



Mary Taylor, CPA
Auditor of State

ORANGE VILLAGE PERFORMANCE AUDIT

APRIL 15, 2010



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Auditor of State

To the Residents, Mayor and Council of Orange Village:

On August 5, 2009, Orange Village engaged the Auditor of State's Office to conduct a performance audit of the Finance and Building Departments. The performance audit was designed to review and analyze the selected areas of these departments in relation to peer villages, industry benchmarks, and leading or recommended practices.

The performance audit contains recommendations which the Village can consider in its efforts to improve operational efficiency and effectiveness. While the recommendations contained in the audit report are resources intended to assist in identifying improvements, the Village is encouraged to independently assess operations and develop additional alternatives.

An executive summary has been prepared which includes the project history; a village overview; the scope, objectives and methodology for the performance audit; and a summary of the recommendations, noteworthy accomplishments, assessments not yielding recommendations, issues for further study, and financial implications. This report has been provided to the Village and its contents discussed with the appropriate elected officials and administrators. The Village has been encouraged to use the results of the performance audit as a resource for improving overall operations.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. This performance audit is also accessible online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 15, 2010

Executive Summary

Project History

On August 5, 2009, Orange Village (Orange or the Village) engaged the Auditor of State's Office (AOS) to conduct a performance audit of the Finance and Building Departments. The performance audit was designed to review and analyze the selected areas of these departments in relation to peer villages, industry benchmarks, and leading or recommended practices.

Village Overview

Orange Village was established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected Mayor and seven-member Council. The Village is located in Cuyahoga County and provides general government services, including police, fire, building inspection, and recreation programs. According to the U.S. Census Bureau, the Village is comprised of 3,287 residents (2007 estimate) and 3.8 square miles. Additionally, the 2000 Census reported the Village's median household income at \$89,660 and family poverty rate at 2.3 percent. By comparison, the 2000 Census reported the national median household income at \$41,994 and family poverty rate at 9.2 percent.

The Finance Department consists of the Treasurer, who reports to the Mayor; and the Assistant Treasurer/Tax Administrator and Finance Administrator, who report to the Treasurer. The Finance Department is responsible for administering accounts receivable and payable; issuing monthly financial statements; processing payroll; preparing and monitoring the annual budget; reporting Village finances to the Finance Committee, Council and the general public; assisting with the annual financial audit; monitoring the collection of income taxes; administering the Joint Economic Development Zone Agreement; and completing human resource activities. Additionally, the Finance Department is responsible for financial record keeping/budgeting related to the Infrastructure Tax Levy.

The Building Department consists of the Building Commissioner, who reports to the Mayor; and the Housing and Zoning Inspector and Building Administrator, who report to the Building Commissioner. The Building Department is responsible for ensuring that buildings conform to the established safety, building, and zoning code; investigating complaints and possible code violations; and processing requests for permits. In addition, the Building Commissioner is currently working on a Leadership in Energy and Environmental Design (LEED) program that focuses on making buildings more energy efficient.

Objectives

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

The overall objective of this performance audit was to review the Finance and Building Departments' operations and, where warranted, develop recommendations to increase efficiency and effectiveness. The following assessments were conducted in this performance audit:

- **Finance Department:** operations, staffing levels, and organizational structure; and
- **Building Department:** costs, organizational structure, staffing levels, and services.

The recommendations in the performance audit comprise options that Orange can consider in its efforts to improve operational efficiency and effectiveness.

Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives.

Audit work was conducted between August and December 2009, and data was drawn primarily from fiscal years 2008 and 2009. To complete this report, the auditors gathered a significant amount of data pertaining to the Village, conducted interviews with numerous individuals, and reviewed and assessed available information. Certain data for Orange could not be tested for reliability due to a lack of corroborating information (see **Tables 2-1, 2-2, 2-4, 3-1, 3-2, 3-4, and 3-6**). Peer data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness.

The performance audit process involved significant information sharing with Orange, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform the Village of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the Village was solicited and considered when assessing the selected areas and framing recommendations. Finally, the Village

provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on the Village's comments.

Three villages (peers) were selected to provide benchmark comparisons for the areas assessed in the performance audit: Chagrin Falls, Moreland Hills, and Walton Hills. These villages were selected based upon demographic and operational data, and input from Orange. Furthermore, external organizations and sources were used to provide comparative information and benchmarks, such as the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), and the Insurance Service Office (ISO).

The Auditor of State and staff express appreciation to Orange and the peer villages for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The assessment of the Finance Department's staffing levels and organizational structure warrants a noteworthy accomplishment. Specifically, Orange employs fewer total positions than two peers, and fewer Finance Department FTEs when compared to the peer average. Similarly, Orange employs fewer total FTEs per 1,000 citizens and processes more invoices per total FTE in 2008 and 2009 (year-to-date), when compared to the respective peer averages. Lastly, although Orange's Finance Department completes similar functions to that of Moreland Hills and Walton Hills, it has a few unique functions. Taken collectively, these items indicate that the Finance Department is efficiently staffed and organized.

Assessments Not Yielding Recommendations

The assessment of the Building Department's staffing levels and organizational structure did not warrant changes or yield recommendations. Specifically, the Village employs the same number of positions as two of the three peers. In addition, Orange employs fewer total Building Department FTEs when compared to the peer average, and fewer FTEs based on the number of citizens and housing units. Furthermore, the year-to-date activity in 2009 for inspections and permits indicates that the Village's staffing levels are generally reasonable when compared to the peers. Lastly, the Village achieved better ISO ratings when compared to Chagrin Falls and Walton Hills, and the BCEGS report noted that Orange's inspectors were more productive than the national average for communities serving similar populations. Coupled with the comparison of services, these items taken collectively indicate that the organizational structure and total number of current FTEs in the Building Department are reasonable.

Recommendations

Each section of the audit report contains recommendations that are intended to provide the Village with options to enhance its efficiency and effectiveness. In order to obtain a full understanding of the assessed areas, the reader is encouraged to review the recommendations and related analyses in their entirety. The following presents the recommendations from the performance audit report.

In the Finance Department, Orange should:

- Develop a formal, multi-year strategic plan that incorporates meaningful goals, measurable objectives, and related performance measures and timeframes for each department. The strategic plan should link to a long-term financial forecast, infrastructure levy plan, and community survey. Accordingly, the Village should develop a long-term financial forecast that coincides with its strategic plan and includes pertinent elements. Prior to using the community survey from 2007 as a part of the strategic plan, Orange should review the survey results in relation to the current needs of the Village. Orange should then determine whether another community survey should be administered. In addition, the Village should consider developing a regular schedule for obtaining community feedback. Lastly, the Village should formally track progress and update the multi-year strategic plan and financial forecast, and share the results with its community members on a regular basis.
- Revise its purchasing and vendor payment practices. Specifically, Orange should continue recording encumbrances in the Purchase Order module¹. In addition, the Village should update its vendor payment procedures to avoid incurring late fees and to obtain discounts for early payment. For example, the Village could adopt a policy that allows the Mayor to approve payments of such invoices and then report on them at the next Council meeting. Lastly, Orange should develop a policy that defines the use of purchase orders. Barring exceptions in State law and for other appropriate items, the Village should use purchase orders.
- Review the makeup of its Finance Committee to ensure that members can provide independent review and effective oversight of the Village's financial reporting process, the internal accounting controls, and the annual financial audits. For example, altering or expanding membership to include individuals that are not employed by the Village would allow for broader and independent perspectives, and increase transparency and accountability. In the meantime, the current Finance Committee should review the results

¹ Based on the respective monthly budget report, the Village began recording encumbrances in January 2009.

of the financial audits and work with the Finance Department to develop strategies to address past financial audit citations.²

- Determine the full functionality of the current accounting software before deciding to purchase another software package. Specifically, Orange should contact the accounting software provider to provide detailed information on the functionality and to obtain training. The Finance Department staff should receive routine training on each module to ensure the system is used to its full capacity. For example, the Finance Department staff should receive training on importing information from ASYST into Microsoft Excel for reporting purposes. Furthermore, the Village should review additional modules of the accounting software to determine if it would provide efficiencies and reduce the duplicative work completed by Finance Department staff. In particular, Orange should consider purchasing the Cash Control module to enable the Finance Department to create the trial balance report and perform bank reconciliations electronically.
- Review the capabilities of multiple systems and provide the necessary training to Finance Department employees, if the Village decides to change software packages. Reviewing multiple systems would ensure the selection of a system that best meets Orange's needs. Additionally, the Finance Department should be required to demonstrate to the Mayor and Council how such systems are better than the functionality of the current software. The Village should also review the capacity to interface with other systems (e.g., the Building Department's software) when considering other software.

In the Building Department, Orange should:

- Routinely review the workload levels within the Building Department to ensure they coincide with the necessary staffing levels to effectively operate the Department. For example, a decline in permit and inspection activity would reduce the Department's workload, thereby requiring fewer staff resources to complete these functions. Additionally, Orange should review salary and benefit levels, as well as its professional services and related practices (e.g., purchasing procedures) to identify potential cost savings. For example, the Village should ensure that it is not contracting for services that could be completed by the Building Commissioner, unless it can show that doing so would be more cost-effective. Furthermore, when reviewing staffing, salary and benefit levels, and professional services, the Village should consider potential impacts on its ISO rating before making any adjustments. Lastly, the Building Commissioner should work with the Finance Department to ensure that the appropriate activities are being charged to the Building Department's budget.

² According to a council member who serves on the Finance Committee, the Village's Finance Committee met with the financial auditors to determine actions needed to address the citations in the 2008 financial audit and directed Orange's administration to implement the corrective actions.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. AOS identified the working schedules of the Building Department staff as an issue for further study. Additional detail pertaining to this issue is presented in the **building department** section of the report.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Table 1-1: Performance Audit Recommendations

Recommendation	One-Time Costs	Annual Costs	Annual Cost Savings
R2.4 Purchase Cash Module	\$395	\$120	
R3.1 Reduce professional service costs			\$800
Total	\$395	\$120	\$800

Source: AOS Recommendations

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Finance Department

Background

This section of the performance audit focuses on Orange Village’s (Orange or the Village) Finance Department. The objective is to assess the Finance Department’s operations against leading or recommended practices, industry benchmarks, and selected peer villages¹. Sources of leading or recommended practices and industry standards include the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), and *Municipal Benchmarks* (Ammons, 2001).

