the grant agreements for our working papers.
2. We noted that fund sources were commingled (federal, state, and local) and we calculated the percentages of each source as it related to the whole.
3. We attempted to determine the amount of expenditures charged to the Ohio Local Air Agency Contracts.
4. Using the CLAA’s Quarterly and Annual Reports filed with the grantor agency, we attempted to reconcile the amounts on these reports to the City’s expenditure ledgers.

### RESULTS

1. The grant agreements stated that program funds were to be used for those costs specifically incurred for the approved program, and were to be expended for the purposes stated in the approved budget. Budgeted cost categories included personnel, fringe benefits, travel, equipment, supplies, contractual, construction, and other. Some of the items included in the “other” category were travel and utilities. Additionally, the grants required CLAA to comply with the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. In accordance with OMB Circular A-87, Attachment A, Section (C)(1)(j), all program costs were required to be adequately documented.
2. According to both Jamie Saucedo, US EPA Auditor, and Jesse Hemphill, CPA, Partner, Hemphill & Associates, although the CLAA received funds directly from the US EPA program as well as directly from the Ohio EPA program, the City’s accounting ledgers and reports did not segregate revenues and expenditures between the types of grants; i.e., federal, state, or local. All funds received, regardless of source, were recorded in the same fund, thereby making it impossible to distinguish which type of grant monies were used when making a purchase. Each expenditure of grant funds for the air pollution control program consisted of a portion of federal, state, and local funds.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We calculated the amount of federal, state, and local revenues sources as a percentage of the whole, then applied that percentage to the individual expenditure transactions reviewed in Issues No. 3 and 4, in order to determine what portion of the expenditure was state, local or federal. The following table identifies the percentages which we developed for our review, based on the amount of revenues which the CLAA received from all sources:

Federal Fiscal Year Ended September 30	1995	1996	1997	1998
<b>State Funds</b>	\$1,017,140	\$1,063,288	\$1,040,888	\$1,126,577
<b>State %</b>	52	56	53	58
<b>Federal Funds</b>	576,313	488,704	527,206	462,363
<b>Federal %</b>	30	26	27	24
<b>Local Funds</b>	348,304	347,221	392,840	355,278
<b>Local %</b>	18	18	20	18
<b>Total Funds</b>	\$1,941,757	\$1,899,213	\$1,960,934	\$1,944,218
<b>Total %</b>	100	100	100	100

Of these amounts provided by the Ohio EPA, all were within the grant awards which were documented in the grant agreements the City provided for our review.

3. We were not provided with the City's original FAMIS reports; rather the City created computerized spreadsheets of program expenditures which Nancee Murphy, City Comptroller, stated were correct and complete copies of the City's FAMIS system. We used these records for our audit review; however, without an on-line source to verify these spreadsheets, we were unable to obtain assurance that these documents were a complete and accurate record of the actual expenditures of the Ohio Local Air Agency Contracts.
  
4. CLAA provided us with copies of its Quarterly and Annual Expenditure Reports filed with both the US and Ohio EPA for each grant year during the Period. In preparing these reports, CLAA converted its on-line ledgers into computerized spreadsheets which were manually adjusted and did not specifically identify individual transactions. The Quarterly Expenditure Reports filed with the Ohio EPA reconciled with the year-end Financial Status Reports filed with the US EPA; however, because CLAA did not use authentic on-line expenditure ledgers in preparing its reports, we were unable to reconcile the expenditures recorded on the Quarterly Expenditure Reports with the actual expenditure records of CLAA.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### MANAGEMENT COMMENTS

#### Commingling of Funds

When program revenues are received from different sources (federal, state, local), these amounts should be recorded in separate funds or subfunds to clearly distinguish the type of revenue or expenditure. The City did not clearly distinguish its federal, state, and local funds from one another. When funds are commingled, it is unclear as to what grant restrictions are applicable to which funds. The amounts which CLAA expended under federal, state, or local sources were not supported by City accounting records or individual transaction documentation. Given all of these circumstances, it is impossible to determine the source of funds used to process expenditure transactions.