Organization Structure

Based on Section V-1 of Orange’s Charter, the Village has a Treasurer and a Tax Administrator. Additionally, based on Section 125.20 of the Village’s Codified Ordinances, the Village has a full-time Finance Administrator.

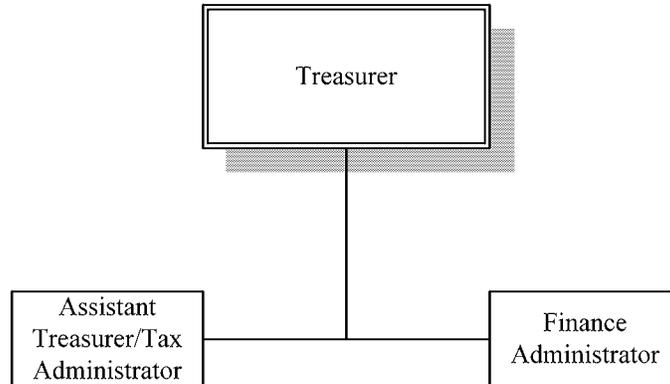
According to Section VIII-1 of the Village’s Charter, the laws of Ohio relating generally to budgets, appropriations, deposits, expenditures, debt, bonds and other fiscal matters of municipalities shall be applicable to Orange. However, Council may, by ordinance, provide for different rules or procedures for determining the fiscal affairs of the Village. Said rules or procedures shall apply, except when dictated otherwise by the Constitution of the State of Ohio.

The Finance Department is responsible for administering accounts receivable and payable; issuing monthly financial statements; processing payroll; preparing and monitoring the annual budget; reporting Village finances to the Finance Committee, Council and the general public; assisting with the annual financial audit; monitoring the collection of income taxes; administering the Joint Economic Development Zone Agreement; and completing human resource activities. Additionally, the Finance Department is responsible for financial record keeping and budgeting related to the Infrastructure Tax Levy.

Chart 2-1 shows the organizational structure of the Village’s Finance Department.

¹ See the **executive summary** for a list of the peer villages and an explanation of the selection methodology.

Chart 2-1: Finance Department Organizational Chart



As illustrated in **Chart 2-1**, the Finance Department consists of the Treasurer, who reports to the Mayor; and the Assistant Treasurer/Tax Administrator and Finance Administrator, who report to the Treasurer. The Treasurer oversees the operations and personnel of the Finance Department, while the Assistant Treasurer/Tax Administrator reviews the work of the Finance Administrator.

The Village has experienced considerable turnover in the Finance Department over the last two years. Two staff in the Finance Department left during 2008, which created a difficult transition period. During this transition period, the newly hired Assistant Treasurer/Tax Administrator and Finance Administrator received minimal to no training (see **R2.4**). In addition, the Treasurer indicated that the Finance Department has functioned in a state of “catch-up,” which was compounded by the results of the Village’s 2006 financial audit (see **R2.3**). The Treasurer noted that staff has mainly focused on paying bills, completing payroll, and making the changes noted in the last financial audit.

Staffing

Table 2-1 shows Orange’s full-time equivalent (FTE) staffing for 2009.

Table 2-1: Finance Department Staffing Levels

Position	Full-Time Equivalents (FTEs)
Treasurer	0.3 ¹
Assistant Treasurer/Tax Administrator	1.0
Finance Administrator	1.0
Total FTEs	2.3

Source: Orange Village interviews, support documentation, and job descriptions

¹ According to the Treasurer, he works an average of 12 hours a week, 50 weeks per year. The testimonial evidence provided by the Treasurer was unable to be verified, due to a lack of corroborating data.

As illustrated in **Table 2-1**, the financial operations of Orange are carried out by three employees or 2.3 FTEs. The Treasurer’s position is part-time, while the Assistant Treasurer/Tax Administrator and Finance Administrator’s positions are full-time. Summary descriptions of the Finance Department’s job responsibilities include the following:

- **Treasurer:** The Treasurer serves as the Village’s fiscal officer, financial advisor and custodian of public funds and investments, provides administrative direction to the Finance Department, and monitors the Village’s purchasing function. The Treasurer is required to work one day a week during the regular daytime hours of operation for the department and be available on other days, including the evenings and weekends to attend meetings and handle emergencies.
- **Assistant Treasurer/Tax Administrator:** The Assistant Treasurer/Tax Administrator performs a wide range of accounting and financial reporting functions related to preparing, examining, and analyzing accounting records, financial statements, and other financial reports. In addition, the Assistant Treasurer/Tax Administrator is responsible for monitoring and reporting on the Village’s income tax withholding collection activity. Furthermore, the Assistant Treasurer/Tax Administrator is responsible for preparing and distributing monthly tax revenues to the Chagrin Highlands Joint Economic Development partners. Lastly, the Assistant Treasurer/Tax Administrator completes administrative duties related to court hearings for tax cases. The Assistant Treasurer/Tax Administrator is required to work at least 40 hours a week as stipulated in the job description.
- **Finance Administrator:** The Finance Administrator is responsible for performing bookkeeping, accounts payable, payroll for approximately 80 employees, secretarial, human resources (i.e., coordinating health, dental, and COBRA insurance, maintaining personnel files, handling workers compensation claims, etc.), and clerical functions. The Finance Administrator is required to work 40 hours a week as stipulated in the job description.

Table 2-2 compares Finance Department staffing levels in Orange to the peer villages.

Table 2-2: Finance Department Staffing Levels

	Orange	Chagrin Falls	Moreland Hills	Walton Hills	Peer Average
Treasurer/Fiscal Officer	0.3 ¹	1.0	0.2	1.0	0.7
Assistant Treasurer/Tax Administrator	1.0	0.0	1.0	1.0	0.7
Finance Administrator / Finance Assistant	1.0	1.0	0.0	0.0	0.3
Administrative Assistant	0.0	1.0	0.0	0.1	0.4
Secretary	0.0	0.0	0.0	0.4	0.1
Part-Time Clerk	0.0	0.6	0.0	0.2	0.3
Total FTEs	2.3	3.6²	1.2	2.7	2.5

Source: Orange Village and the peers

Note: Totals may vary due to rounding

¹ This is based on testimonial evidence provided by the Treasurer and was unable to be verified, due to a lack of corroborating data.

² The total number of department staff was unable to be verified.

Table 2-2 shows that Orange employs a total of 2.3 FTEs in the Finance Department, which is slightly lower than the peer average of 2.5 FTEs. In addition, Orange maintains fewer positions in its Finance Department than two peers, which contributes to differences in the assignment of duties by position. For a comparison of overall job functions performed by Orange’s Finance Department to the peers, see **Table 2-3**. Likewise, see **Table 2-4** for further assessment of overall staffing levels. Moreover, Orange’s Treasurer and Assistant Treasurer/Tax Administrator are certified public accountants (CPA). Moreland Hill’s Treasurer is a CPA, while the Assistant Treasurer is in the process of becoming a certified finance administrator.

Department Functions

Table 2-3 compares functions for the Finance Department at Orange to the peers.²

² Chagrin Falls was unable to provide information.

Table 2-3: Finance Department Functions

Functions	Orange	Moreland Hills	Walton Hills
Oversees preparation and analysis of Village's annual budget, appropriations, and tax budget	X	X	X
Prepares annual operating budget	X	X	X
Prepares and reviews bank reconciliations	X	X	X
Maintains cash balances	X	X	X
Compiles data for financial reports/audits	X	X	X
Responds to questions and concerns from staff/residents	X	X	X
Supervises payroll	X	X	X
Prepares tax reports	X	X	X
Enters accounts payable data	X	X	X
Posts appropriations, revenues, and expenditures to the general ledger	X	X	X
Registers new hires for OPERS, medical, dental, and life insurance	X	X	X
Maintains personnel files	X	X	X
Closes books at the end of the month	X	X	X
Processes purchase orders and invoices	X	X	X
Processes checks for payments	X	X	X
Enters payroll	X	X	X
Performs clerical work	X	X	X
Monitors the collections of income taxes from the Regional Income Tax Agency (RITA) and works with RITA to identify taxpayers not filing tax returns	X	X	N/A ¹
Prepares the collection and distribution of income taxes, reviews annual tax returns, estimates and processes tax payments, and audits annual income tax returns	N/A ¹	N/A ¹	X
Prepares Bills-to-be-Paid Report for Council	X	X	N/A
Administers the Village's Zone Income Tax Cash Account	X	N/A	N/A
Interprets, analyses, distributes, and reconciles monies collected on behalf of the Village's Joint Economic Development District	X	N/A ²	N/A ²
Plans, organizes, directs, and coordinates the Economic and Community Development programs and activities of the Village, and negotiates zone agreements	N/A	N/A	X
Coordinates and manages professional service contracts	N/A	N/A	X
Serves as village liaison for a variety of public, private, or non-profit groups and associations	X	N/A	X
Conducts annual juvenile diversion and motor vehicle registration audits with the Police Department	X	N/A	N/A
Fire Department payroll	X	N/A ³	N/A ³

Source: Interviews and job descriptions

¹ Walton Hills prepares the collection and distribution of income taxes. In contrast, Orange and Moreland Hills use the services of RITA to complete these activities.

² Moreland Hills and Walton Hills do not have a Joint Economic Development District.

³ Moreland Hills and Walton Hills contract for fire services.