We recommend the City take necessary steps to accurately segregate federal, state, and local revenues and expenditures for its grant programs.

#### Reports to Grantor Agencies

The City is required to submit Quarterly and Annual Expenditure Reports for the air pollution control grants. The reports which were submitted could not be reconciled to the City's general ledger and instead were completed using manual spreadsheets. There can be genuine concerns of completeness, accuracy, and validity when data are manipulated from the general ledger prior to completion of required grant reports.

We recommend the City use information taken directly from the general ledger and utilize another person's review of those reports prior to submission to ensure information submitted to grantor agencies is reconciled with the CLAA expenditure ledgers.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 2 - Time Accounting System

We reviewed the Time Accounting System of the CLAA to identify the procedures and controls in place governing the payment of employees' wages with federal, state, and local EPA grant funds.

#### PROCEDURES

1. Through interviews of Mark Vilem, Commissioner, Department of Public Health, and Lee Carpenter, Fiscal Grant Administrator, and a review of City and/or CLAA policies, we documented procedures for allocating employee wages to the Ohio Local Air Agency Contracts for those employees being compensated with such funds.
2. We attempted to include in our working papers any written policies related to the allocation of wages to grant funds.

#### RESULTS

1. According to Mark Vilem<sup>1</sup>, Commissioner, Department of Public Health, each employee of the CLAA used a swipe card to record his or her time as they entered and exited the building, similar to a standard time-clock. At the end of the pay period, the information recorded by the swipe machine was electronically transferred to the City's central payroll department and paychecks were generated based on the total hours recorded on the swipe machine. The City's payroll department then notified the CLAA Finance Department of the total amount of payroll expenditures.

In addition to the swipe cards which would record the total hours each employee worked, the Time Accounting System separately required employees to manually enter the hours they worked, designating to which grant their salary was being charged. The Time Accounting System was not on-line with the swipe machine. According to Mr. Vilem, there was no supervisory review of hours charged by the employees, and no reconciliation was performed between the Time Accounting System and the swipe machine. Additionally, prior period information in the Time Accounting System could be altered and former employee identification numbers were reused and assigned to new employees, thereby overriding previous data regarding the former employee.

Mr. Vilem further stated that although the program budget included 5 or 6 clerical and support staff positions that were less than 100% chargeable to the Ohio Local Air Agency Contracts, the majority of employees were appropriately charged to the Ohio Local Air Agency Contracts at 100% of their salaries. Mr. Vilem specifically acknowledged the clerical employees were charging all of their time to the air pollution control grants when in reality they worked on multiple projects including non-grant projects.

2. Lee Carpenter<sup>2</sup>, Fiscal Grant Administrator, provided us with an Accounting Policies and Procedures manual and the Grant Management Policies and Procedures manual. The latter document did not provide any guidance on processing payroll transactions; however, the Accounting Policies and Procedures manual contained brief instructions governing the payment of payroll-related grant expenditures. Neither document contained any information on the Time Accounting System.

---

<sup>1</sup>Mark Vilem was previously a Grant Program Manager and has been the Commissioner of the Department of Health since July 14, 2000.

<sup>2</sup>Lee Carpenter began employment with the City in April 2000.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### MANAGEMENT COMMENT

#### Time Accounting System

The CLAA did not have a policy/procedure manual detailing the required processes to be performed for the consistent operation, use, and review of the Time Accounting System. A policies/procedure manual is an important part of the control process because it outlines the exact procedures that must be performed and the responsibility for those procedures. Without a policies/procedure manual, there is no clear instruction for the use of the Time Accounting System and the staff have no source of reference when they experience uncertainty.