As noted in **Table 2-3**, Orange and the peers complete numerous functions that are similar in nature. More specifically, all three villages perform 17 of the 27 functions in **Table 2-3**. In addition, Orange performs 24 functions, which is higher than Moreland Hills (19) and Walton Hills (21). The notable differences among the finance departments include the following:

- Orange has a Joint Economic Development District where the Assistant Treasurer/Tax Administrator is responsible for financial record keeping and analysis, and distribution of taxes.
- Walton Hills does not use the services of RITA for tax work. As a result, the Finance Department is responsible for preparing the collection and distribution of income taxes, reviewing annual tax returns, estimating and processing tax payments, and completing audits on annual income tax returns.
- Walton Hills employs a full-time employee who is responsible for economic development, business management, accounting, and tax auditing. For comparison purposes, this position is referred to as an Assistant Treasurer. In addition to performing financial tasks, the Assistant Treasurer is responsible for planning, organizing, directing, and coordinating the Economic and Community Development programs and activities of the Village. As the Business Manager, the Assistant Treasurer negotiates enterprise zone agreements, coordinates and manages professional service contracts, and serves as the Village liaison to a variety of public, private or non-profit groups and associations.
- Orange has a Fire Department where the Finance Administrator is responsible for completing payroll related duties. In contrast, Moreland Hills and Walton Hills contract for fire services.

Key Operating Statistics

Table 2-4 compares key operational statistics at Orange's Finance Department to the peers

Table 2-4: Operating Comparisons

	Orange ¹	Chagrin Falls	Moreland Hills	Walton Hills	Peer Average
Population (2007)	3,287	3,678	3,093	2,297	3,023
FTE per 1,000 citizens	0.70	0.98 ²	0.39	1.18	0.85
2008 – Invoices Processed	2,595	2,680 ²	1,331	1,845	1,952
Per Total FTE	1,128	744 ²	1,109	683	846
Year-to-Date 2009 – Invoices Processed ³	1,363	1,338 ²	815	861	1,005
Per Total FTE	593	372 ²	679	319	457

Source: U.S. Census, Orange Village and the peers

¹ Orange data includes FTEs for the Treasurer, which is based on testimonial evidence provided by the Treasurer. This was unable to be verified, due to a lack of corroborating data.

² The numbers of invoices processed and FTEs were unable to be verified for Chagrin Falls.

³ The number of invoices processed represents year-to-date data as of July 31, 2009 for Orange and the peers.

As illustrated in **Table 2-4**, Orange maintains a lower number of total FTEs per 1,000 citizens. Additionally, Orange processes more invoices per FTE in 2008 and 2009 (year-to-date), when compared to the peer average. Orange's use of RITA for tax services contributes to the favorable staffing ratios when compared to Walton Hills, because Walton Hills performs in-house tax services (see **Table 2-3**). The discrepancy relative to Walton Hills is also due to Walton Hills performing functions for economic and community development programs, and professional service contracts (see **Table 2-3**). When excluding Walton Hills, the Village still employs fewer FTEs per 1,000 residents and processed more invoices per FTE in 2009 than the average of Chagrin Falls and Moreland Hills (0.68 and 525). **Table 2-4** also shows that Orange processed more invoices per FTE than each peer in 2008. Further, the Village's higher number of FTEs per 1,000 residents when compared to Moreland Hills is due, in part, to the additional functions performed by Orange's Finance Department (see **Table 2-3**).

Audit Objectives for the Finance Department

The following is a list of questions used to evaluate the Village's Finance Department:

- What has been the Finance Department's operational history?
- How does the Village's current level of Finance Department personnel, organizational structure, and operations/functions compare to the peers, statutory requirements, village expectations and other available standards?

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The assessment of the Finance Department's staffing levels and organizational structure warrants a noteworthy accomplishment. Specifically, **Table 2-2** illustrates that Orange employs fewer total positions than two peers, and fewer Finance Department FTEs when compared to the peer average. Similarly, **Table 2-4** illustrates that Orange employs fewer total FTEs per 1,000 citizens and processes more invoices per total FTE in 2008 and 2009 (year-to-date), when compared to the respective peer averages. Lastly, although Orange's Finance Department completes similar functions to that of Moreland Hills and Walton Hills, it has a few unique functions (see **Table 2-3**). Taken collectively, these items indicate that the Finance Department is efficiently staffed and organized.

Recommendations

Long-term Planning

R2.1 Orange should develop a formal, multi-year strategic plan that incorporates meaningful goals, measurable objectives, and related performance measures and timeframes for each department. The strategic plan should link to a long-term financial forecast, infrastructure levy plan, and community survey. Accordingly, the Village should develop a long-term financial forecast that coincides with its strategic plan and includes pertinent elements. Prior to using the community survey from 2007 as a part of the strategic plan, Orange should review the survey results in relation to the current needs of the Village. Orange should then determine whether another community survey should be administered. In addition, the Village should consider developing a regular schedule for obtaining community feedback. Lastly, the Village should formally track progress and update the multi-year strategic plan and financial forecast, and share the results with its community members on a regular basis.

The Village has completed multiple planning activities which include the following:

- A ten-year infrastructure levy plan that outlines construction projects for each year and the estimated costs associated with those projects;
- A community survey in 2007 to collect input from its residents to aid in future decision making; and
- A financial forum where financial information and the goals of the Village were discussed.

Additionally, the Mayor noted that the Village completed the following planning activities: five-year capital equipment projections; master planning of the park and the community's zoning and land preservation goals; and studies for a new service department facility. Furthermore, with department-head input, the Village develops an annual budget based on staffing and capital needs. Lastly, department-heads are responsible for developing annual goals for their respective departments. At the end of each year, department-heads discuss the achievement toward those goals with the Mayor. The Mayor noted that she presents the goals of each department to the public at the first council meeting of the year and the accomplishments of those goals at the last council meeting of the year.

Although Orange completes the aforementioned activities, the Village does not have a formal, multi-year strategic plan. Likewise, the Village does not complete long-term financial forecasting. The lack of a multi-year strategic plan and financial forecast is due,

in part, to turnover in the Finance Department and findings from the 2006 financial audit. More specifically, these matters have required time and attention from the Finance Department including the Treasurer, which could have otherwise been used to help the Mayor and other Village officials develop a multi-year strategic plan and financial forecast.

Recommended Practices on the Establishment of Strategic Plans (GFOA, 2005) indicates that governments develop a strategic plan that provides a long-term perspective for service delivery and budgeting, thus establishing logical links between spending and goals. In addition, the focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. GFOA further states that while it is important to balance the vision of the community with available resources, the availability of resources should not necessarily inhibit the vision. The key steps to create an effective strategic planning process are as follows:

- Prepare a mission statement;
- Assess environmental factors;
- Identify critical issues;
- Agree on a small number of broad goals;
- Create an action plan;
- Develop measurable objectives³;
- Incorporate performance measures;
- Monitor progress; and
- Reassess the plan.

According to *Recommended Budget Practices* (GFOA, 1998), a government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions, and that develops appropriate strategies to achieve its goals. The planning process results in the preparation of a financial plan consisting of various components, including a long-term forecast of revenues and expenditures that uses alternative economic, planning, and policy assumptions. The financial plan identifies key assumptions and choices related to achievement of goals. Furthermore, the auditing and accounting guide *Prospective Financial Information* [American Institute of Certified Public Accountants (AICPA) 2008] identifies numerous guidelines for preparing and reviewing financial forecasts.

Developing a comprehensive, multi-year strategic plan that follows the recommended steps could assist the Village in evaluating the relationship between spending decisions and outcomes. Additionally, developing a long-term financial forecast could aid the

³ Objectives should be expressed as quantities or at least as verifiable statements and ideally would include timeframes.

Village in effectively addressing its long-term needs and ensuring a sound financial position in the future by helping to identify corrective actions for potential problems before they actually occur. Moreover, by implementing **R2.3** and **R2.4**, Orange would enable the Finance Department to spend time helping the Mayor and other Village officials develop a multi-year strategic plan and financial forecast.

Financial Management

R2.2 Orange should revise its purchasing and vendor payment practices. Specifically, Orange should continue recording encumbrances in the Purchase Order module. In addition, the Village should update its vendor payment procedures to avoid incurring late fees and to obtain discounts for early payment. For example, the Village could adopt a policy that allows the Mayor to approve payments of such invoices and then report on them at the next Council meeting. Lastly, Orange should develop a policy that defines the use of purchase orders. Barring exceptions in State law and for other appropriate items, the Village should use purchase orders.

An analysis of the Villagers purchasing and payment practices includes the following:

- **Encumbrances:** According to prior financial audits (2005, 2006, 2007 and 2008), the Village was cited for not recording encumbrances during the year. Specifically, the financial audits indicated "...prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Treasurer utilize the encumbrance method of accounting and certify that the funds are or will be available prior to obligation by the Village."

In response to the 2007 financial audit, the Village stated that due to staffing limitations and other considerations, it has never used an encumbrance accounting system. Based on discussions with the accounting software vendor, the Village's Purchase Order module will automatically set up an encumbrance for all purchases that are entered into the accounting system. The Assistant Treasurer/Tax Administrator indicated that the encumbrance system is used only for purchases of \$500 or more. In contrast, both Moreland Hills and Walton Hills indicated that their accounting systems have the ability to track all encumbrances. In addition, both peers did not receive financial citations related to tracking encumbrances in their last financial audits. However, the Village noted in the 2007 financial audit that due to enhanced staffing in the Finance Department, it implemented an encumbrance accounting system in 2009. Based on the respective

monthly budget report, the Village began recording encumbrances in January 2009.