Additionally, there were numerous weaknesses in the operations of the Time Accounting System, including but not limited to the following: each employee manually entering his or her own attendance records with no supervisory review; a lack of reconciliation between the swipe machine and the Time Accounting System; and recycling former employee identification numbers.

We recommend the CLAA compose a policies/procedure manual that details the procedures and processes to be performed for all operations of the Time Accounting System. This manual should also state the position or person responsible for each process or procedure. This manual should be given to all personnel who are involved in using the Time Accounting System and should be updated periodically, as necessary.

Additionally, we recommend management review and approve the information entered by the employees on the Time Accounting System for each pay cycle, periodically reconcile the swipe machine to the Time Accounting System, and discontinue the practice of re-using employee identification numbers.



## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 3 - Payroll Expenditures

We reviewed job descriptions and the documented activities of employees compensated with the Ohio Local Air Agency Contracts to determine if employees were compensated for work associated with air pollution control as required by the grant agreements.

#### PROCEDURES

We obtained a ledger of payroll payments made from grant funds during the Period and selected 10 of 35 CLAA employees for review. Where available, we obtained time records and position descriptions to determine if employees compensated with grant funds performed duties associated with the Ohio Local Air Agency Contracts. We also interviewed employees to determine if their salaries were allocated to the Ohio Local Air Agency Contracts based on the number of hours worked on air pollution control programs.

#### RESULTS

Of the 10 employees we selected to review, we were able to interview 7 of them<sup>3</sup>. Six of the 7 employees interviewed were able to provide us with a position description which had been in effect during the Period; however, the job descriptions did not provide the appropriate cost centers to charge his or her payroll nor details of job duties that related specifically to the Ohio Local Air Agency Contracts. The remaining employee was not able to provide a job description. Time and attendance records for these employees did not allocate hours among air pollution control and other areas of the Department of Health.

For those reasons, when interviewing employees we inquired as to his or her estimation of the amount of time he or she worked on projects related to the Ohio Local Air Agency Contracts. Our review of the US EPA audit report (wherein the auditors also interviewed employees to determine a reasonable allocation of payroll costs) found similarities in the estimations of hours worked by these selected employees. Although each of these employees were charged 100% to the air pollution control grants, none of the employees we interviewed confirmed he or she spent 100% of their work hours on these types of programs. Instead, one employee told us she worked 75% of her time on CLAA-related activities while another employee stated she only worked 1/3 of her time on the program. The other employees responded with various percentages from 40 to 50% of their work day dedicated to CLAA.

---

<sup>3</sup>The remaining 3 employees were no longer employed at CLAA and we were unable to contact them based on the last available phone numbers on file at the City.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We used each of the 7 employee's estimation of time worked on air pollution projects to determine the amount of salary which was inappropriately charged to the CLAA grants during the Period, as follows:

Employee	Actual Payroll Expense Charged to Grant Program	Payroll Overcharge (based on Employee Interview)	Total Excess Charges to Grant Program	Portion of Total Excess Charges which represent State and Local Funds only <sup>4</sup>
No. 1	\$81,757	50 %	\$40,879	\$30,781
No. 2	68,441	40 %	27,376	20,449
No. 3	142,730	67 %	95,629	70,312
No. 4	87,967	60 %	52,780	39,297
No. 5	64,913	60 %	38,948	29,080
No. 6	84,942	60 %	50,965	38,037
No. 7	<u>142,458</u>	25 %	<u>35,615</u>	<u>26,175</u>
<b>Total</b>	<b><u>\$673,208</u></b>		<b><u>\$342,192</u></b>	<b><u>\$254,131</u></b>

Of the \$673,208 payroll expenditures we reviewed, \$342,192 was inappropriately charged to the grant program, \$254,131 of which was state and local funds.