- **Vendor Payments:** The Finance Administrator indicated that the Village pays bills once a month, despite receiving bills throughout the month. If the invoice is received in the Finance Department, the Finance Administrator date stamps “received” and forwards the invoice to the appropriate department for payment approval. However, some invoices are sent directly to the corresponding department. These invoices are reviewed and approved by the department head for payment and then returned to the Finance Department where they are placed in the Bills-to-be-Paid folder. This process continues throughout the month. The last day to accept bills to be paid is the last Wednesday of the month. At that time, the Finance Administrator enters the bills to be paid into the accounting system. This takes approximately two to three days depending on the volume of bills. The Assistant Treasurer/Tax Administrator then produces a Bills-to-be-Paid report and forwards this report to the Mayor for approval. Once approved by the Mayor, the Finance Administrator will generate reports and checks. The Mayor then takes the checks to Council for review and approval. Once Council approves the bills to be paid, the Mayor will sign the checks and turn them over to the Finance Administrator. The Finance Administrator then makes copies of all the checks, mails them, and attaches a copy of the check to supporting documentation and files in the accounts payable files. However, the Finance Administrator indicated that on a few occasions, a manual check needs to be cut (i.e., dental expenses, etc.)⁴. In those cases, the checks are sent out prior to obtaining Council approval. Although Council currently approves all bills to be paid on a monthly basis, the Village does not have an ordinance that mandates this practice.

Based on the Village’s vendor payment cycle noted above, the Finance Administrator indicated that the Village cannot participate in vendor discounts for prompt payment. According to the Finance Administrator, approximately two percent of the Village’s vendors offer early payment discounts. In addition, the Finance Administrator noted that the Village will occasionally incur late fees due to its bill paying cycle⁵. Moreland Hills has a similar bill paying process as Orange where bills are paid approximately once a month and Council approval is required before a bill can be paid. However, the Treasurer at Moreland Hills indicated that the Village will pay certain bills early if the Village can receive a prompt pay discount or to avoid incurring late fees. In contrast to Orange and Moreland Hills, the Fiscal Officer at Walton Hills indicated that its bill paying

⁴ The Finance Administrator noted that there are a select few vendors who do not waive the late fee and the Village must process payment outside of the regular check run cycle.

⁵ During the course of the audit, the Village indicated that the late fees apply to one specific bill. According to the Finance Administrator, the process to pay this bill has changed to avoid future late fees.

cycle is continuous; there is no set day that the Village pays bills. This helps Walton Hills take advantage of prompt pay discounts and avoid late fees. Lastly, the Fiscal Officer noted that council approval is only required for purchases over \$25,000.

Municipal Benchmarks (Ammons, 2001) reports that 21 cities examined for the publication either paid the majority of their invoices within 30 days of receipt or had goals for payment within 30 days or fewer days of receipt. Furthermore, five cities reported paying their invoices within an average of 8 or fewer days of receipt. Additionally, according to *Extension of Federal Prompt-Pay Requirements to State and Local Governments* (GFOA, 1989), the timely payment of bills is an important financial management tool that can save governments money. By carefully timing payments so there are neither late nor early payments, a government can take advantage of discounts, avoid penalties, and maximize returns on short-term investments. Furthermore, prompt bill payment reduces vendor costs which, in turn, can reduce state and local procurement costs.

- **Purchasing Policies:** Orange issues purchase orders for purchases over \$500. Specifically, the Finance Administrator noted that purchase orders are generally produced for capital expenditures over \$500⁶. The Finance Administrator noted that purchase orders are not produced for utilities or recurring expenditures (i.e., payroll and medical insurance). The Mayor and department heads must authorize all purchase order requests before the purchase order is processed. Purchase orders are entered into the ASYST software and assigned a numeric purchase order number by the accounting system. Two copies are produced, one is attached to the purchase order request and the other is filed in the purchase order book. Prior to the Village buying the Purchase Order module for use in 2009, the purchase order process was completed manually. For purchases under \$500, employees still need to obtain approval from the Mayor or department heads. Although the Village has ordinances to guide department heads in determining when to use price quotations, requests for proposals (RFP's), and competitive bidding; the Village does not have formal policies that define when to use purchase orders.

The peers indicated that purchase orders are used regularly for the majority of purchases⁷. The Treasurer at Moreland Hills and the Fiscal Officer at Walton Hills noted that their respective Villages do not have a dollar threshold for when purchase orders should be completed. According to OAC 117-2-02, "purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by section 5705.41(D)

⁶ The Mayor noted that as of January 1, 2010, the Village implemented purchase orders for all amounts.

⁷ Excludes routine purchases such as utilities, payroll, and benefits.

of the Ohio Revised Code. Purchase orders are not effective unless the fiscal officer's certification is attached. The certificate should be attached at the time a commitment to purchase goods or services is made." Additionally, the Village's most recent financial audit available during this performance audit (2007)⁸ indicates the following: "We recommend the Village encumber and certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements..." The financial audit also noted that seven accounts had expenditures that exceeded appropriations at the end of December 31, 2007.

By using purchase orders regardless of the dollar amount, the Village would strengthen its internal controls and better ensure that expenditures do not exceed appropriations. Moreover, using purchased orders would help the Village identify whether departments are buying similar items that could otherwise be purchased in bulk to achieve potential cost savings.

R2.3 Orange should review the makeup of its Finance Committee to ensure that members can provide independent review and effective oversight of the Village's financial reporting process, the internal accounting controls, and the annual financial audits. For example, altering or expanding membership to include individuals that are not employed by the Village would allow for broader and independent perspectives, and increase transparency and accountability. In the meantime, the current Finance Committee should review the results of Table 2-5 and work with the Finance Department to develop strategies to address past financial audit citations.⁹

Table 2-5 presents a summary of citations from the financial audits of Orange since 2005.

⁸ The 2008 financial audit became available during the latter portion of this performance audit (see **Table 2-5**).

⁹ According to a council member who serves on the Finance Committee, the Village's Finance Committee met with the financial auditors to determine actions needed to address the citations in the 2008 financial audit and directed Orange's administration to implement the corrective actions.

Table 2-5: Historical Financial Audit Results

Schedule of Findings	2005	2006	2007	2008
ORC § 5705.41(D) (1) – (Encumbrances – see R2.2) The Village should certify purchases to which 5705.41(D) applies.	X	X	X	X
ORC § 5705.41(B) - The Village should verify that all expenditures have proper appropriation authority prior to expending funds and compare appropriations to expenditures in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance.	X	X ¹	X ¹	X
ORC § 5705.14, 5705.15, and 5705.16 - Transfers should be made in amounts authorized by Council.	X	X ²	X ²	
ORC § 5705.39, 5705.36(A)(3), and 5705.36(A)(4) - The Village should monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed total estimated resources.	X			
ORC § 5705.10(D) - The OPWC loan should be paid from the General Fund or other allowable monies and the Village review the purposes for which SRM&R monies may be used for.		X		
ORC § 5705.09 (C) and 5705.10(B) - Revenue derived from levies for debt charges on bonds, notes, or certificates of indebtedness should be paid into the Village's Bond Retirement Fund - Debt Service Fund Type in order to retire the debt issued.		X	X	
ORC § 133.23 (C) and 5731.48 - The Village should follow its resolutions on how serial bonds are to be retired. If there are changes in the method of retiring serial bonds, then a revised resolution should be adopted by Council. Also, in accordance with ORC 5731.48, estate taxes should be recorded in the General Fund.		X	X ³	X ³
ORC § 5705.09 (C) and 5705.10 - The Village should record all debt activity for the Miles Road Sanitary Sewer Phase I project in the Bond Retirement Fund - Debt Service Fund Type.		X		
ORC § 133.22(B) - The Village should obtain an amended certificate of estimated resources from the county auditor when notes are issued.		X		
Ohio Village Officer's Handbook, Chapter 6, Section IV (C) - The Village should have recorded the proceeds from the 2006 Note in Debt Service Fund Type and used these proceeds to retire the 2005 Note.		X		

Source: AOS 2005-2007 Financial Audits

¹ This finding includes ORC § 5705.38(C)

² This finding includes ORC § 5705.14 and ORC § 5705.16

³ The Village was only cited for not recording estate taxes in the General Fund in the 2007 financial audit (ORC § 5731.48).

Table 2-5 shows that Orange incurred the most citations in 2006. Although the Village reduced the number of citations from nine to five in 2007, all five citations in the 2007

financial audit were reflected in at least one of the prior two audits¹⁰. This is despite the use of an established Finance Committee. According to the Village, due to the high turnover, minimal staff in the Finance Department, and a complex accounting system, it did not have the time or staff to fully address the findings in each respective audit. While the Village reduced the number of citations from five to three in 2008, all three citations in 2008 were reflected in 2006 and 2007. Additionally, two of the three citations in 2008 were reflected in the 2005, 2006 and 2007 financial audits. By comparison, the most recent peer financial audits show that Chagrin Falls received three citations, Walton Hills received two citations, and Moreland Hills did not receive any citations¹¹.

Orange's Finance Committee meets once a month and consists of two council members, the Treasurer, the Mayor, and a member at large. The Finance Committee reviews the monthly and yearly financial reports provided by the Treasurer and Assistant Treasurer/Tax Administrator to obtain an understanding of the Village's financial status. In addition, the Treasurer noted that the Finance Committee is kept apprised of the progress of the financial audit and that issues noted in the financial audits are discussed with the Finance Committee. The Mayor noted that there is a significant amount of financial / accounting expertise held by the individuals on the Finance Committee. Additionally, the Mayor noted that four of the finance committee members are CPAs. Nevertheless, based on **Table 2-5** and the other recommendations in this performance audit, reviewing the makeup of the Finance Committee may help the Village improve its financial management. For example, including individuals that are not employed by the Village would increase transparency and accountability, and allow for broader and independent perspectives. This could also potentially help the Village resolve the past financial audit citations and identify other improvements to financial operations. According to the Mayor, the Village has tried to recruit the community for membership on the Finance Committee.

Recommended Budgeting Practices (GFOA, 2006) indicates that every government should establish an audit committee or its equivalent and that "...ideally, the committee should possess or obtain a basic understanding of governmental financial reporting and auditing. The committee should also have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. This expert should possess an understanding of generally accepted accounting principles, experience with internal accounting controls, and an understanding of audit committee functions." GFOA goes on to indicate that the committee should provide an independent review and oversight of a government's financial reporting process, internal controls and independent auditors.