Additionally, a review of the payroll expense budget filed with each year's grant application identified 6 other individuals (not included in the above table) from each federal fiscal year whose job title was not specific to air pollution control. These 6 employees, whose budgeted payroll expense was \$786,748 for the Period, held positions such as Private Secretary, Junior Clerk, and Budget & Management Analyst. Payroll expenses for these 6 positions were charged to the grant at 100% of their cost when these employees may not have worked solely on air pollution control. Accordingly, a portion of their total payroll costs for the Period may have been inappropriately charged to the air pollution control grants.

Using an average of the percentages of overcharged payroll identified in the table above (51%) and these 6 additional positions' budgeted payroll costs, CLAA may have inappropriately charged an additional \$401,241 to the Ohio Local Air Agency Contracts. Of this amount, approximately \$219,679 represents state funds and approximately \$74,230 represents local funds.<sup>5</sup>

---

<sup>4</sup>These amounts were calculated using the percentages developed in our Results of Issue No. 1.

<sup>5</sup>Using our Results of Issue No. 1, we averaged the annual percentage rates of contribution from federal, state, and local sources to quantify the amount of state and local program funds potentially misspent on payroll during the Period.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### NONCOMPLIANCE CITATION

Article III, Section D, No. 2, of the Local Air Agency Contract states, in part, "The local air agency must submit to the Ohio EPA no later than 45 days after the last day of the quarter, a report of all expenditures, from whatever source, which occurred during that period." The quarterly expenditure reports required the City to certify that funds were used on air pollution control by signing, "I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents."

Our review estimated \$254,131 of state and local air pollution grant funds which were spent for purposes other than air pollution control. Of that amount, \$189,833 was state funds and \$64,298 was local funds. We further reviewed the grant application budgets and identified 6 additional clerical and/or support staff positions whose payroll costs were charged to the grant at 100%; however, may have worked on non-grant projects. Using budgeted payroll amounts, we estimated that CLAA may have charged an additional \$401,241 for these positions. Of that amount, we estimated \$219,679 was state funds and \$74,230 was local funds.

We recommend the CLAA allocate employees' payroll costs according to the department in which he or she is working, rather than charging an employee's total costs to the Ohio Local Air Agency Contracts. We also recommend the City meet with the Ohio EPA to negotiate a settlement agreement to repay \$409,512 of potentially misspent state program funds. The City should also consider whether to require the CLAA to repay the City's general fund for \$138,528 of potentially misspent local program funds.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 4 - Nonpayroll Expenditures

We reviewed nonpayroll expenditures of the Ohio Local Air Agency Contracts to determine whether these payments were made in compliance with the grant agreements.

#### PROCEDURES

1. We obtained a ledger of nonpayroll disbursements made from the air pollution control Ohio Local Air Agency Contracts during the Period. We randomly selected expenditure transactions for review, making sure to include the purchase of computers, office equipment, and motor vehicles.
2. We requested supporting documents for selected expenditures, including but not limited to purchase requisitions, purchase orders, vouchers, invoices, and canceled checks to determine if the selected expenditures were made in accordance with the Ohio Local Air Agency Contracts.
3. For fixed asset expenditures, we attempted to determine the location of each item to determine if it had been used or dedicated to work related to the Ohio Local Air Agency Contracts.

#### RESULTS

1. As previously noted in Issue No. 1, the City did not have on-line computerized expenditure ledgers for activity related to CLAA. Instead, we were provided spreadsheets which had been generated by the City; however, we could not determine their completeness. We used these spreadsheets to select 62 nonpayroll disbursement transactions valued at \$317,904, from a population of \$757,286.
2. The results of our review of nonpayroll expenditures is shown below:

Year	Amount Reviewed	Unsupported Expenditures	State Portion of Unsupported	Local Portion of Unsupported
1995	\$33,082	\$18,839	\$9,796	\$3,391
1996	133,667	120,393	67,420	21,671
1997	135,011	93,485	49,547	18,697
1998	16,144	7,598	4,407	1,368
<b>Total</b>	<b>\$317,904</b>	<b>\$240,315</b>	<b>\$131,170</b>	<b>\$45,127</b>

Of the \$317,904 nonpayroll expenditures we reviewed, \$131,170 of state funds were spent on unsupported expenditures (41%) and \$45,127 (14%) of local funds were spent on unsupported expenditures. When we project the total amount of unsupported state and local expenditures incurred with grant program funds to the population of \$757,286, approximately \$310,487 of state funds and \$106,020 of local funds may be unsupported.