¹⁰ The Mayor noted that the Village did not have the ability to correct the findings in the 2006 audit until 2009 because the 2006 financial audit was released on July 25, 2008.

¹¹ Chagrin Falls Financial Audit (2006), Moreland Hills Financial Audit (2008), and Walton Hills Financial Audit (2007).

AOS periodically publishes a Best Practices Newsletter. The Spring 2005 Best Practices Newsletter included information on audit committees and provided the following information “As a rule of thumb, the size of the audit committee should be commensurate with the size and complexity of the government. The following descriptions of audit committees from around Ohio exemplify the variety that exists in terms of size and mix of committee membership:

- **The Columbus Public Schools Audit Committee** consists of five members: three from the Board of Education and two from the community, appointed by the Board. One of the two community members is a business person; the other a partner with a CPA firm with expertise in the governmental sector.
- **Cleveland MetroParks**, which has an appointed board and management, has a three person audit committee composed entirely of individuals from outside the agency. These three members are all either current or former partners of CPA firms in the Cleveland area.
- **Ross County** has an interesting arrangement with the townships located in the county. Such townships’ audit committees consist of three members, the Clerk Treasurer of the Township, the Ross County Auditor, and the Deputy Ross County Auditor.”

Technology

R2.4 Before the Village decides to purchase another software package, it should determine the full functionality of the current accounting software. Specifically, Orange should contact the accounting software provider to provide detailed information on the functionality and to obtain training. The Finance Department staff should receive routine training on each module to ensure the system is used to its full capacity. For example, the Finance Department staff should receive training on importing information from ASYST into Microsoft Excel for reporting purposes. Furthermore, the Village should review additional modules of the accounting software to determine if it would provide efficiencies and reduce the duplicative work completed by Finance Department staff. In particular, Orange should consider purchasing the Cash Control module to enable the Finance Department to create the trial balance report and perform bank reconciliations electronically.

If the Village decides to change software packages, it should review the capabilities of multiple systems to ensure it selects one that best meets its needs and provide the necessary training to Finance Department employees. Additionally, the Finance Department should be required to demonstrate to the Mayor and Council how such systems are better than the functionality of the current software. The Village should

also review the capacity to interface with other systems (e.g., the Building Department’s software) when considering other software.

The Finance Department uses the United Systems Technology, Inc. ASYST software (accounting software) to complete financial activities. The Village uses the General Ledger, Accounts Payable, and Purchase Order modules. According to the Finance Administrator, the Village completes general ledger activities and journal entries; generates purchase orders and checks; and pays bills with the accounting software. However, the Treasurer and Assistant Treasurer/Tax Administrator noted that the Village’s accounting software is problematic and that a lot of work is done independent of the software. The Assistant Treasurer/Tax Administrator estimated that he spends approximately 10 to 15 percent of his time reformatting or revising information that he can extract from the accounting software. For instance, in order to create the monthly Bills-to-be-Paid Report for Village Council and the monthly trial balance, the Assistant Treasurer/Tax Administrator has to extract the required information from ASYST and insert it into other software. Additionally, the Assistant Treasurer/Tax Administrator noted that due to the lack of a Cash module, bank reconciliations must be completed manually for the numerous cash accounts. Furthermore, the Assistant Treasurer/Tax Administrator noted that although the accounting software has a report writer, it only produces two reports. However, the Assistant Treasurer/Tax Administrator noted that the format of the reports is not very helpful as it does not break down the Village’s financial data into the format requested by Council.

The accounting software representative indicated that the Village’s current accounting software has the capability of setting up encumbrances, importing information into other software¹², and producing a Bills-to-be-Paid Report. The accounting software representative indicated that encumbrances are automatically entered into budgetary accounts through the use of the Purchase Order module (see **R2.2** for more information on recording encumbrances). Also, the representative noted that through the Accounts Payable module, the Village can produce a report that would show the vendor, vendor address, due date, invoice amount, account number, budget, and year-to-date expenditures. However, the representative indicated that since none of the Village’s modules take into account deposits, Orange is not able to use its current accounting software to perform bank reconciliations and would have to purchase a Cash Control module in order to perform bank reconciliations electronically. The representative also noted that the Cash Control module would enable the Village to post all cash transactions to the general ledger. Once posted, the system has the ability to produce a trial balance report.

¹² Importing information into other systems could help the Finance Department format data as requested by Council.

The Village's Finance Administrator indicated that the ASYST accounting software does not interface with the software used by the Village's Building Department. According to the Finance Administrator, the Building Department uses the Franklin Information Systems to run reports and record deposits from permits and fees. Since the two software systems do not interface, the Finance Administrator has to reenter the Building Department's payments in ASYST. Moreland Hills Building Department does not use accounting software; rather, permit revenues are tracked through Microsoft Excel and then forwarded to the Finance Department for entry into the accounting system (SSI). Walton Hills is in the process of implementing software for its Building Department (Web QA). The Building Inspector noted that although the software is capable of interfacing with the accounting system (UAN), due to the added cost associated with that application, Walton Hills has elected to track permit revenues through spreadsheets.

The Treasurer noted that the previous Tax Administrator selected the Village's current accounting software. The main reason for selecting ASYST was due to its cost. While the prior Tax Administrator was familiar with the software, the current Assistant Treasurer/Tax Administrator and Finance Administrator did not receive training on ASYST upon entering into their positions. This was partially due to a timing gap between when the prior Tax Administrator and Finance Administrator left and when the current Finance Department employees were hired. However, in 2009, the Finance Department implemented the Purchase Order module. The Assistant Treasurer/Tax Administrator and Finance Administrator participated in a brief one hour tutorial (phone conference) that provided an introductory overview of the Purchase Order module.

The Assistant Treasurer/Tax Administrator noted that the Department has the ability to contact ASYST customer support by phone or email. However, it would be very costly to receive in-person training because the headquarters for the company is in Texas. Based on discussions with the accounting software representative, ASYST offers free basic introduction courses for all three of the modules used by the Village. In addition to the introduction courses, the vendor offers free webinars for its software users. The Assistant Treasurer and Finance Administrator both indicated that with the exception of the Purchase Order module training, the Village has not taken advantage of any other teleconferences or web conference trainings offered by ASYST for the other accounting modules.

Unlike Orange, both the Village of Moreland Hills and the Village of Walton Hills indicated that they are overall satisfied with their respective accounting software systems. Moreland Hills uses Software Systems Incorporated (SSI) accounting software. The Treasurer at Moreland Hills indicated that the SSI software allows the Village to track encumbrances, outstanding checks, and cash, and easily prepare bank reconciliations. However, the software does not allow the Village to prepare a monthly trial balance report. The SSI accounting software is maintained by the Regional Income Tax Agency

(RITA). RITA has the capability of logging on remotely to the Village's accounting system to help if the Village experiences problems. Additionally, all training for the SSI system is provided locally by RITA.

The Village of Walton Hills uses the Uniform Accounting Network (UAN) accounting software from the Auditor of State's Office. The Fiscal Officer noted that UAN allows the Village to print checks, track encumbrances, record revenues and expenditures, and download information into Excel for report purposes. In addition, the Fiscal Officer noted that UAN is specifically geared to State of Ohio accounting. The only drawback to UAN is that it is only able to be installed on one computer. However, given the small size of Walton Hill's Finance Department, the Fiscal Officer noted that this drawback has not caused the Village any problems. Staff shares one central computer that is located in the Finance Department. However, UAN is anticipated to be upgraded to allow for installation on multiple computers in 2011. Lastly, the Fiscal Officer indicated that training on UAN is constantly offered.

As a result of the problems that Orange is experiencing with the ASYST software, the Finance Department is considering changing accounting software. The Treasurer and Assistant Treasurer/Tax Administrator went to a nearby village to view a different accounting software system. However, the Treasurer noted the timing of purchasing a new software system would be an inconvenience and would disrupt routines. Lastly, the Village noted that it received purchase order module training from ASYST in December, 2008 and called the software provider in January, 2010 to receive a refresher course on the encumbrance rollover process. The Village noted experiencing considerable difficulty in receiving timely and appropriate guidance from the software provider. The Village further indicated that based on this and other experiences, it does not have confidence in the provider's abilities to instruct Village staff on how to use ASYST to its full capacity.

In *Managing Local Government Computer Systems: A Best Practice Review* (April, 2002), the Office of the Minnesota State Legislative Auditor found that for optimal performance, computer systems require properly trained staff to operate and maintain. In addition, computer users need training and support to use the systems efficiently and responsibly. In addition, local governments should ensure that whoever manages the computer system has an adequate plan for training staff expected to use the system. Training saves time that a user would otherwise spend experimenting with software applications. In the end, it increases productivity by minimizing the need to rework tasks. User training should focus on issues such as how to make effective use of software capabilities. Further, users need to be educated on the importance of computer system security.

Receiving training would enable Orange's Finance Department to fully realize and use the functions of the accounting software and, in turn, avoid duplication of effort. This

includes training on importing information into other systems to allow the Finance Department to format the data as requested by Council. Furthermore, exploring additional modules of the accounting software (i.e., Cash Control module) could assist the Village in completing other tasks that are completed manually (i.e., bank reconciliations) or with other software.

Financial Implications: Based on a price quote provided by a vendor, the initial costs of purchasing a Cash Control module (one license) would be \$515. The \$515 cost consists of a license fee of \$395 and annual support fees of \$120.

Financial Implications Summary

The following table presents a summary of annual implementation costs identified in this section of the report.

Table 2-6: Performance Audit Recommendations

Recommendation	Implementation Costs (One-Time)	Annual Costs
R2.4 Purchase Cash Module	\$395	\$120
Total	\$395	\$120

Source: AOS Recommendations

**BUILDING
DEPARTMENT**

Building Department

Background

This section of the performance audit focuses on Orange Village’s (Orange or the Village) Building Department. The objective is to assess the Building Department’s operations against leading or recommended practices, industry benchmarks, and selected peer villages¹. Sources of leading or recommended practices and industry standards include the Insurance Service Office.

Organization Structure

Ohio Revised Code (ORC) § 3781 and Ohio Administrative Code (OAC) § 4101:8-1-01 govern building standards, describing a municipality’s duties regarding the Board of Building Standards and Board of Building Appeals as well as building, certification, and inspection requirements. The Village has adopted the Ohio Building Code, which is designed to ensure minimum compliance with the ORC and OAC, and to provide uniform standards for constructing and maintaining buildings. These standards relate to the conservation of energy, safety, and sanitation of buildings for their intended use and occupancy.

Codified Ordinance 1323.01 stipulates that “The Building Commissioner is hereby charged with the survey and inspection of buildings and the enforcement of this Building Code and all other laws and ordinances relating to the erection, construction, alteration, repair, removal and safety of buildings, other structures, heating apparatus, gas fittings, house drainage and plumbing, steam boilers, electric wiring, fire escapes and other devices for the prevention of, and protection from, smoke and fire. The Building Commissioner shall pass upon all questions relating to the strength and durability of buildings and other structure and the quality of materials and workmanship so far as they affect safety; examine and approve all plans and specifications submitted for buildings and other structures before a permit is issued; and sign all permits, certificates and notices required to be issued.” To enforce building codes, Orange’s ordinances require persons (i.e., homeowners, contractors, and businesses) to obtain permits and licenses from the Village prior to constructing, altering, repairing or demolishing a building or other structure. Additionally, the Village requires all funds to be deposited with the Treasurer to pay for the Engineer, the Village Planning Consultant, the Village Architect, the Village Law Director, the Village Plans Examiner, inspectors and/or other consultants required, when a property owner or agent for a property owner files a building and/or zoning application. Such a deposit shall be made in accordance with the Village’s fee schedule.

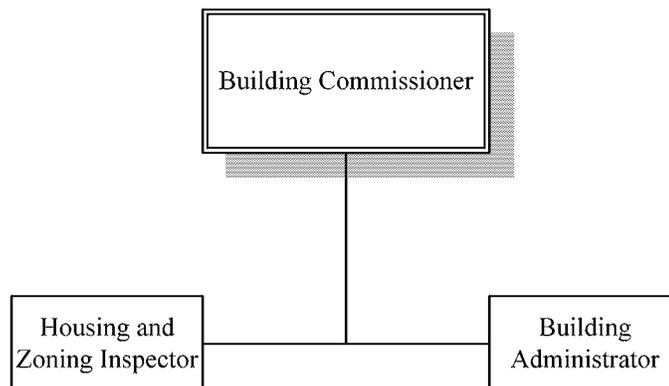
¹ See the **executive summary** for a list of peer villages and an explanation of the selection methodology.

According to *Building Code Effectiveness Grading Schedule* (Insurance Services Office (ISO), 2008), "...the Building Code Effectiveness Grading Schedule (BCEGS) assesses the building codes in effect in a particular community and how the community enforces its building codes, with special emphasis on mitigation of losses from natural hazards." BCEGS goes on to indicate that "...municipalities with well-enforced, up-to-date codes should demonstrate better loss experience, and insurance rates can reflect that. The prospect of lessening catastrophe-related damage and ultimately lowering insurance rates provides an incentive for communities to rigorously enforce their building codes. The BCEGS program assigns each municipality a grade ranging from 1 through 10, with 1 being exemplary." In 2008, Orange received a BCEGS rating of 4 for one and two family dwellings and 3 for commercial/industrial². By comparison, Chagrin Falls received a BCEGS rating of 6 for one and two family dwellings and 4 for all others, while Walton Hills received a BCEGS rating of 9³.

Orange Village is a State Certified Building Department for commercial inspections. Additionally, Orange’s Building Commissioner is State Certified. As a result, Orange is required to maintain appropriate back-ups for all commercial jobs in the following classifications: Chief Building Official, Plans Examiner, Building Inspector, Electrical Safety Inspector, Plumbing Inspector, and Village Engineer. The Building Commissioner is required to submit a yearly report to the State that illustrates that the Village has back-ups in place to cover any absences. However, the Building Department is not State Certified for residential inspections. This is because Village officials did not believe that the one percent charge was a fair cost to add to the permit fees. If the Village was State Certified in residential inspections, it would be required to pay a one percent charge for permits/inspections to the State.

Chart 3-1 shows the organizational structure of the Village’s Building Department.

Chart 3-1: Building Department Organizational Chart



² One and two family dwellings.

³ Walton Hills provided only one rating and AOS was unable to obtain an ISO rating for Moreland Hills.

As illustrated in **Chart 3-1**, the Building Department consists of the Building Commissioner, who reports to the Mayor; and the Housing and Zoning Inspector and Building Administrator, who report to the Building Commissioner. The Building Commissioner oversees the operations and personnel of the Building Department.

Staffing

Table 3-1 shows Orange Village's full-time equivalent (FTE) staffing for 2009.

Table 3-1: Building Department Staffing Levels

Position	Full-Time Equivalents (FTEs)
Building Commissioner	0.5 ¹
Housing and Zoning Inspector	0.4 ²
Building Administrator	1.0
Total FTEs	1.9

Source: Orange Village interviews and support documentation.

¹ According to the Building Commissioner, he works 7 hours a day, 154 days per year. The testimonial evidence provided by the Building Commissioner was unable to be verified, due to a lack of corroborating data.

² This is based on the timesheets completed by the Housing and Zoning Inspector for 2008, showing that the Housing and Zoning Inspector worked a total of 742 hours.

Table 3-1 shows that the Village's Building Department consists of a part-time Building Commissioner, a part-time Housing and Zoning Inspector, and a full-time Building Administrator, for a total of 1.9 FTEs. Summary descriptions of the Building Department's job responsibilities include the following:

- Building Commissioner:** The Building Commissioner is responsible for providing administrative direction and oversight to Building Department staff, ensuring that all buildings conform to the established safety, building, and zoning codes, and assisting in the development of the Department's budget. Regarding code compliance, the Building Commissioner inspects new construction, renovations, and repairs to ensure compliance with State and Village building codes and standards. In addition, the Building Commissioner conducts inspections to ensure compliance with the Village zoning code and commercial maintenance code. Furthermore, the Building Commissioner is currently working on a Leadership in Energy and Environmental Design (LEED) program that focuses on making buildings more energy efficient. The Building Commissioner works three days a week at Orange Village.
- Housing and Zoning Inspector:** The Housing and Zoning Inspector assists the Building Commissioner with the aforementioned inspections. In addition, the Housing and Zoning

Inspector is responsible for investigating complaints and possible code violations. The Housing and Zoning Inspector works three days a week at Orange Village.

- Building Administrator:** The Building Administrator is responsible for performing clerical functions in support of the Department’s programs. For instance, the Building Administrator answers telephones, processes requests for permits, and schedules appointments for the Building Commissioner and Housing and Zoning Inspector. The Building Administrator also processes point of sale information, variance requests, bond refunds and contractor registration. Furthermore, the Building Administrator serves as the secretary for the Planning & Zoning/Architectural Board of Review and handles the preparation of agendas, minutes and the permitting of approved projects. The Building Administrator is required to work at least 40 hours a week at the Village, as stipulated in the job description.

Table 3-2 compares Building Department staffing levels in Orange to the peer villages.

Table 3-2: Building Department Staffing Levels

	Orange	Chagrin Falls	Moreland Hills	Walton Hills	Peer Average
Building Commissioner	0.5 ¹	1.0	1.0	0.0	0.7
Housing and Zoning Inspector	0.4	1.0	0.0	1.0 ²	0.7
Building Administrator	1.0	0.0	0.0	1.0	0.3
Clerk	0.0	0.3 ³	0.5	0.1	0.4
Total FTEs	1.9	2.3	1.5	2.1	2.0

Source: Orange Village and the peers staffing lists and interviews

¹ This is based on testimonial evidence provided by the Building Commissioner and was unable to be verified, due to a lack of corroborating data.

² Walton Hill’s Housing and Zoning Inspector performs functions similar to that of a building commissioner.

³ Chagrin Falls employs a full-time Utility Department Clerk that also serves as the Building Department Secretary (30 percent of the time).

Table 3-2 shows that Orange employs a total of 1.9 FTEs in the Building Department, which is slightly lower than the peer average of 2.0 FTEs. For a detailed analysis of the differences in Building Department services, see Table 3-3. Likewise, see Table 3-4 for further assessment of overall staffing levels.

Department Services

Table 3-3 compares services provided by the Building Department at Orange to the peers.

Table 3-3: Building Department Services

	Orange	Chagrin Falls ¹	Moreland Hills ²	Walton Hills
Residential Services				
Provides administrative direction and oversight to staff	X	X	X	X
Enforces building and zoning codes	X	X	X	X
Conducts inspections for all phases of construction	X	X	X	X
Gives advice on housing issues and drainage	X	X	X	X
Gives advice for procedures on how to obtain a permit	X	X	X	X
Maintains website for procedures and forms	X	X	X	X
Answers complaints	X	X	X	X
Monitors housing stock for maintenance issues	X	X	X	X
Assists with developing the department budget	X	N/A ³	X	X
Conducts clerical/organizational duties	X	X	X	X
Commercial Services				
Serves as jurisdiction over construction of commercial buildings	X	N/A	N/A	X
Enforces commercial maintenance codes	X	X	X	X
Notifies businesses of safety issues	X	N/A	N/A	X
Conducts on-site inspections	X	N/A	N/A	X
Answers complaints	X	N/A	N/A	X
Assures compliance with storm water management	X	N/A	N/A	X
Checks for debris	X	N/A	N/A	X
Assists Health Department in inspecting restaurants	X	N/A	N/A	X
Oversees landscaping plans	X	N/A	N/A	X
Conducts clerical/organizational duties	X	N/A	N/A	X

Source: Orange Village and peer interviews/information

¹ AOS was unable to identify the commercial services that are provided by Chagrin Falls.