3. In a telephone conversation on December 5, 2000, Mr. Badalamenti informed us the City had not recorded fixed asset additions during the Period. Therefore, we were unable to determine whether fixed assets purchased with grant funds were recorded and used in a manner consistent with grant requirements. Of the \$317,904 we reviewed, \$174,342 appear to be purchases of fixed assets.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### NONCOMPLIANCE CITATION

The Ohio Local Air Agency Contracts required the CLAA to comply with the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section (C)(1)(j) which states, in pertinent part, costs must be adequately documented. Of \$317,904 expenditures we reviewed, \$240,315 were unsupported by formal accounting records to substantiate the propriety of the charges. Using the percentages developed in Issue No. 1, \$131,170 of the \$240,315 is estimated to be state funds and \$45,127 was estimated to be local. The remaining \$64,018 is estimated to be federal funds. Without adequate documentation, we could not conclude whether expenditures were directly or indirectly related to the maintenance or operation of an air pollution control program.

Further, when we project our review of nonpayroll expenditures to the entire population of such transactions, approximately \$310,487 of state funds and \$106,020 of local funds may be unsupported.

We recommend the CLAA maintain all supporting documentation associated with expenditures of program funds, including but not limited to purchase orders, invoices, voucher packets, and canceled checks. We also recommend the City meet with the Ohio EPA to negotiate a settlement agreement to repay \$310,487 of potentially misspent state program funds. The City should also consider whether to require the CLAA to repay the City's general fund for \$106,020 of potentially misspent local program funds.

### MANAGEMENT COMMENT

#### Fixed Assets

The CLAA did not maintain a complete listing of its fixed assets. Further, the CLAA has not implemented internal controls to ensure fixed assets are accurately recorded for financial reporting purposes. The CLAA also has no procedure in place to formally add or delete fixed assets from the CLAA inventories.

The lack of a complete fixed asset listing and the absence of internal controls could result in a loss from errors and/or misappropriation of CLAA assets without management's detection.

We recommend the CLAA implement the following procedures:

- ▶ Designate an individual(s) to be responsible for the preparation and recording of CLAA's fixed assets;
- ▶ CLAA review and periodically update the fixed asset policy;
- ▶ A physical inventory of all fixed assets be performed and updated annually;
- ▶ Based on the physical inventory, a fixed asset listing be assembled to include, but not be limited to, the following: location, tag number, description, date of acquisition, cost (or estimated historical cost), source of funding, depreciation, and accumulated depreciation;
- ▶ Implement procedures to record fixed asset additions as they are acquired, preferably through the use of fixed asset addition forms. When a fixed asset addition form is completed, the information should then be recorded on the CLAA's fixed asset listing;
- ▶ Implement procedures to ensure deleted assets are removed from the fixed asset listing, preferably through the use of fixed asset disposal forms. The forms should be completed each time a fixed asset is sold or disposed. When the form is completed, the fixed asset should subsequently be removed from CLAA's fixed asset listing;
- ▶ At or near the end of each fiscal year, a summary of fixed assets purchased and disposed should be prepared. The amounts recorded on the fixed asset listing should be reconciled (prior period fixed assets, plus current year additions, less current year deletions), and then be recorded on CLAA's financial statements; and
- ▶ Progress reports should be made on a monthly basis (or more frequently, if necessary) to CLAA's management regarding the preparation and completion of the fixed asset listing.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF CLEVELAND LOCAL AIR AGENCY**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 16, 2002**