² Moreland Hill’s Building Commissioner indicated that 99 percent of their operations are residential. Therefore, the majority of commercial jobs are contracted out to the State.

³ It was unclear whether Chagrin Falls performs this function.

As noted in Table 3-3, Orange and the peers complete the same residential services, while Orange and Walton Hills complete the same commercial services.

Operating Statistics

Table 3-4 compares key operational statistics at Orange’s Building Department to the peers.

Table 3-4: Building Department Operational Comparison

	Orange ¹	Chagrin Falls	Moreland Hills	Walton Hills	Peer Average
Population (2007)	3,287	3,678	3,093	2,297	3,023
FTE per 1,000 citizens	0.58	0.63	0.48	0.91	0.67
Total Housing Units (2008)²	1,454	1,800	1,404	966	1,390
Per Total FTE	765	720	936	460	705
Inspections (2008)	358³	500⁴	382	788⁴	557
Per Inspector	398	500	382	788	557
Per Total FTE	188	250	255	375	293
Permits and Licenses (2008)	154	215⁴	147	348	237
Per Inspector	171	215	147	348	237
Per Total FTE	81	108	98	166	124

Source: U.S. Census, Orange Village and the peers

¹ Orange data includes FTEs for the Building Commissioner, which is based on testimonial evidence provided by the Building Commissioner. This was unable to be verified, due to a lack of corroborating data.

²AOS was unable to verify the total number of housing units in 2008 for Orange and the peers, due to a lack of corroborating data. However, when using housing data from the 2000 Census, Orange’s ratio of housing units per FTE is 651, which is lower than the peer average of 741. Nevertheless, this difference when compared to 2008 data does not significantly impact audit conclusions, based on the ensuing analyses.

³Due to a lack of corroborating information, AOS was unable to verify this data.

⁴Chagrin Falls did not break out the total number of inspections or permits by type. Walton Hills did not break out the number of inspections by type.

Table 3-4 shows that Orange employs fewer FTEs per 1,000 citizens than the peer average and maintains more housing units per FTE than the peer average. This indicates that the Village is more efficiently staffed than the peers. Conversely, **Table 3-4** also shows that Orange’s inspections, and permits and licenses per inspector and per total FTE in 2008 are all lower than the respective peer averages. However, these lower ratios are partially due to the level of activity in 2008, which could fluctuate year-to-year. For instance, based on projecting the number of inspections and permits/licenses through July 31 for 2009, Orange would process 480 inspections per inspector and 227 inspections per total FTE, and 221 permits/licenses per inspector and 105 permits/licenses per total FTE. Although the inspection ratios would be closer to the peer averages in 2009 than in 2008, they would still be lower than the respective peer averages. However, the permit/licenses per inspector would be higher than two peers while the permits/licenses per total FTE would be comparable to two peers.

Along with the conducting inspections and issuing permits/licenses the Building Commissioner noted that the Village issued 74 citations in 2008 and 123 citations in 2009, with the majority of the citations being remedied prior to having to go to court. Specifically, the Building

Commissioner noted that if a resident does not remedy the citation within certain timeframes, the Village will declare the property a nuisance and make the needed repairs, and then bill the property owner for the costs. The Village declared 20 and 42 properties a nuisance in 2008 and 2009, respectively. Although Orange was able to provide the number of nuisance citations, the peers were unable to provide this information.

Despite the Village's lower number of inspections per FTE and permits/licenses per FTE in 2008, the Village achieved better BCEGS ratings than Chagrin Falls and Walton Hills (see page 3-2)⁴. This indicates that the Building Department at Orange is performing better at enforcing codes. Additionally, the BCEGS report for 2008 noted that Orange's inspectors were conducting the equivalent of 497 inspections per residential inspector and 85 inspections per commercial inspector, while the national averages for communities serving similar populations were 426 and 79, respectively⁵.

Expenditures

Table 3-5 presents the Building Department's expenditures, which are derived from the General Fund, for calendar years 2006 through 2008. **Table 3-5** also presents projected expenditures for 2009, based on annualizing the actual expenditures through August 26.

Table 3-5: Building Department Expenditures

	2006	2007	% Difference	2008	% Difference	Projected 2009	% Difference
Wages	\$133,962	\$123,088	(8.12%)	\$128,285	4.22%	\$112,335	(12.43%)
Benefits	\$24,110	\$24,709	2.48%	\$26,489	7.21%	\$36,948	39.48%
Operating	\$90,145	\$43,861	(51.34%)	\$33,860	(22.80%)	\$26,591	(21.47%)
Total	\$248,217	\$191,657	(22.79%)	\$188,635	(1.58%)	\$175,875	(6.76%)

Source: Orange Village Statement of Revenues and Expenses

Note: Totals may vary from actual due to rounding.

Table 3-5 shows the Village's total expenditures decreased in 2007 and 2008, and are projected to further decrease in 2009. The projection for 2009 would also result in expenditures coming under the budget for 2009. More specifically, the 2009 budget for the Building Department reflects an increase of 7.5 percent, when compared to actual expenditures in 2008. Explanations of significant differences are as follows:

- Wages – The Building Department's wages decreased by approximately eight percent in 2007. The Treasurer indicated that the decrease in wages was due to the Village incurring

⁴ Moreland Hills did not provide AOS with their ISO rating.

⁵ The BCEGS's number of inspections per inspector is based on survey information as of September 25, 2008. This information will differ from the information from **Table 3-6** due to factors like timeframes and types of data reported.

a severance payout of \$22,703 in 2006. When excluding the severance payout, the Village's wages increased by approximately 11 percent in 2007. The Treasurer indicated that the increase was due to charging the Building Administrator's salary to the Administration Fund for the first 4.5 months while she was in training, rather than the Building Department. In 2007, the Building Administrator's total salary was charged to the Building Department. In 2008, the Building Department's wages increased by approximately four percent, which was mainly due to the Building Department receiving a 3.5 percent wage increase. Further, the Village's Building Department wages are on track to decrease by approximately 12 percent in 2009. However, the budget reflects an increase of approximately four percent in wages, when compared to actual wages in 2008.

- **Benefits** – The Building Department's benefits increased by approximately 7 percent in 2008, due to increases in salaries which are directly linked to certain benefits, contribution rates for the Ohio Public Employees Retirement System (PERS), and medical, dental, and life insurance costs. The Village is on track to spend approximately \$37,000 on benefits in 2009, a 39 percent increase. Seventy-seven percent of this increase is due to increases in medical, dental and life insurance costs. The budget for 2009 shows that benefit expenditures would increase by approximately five percent, when compared to actual benefit costs in 2008.
- **Operating** – The Building Department's operating costs have decreased significantly in 2007 and 2008, and are projected to further decrease in 2009. The large decreases in operating costs are mainly attributed to reductions in the Department's professional services expenditures. For instance, the Building Department spent \$71,852 on professional services in 2006, \$36,126 in 2007, and \$28,857 in 2008. The Treasurer noted that the large professional service expenditures in 2006 were due to a Master Plan project and a Phase II Storm Water Program. The Master Plan project also carried over to 2007, whereas the Phase II Storm Water Program ended in 2006. Both projects were completed prior to 2008. In addition, in 2006, the Village spent \$6,457 on operating services, which was a one-time expenditure for charging prisoner lodging to the Building Department as a result of the violation being related a building issue. Fifty-six percent of the projected decrease in 2009 is due to a decrease in professional service costs and 34 percent of the decrease is due to a decrease in repairs and maintenance. Although the year-to-date activity projects a decrease in 2009, the budget for the Building Department in 2009 reflects an increase of approximately 23 percent in operating expenditures. This increase is primarily due to operating services, and repairs and maintenance.

Audit Objectives for the Building Department

The following is a list of questions used to evaluate the Village's Building Department:

- What has been the Building Department's financial and operational history?
- How does the Village's current level of Building Department personnel and organizational structure compare to the peers and other available standards?
- What types of services does the Building Department provide to residents and businesses, compared to the peers?
- How do the Department's expenditures compare to the peers and other available standards?

Assessments Not Yielding Recommendations

The assessment of the Building Department's current staffing levels and organizational structure did not warrant changes or yield recommendations. Specifically, **Table 3-2** shows that the Village employs the same number of positions as two of the three peers. **Table 3-2** also illustrates that Orange employs fewer total Building Department FTEs when compared to the peer average, while **Table 3-4** shows that the Village employs fewer FTEs based on the number of citizens and housing units. In addition, the year-to-date activity in 2009 for inspections and permits indicates that the Village's staffing levels are generally reasonable when compared to the peers. Furthermore, the Village achieved better ISO ratings when compared to Chagrin Falls and Walton Hills, and the BCEGS report noted that Orange's inspectors were more productive than the national average for communities serving similar populations. Coupled with the comparison of services in **Table 3-3**, these items taken collectively indicate that the organizational structure and total number of current FTEs in the Building Department are reasonable.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. AOS identified the working schedules of the Building Department staff as an issue for further study.

During the course of the performance audit, the Mayor noted that it would be helpful for the Building Commissioner and the Housing and Zoning Inspector to work different days of the week to ensure there is more than one staff member available on each work day. The Mayor noted that this would help serve resident needs when they come to the Administration Building. Currently, both the Building Commissioner and the Housing and Zoning Inspector work the same days of the week. Although issues related to Building Department service effectiveness and resident complaints did not surface as issues during the performance audit, the Village should consider reviewing the schedules of the Building Commissioner and Housing and Zoning Inspector to determine if additional service effectiveness would be gained by staggering their schedules.

Recommendations

R3.1 Orange should routinely review the workload levels within the Building Department to ensure they coincide with the necessary staffing levels to effectively operate the Department. For example, a decline in permit and inspection activity would reduce the Department's workload, thereby requiring fewer staff resources to complete these functions. Additionally, Orange should review salary and benefit levels, as well as its professional services and related practices (e.g., purchasing procedures) to identify potential cost savings. For example, the Village should ensure that it is not contracting for services that could be completed by the Building Commissioner, unless it can show that doing so would be more cost-effective. Furthermore, when reviewing staffing, salary and benefit levels, and professional services, the Village should consider potential impacts on its ISO rating before making any adjustments. Lastly, the Building Commissioner should work with the Finance Department to ensure that the appropriate activities are being charged to the Building Department's budget.

While the Building Department's current staffing levels are reasonable (see **Assessments Not Yielding Recommendations**), **Table 3-4** shows that Orange's inspections, and permits and licenses per inspector and per total FTE in 2008 are all lower than the respective peer averages. However, these lower ratios are partially due to the level of activity in 2008, which could fluctuate year-to-year. For instance, projecting the number of inspections and permits/licenses through July 31 for 2009 would result in an increased workload for the Building Department. Although the projected inspection ratios would still be lower than the peer averages, the projected permit/licenses per inspector would be higher than two peers while the permits/licenses per total FTE would be comparable to two peers. According to the Building Commissioner, due to the volatile nature of construction projects, it is hard to determine a set number of staff that is needed to effectively operate the Building Department⁶.

Table 3-6 compares Orange's Building Department expenditures in 2008 to the peers⁷ on a per FTE, citizen, inspection, permit/license, and housing unit basis. In addition, **Table 3-6** includes projected expenditures in 2009 for Orange, based on annualizing the actual expenditures through August 26⁸.

⁶ The Mayor noted that the staff in the Building Department use the slower months of operations (reduction in inspection load) as opportunities to catch up on the other functions, which include maintaining files, updating the website and other Building Department documents, preparing required annual reports for the State, conducting staff meetings, completing special projects (i.e., wind turbine study, service facility study, and LEEDS Program), and assisting other departments in various tasks.

⁷ Chagrin Falls did not provide AOS with Building Department expenditure data.

⁸ The projection for 2009 would result in expenditures coming under the budget for 2009. More specifically, the 2009 budget for the Building Department reflects an increase of 7.5 percent, when compared to actual expenditures

Table 3-6: Building Department Expenditures

	Orange 2008	Orange Projected 2009	Moreland Hills 2008	Walton Hills 2008	Peer Average
Wages	\$128,285.49	\$112,335.42	\$68,535.14	\$91,884.46	\$80,209.80
Per FTE	\$67,518.68 ¹	\$59,123.91 ¹	\$45,690.09	\$43,754.50	\$44,722.30
Per citizen	\$39.03	\$34.18	\$22.16	\$40.00	\$31.08
Per inspection	\$358.34 ²	\$260.04 ^{2,3}	\$179.41	\$116.60 ⁵	\$148.01
Per permit / license	\$833.02	\$564.91 ³	\$466.23	\$264.04	\$365.13
Per housing unit ⁴	\$88.23	\$77.15	\$48.81	\$95.12	\$71.97
Benefits	\$26,489.25	\$36,948.35	\$23,932.68	\$23,318.25	\$23,625.47
Per FTE	\$13,941.71 ¹	\$19,446.50 ¹	\$15,955.12	\$11,103.93	\$13,529.53
Per citizen	\$8.06	\$11.24	\$7.74	\$10.15	\$8.94
Per inspection	\$73.99 ²	\$85.53 ^{2,3}	\$62.65	\$29.59 ⁵	\$46.12
Per permit / license	\$172.01	\$185.80 ³	\$162.81	\$67.01	\$114.91
Per housing unit ⁴	\$18.22	\$25.38	\$17.05	\$24.14	\$20.59
Operations	\$33,860.23	\$26,590.79	\$2,702.50	\$5,392.95	\$4,047.73
Per FTE	\$17,821 ¹	\$13,995.15 ¹	\$1,802	\$2,568	\$2,185
Per citizen	\$10.30	\$8.09	\$0.87	\$2.35	\$1.61
Per inspection	\$94.58 ²	\$61.55 ^{2,3}	\$7.07	\$6.84 ⁵	\$6.96
Per permit / license	\$219.87	\$133.72 ³	\$18.38	\$15.50	\$16.94
Per housing unit ⁴	\$23.29	\$18.26	\$1.92	\$5.58	\$3.75
Total Expenditures	\$188,634.97	\$175,874.55	\$95,170.32	\$120,595.66	\$107,882.99
Per FTE	\$99,281.56 ¹	\$92,565.55 ¹	\$63,446.88	\$57,426.50	\$60,436.69
Per citizen	\$57.39	\$53.51	\$30.77	\$52.50	\$41.64
Per inspection	\$526.91 ²	\$407.12 ^{2,3}	\$249.14	\$153.04 ⁵	\$201.09
Per permit / license	\$1,224.90	\$884.43 ³	\$647.42	\$346.54	\$496.98
Per housing unit ⁴	\$129.74	\$120.79	\$67.79	\$124.84	\$96.31

Source: Orange Village and peer villages

Note: Totals may vary due to rounding

¹ This includes FTEs for the Building Commissioner, which is based on testimonial evidence provided by the Building Commissioner. This was unable to be verified, due to a lack of corroborating data.

² Due to a lack of corroborating information, AOS was unable to verify the number of inspections.

³ The inspections and permits/licenses were projected for 2009, based on actual activity through July 31, 2009.

⁴ AOS was unable to verify the number of housing units for Orange and the peers. However, using housing data from the 2000 Census would result in Orange's expenditures per housing unit being even higher than the peer averages, when compared to using 2008 data.

⁵ Walton Hills did not break out the number of inspections by type.

Table 3-6 illustrates that Orange's total Building Department expenditures exceeded the peer averages in each ratio in 2008. Despite a projected reduction in expenditures, **Table 3-6** also shows that Orange's total expenditures in 2009 for each ratio would be higher

in 2008. Based on the comparisons in **Table 3-7**, the discrepancy between the projections and budget for 2009 would not alter conclusions.

than the peer average. Additionally, for both 2008 and 2009, each of the Village's expenditure ratios is higher than the peer average, with the exception of benefit costs per citizen and per housing unit in 2008.

As previously discussed, Orange conducted fewer inspections per FTE and issued fewer permits/licenses per FTE in 2008, which contributes to the higher corresponding salary and benefit cost ratios. However, the higher expenditure ratios in salaries and benefits are also due to compensation levels for staff. This is evident by the higher salaries and benefits per FTE. **Table 3-6** also shows that Orange's operating cost ratios are significantly higher than the peer average. The higher operating costs are mainly due to Orange incurring approximately \$28,900 in professional service costs, which is projected to decrease to approximately \$24,800 in 2009.

Orange is State Certified to perform commercial inspections, in contrast to Moreland Hills and Walton Hills in 2008. The Building Commissioner at Moreland Hills noted that 99 percent of inspections are residential and the State inspects commercial projects at Moreland Hills. The Building Inspector at Walton Hills noted that their Building Department became State Certified for commercial jobs in 2009. The Building Inspector is now certified to handle all aspects of commercial inspections, with the exception of plan reviews and plumbing. The Building Inspector noted that the main advantage of State certification is safety. Prior to the State certification, the Building Department was not permitted to enter commercial buildings or perform inspections. Since becoming certified, the Building Department can now perform commercial inspections and enter commercial sites to ensure that the proper permits and codes are being maintained. The Building Inspector also estimated that expenditures increased by a minimal amount because of the State certification. Furthermore, Orange and Moreland Hills are not State Certified for residential inspections, unlike Walton Hills.

The Village's State certification for commercial inspections can contribute to the higher cost ratios in **Table 3-6**. In addition, as previously mentioned (see page 3-2), the Village's ISO ratings are better when compared to Chagrin Falls and Walton Hills⁹. As a result, the Village's higher expenditure ratios can be partially due to activities necessary to maintain a lower rating and, in turn, justify a higher compensation level for building staff. However, the significant disparity in the operating cost ratios, driven primarily by professional services, suggests that other factors may also contribute to the higher operating costs, such as contracting for services that could be performed by the Building Department, the coding of expenditures, and one-time costs. For example, the Village's detailed general ledger report for 2007 shows that Orange contracted for plan examination, plumbing and electrical services that totaled approximately \$2,181. However, the Building Commissioner can perform these services. The Village noted that

⁹ Moreland Hills did not provide AOS with their ISO rating.

contracted services for commercial electrical inspection, plumbing and plans examination are used on an as-needed basis. For example, the Village used the services of its electrical inspection back-up personnel for the University Hospitals building, and to review the electrical and back-up generation needs of Orange Village Hall which was out of the ordinary and non-recurring. In addition, the detailed general ledger reports show that the Village included animal control costs of \$11,215 in 2006 and \$11,855 in 2007 within the Building Department's professional services category. Animal control costs appear to be outside of the Building Department's core functions. Moreover, the detailed general ledger report for 2007 shows \$10,500 in demolition costs and \$3,485 in Master Plan costs, which may be one-time costs and contribute to the decline in operations expenditures in 2008.

The following assessment is intended to illustrate the potential impact of coding differences and one-time costs on the Village's expenditures in 2008. Specifically, when excluding the 2007 expenditure amounts related to animal control, demolition, and the Master Plan costs from total operations expenditures in 2008, the Village's adjusted operations expenditure ratios still significantly exceed the respective peer averages. The variance ranges from being 47 to 222 percent higher depending upon the ratio. Excluding the demolition and Master Plan costs is likely overstating the impact in 2008 and thereby provides a conservative estimate, because the decline in actual operations costs for 2008 appears to already capture the impact of demolition and Master Plan costs in 2007.

During the course of this performance audit, the Building Commissioner referred all questions pertaining to the expenditures in the Building Department to the Treasurer. However, by working with the Finance Department, the Building Commissioner would ensure that the appropriate costs are reflected in the Building Department's budget and related financial reports. This, in turn, would ensure that the Village makes the appropriate decisions about operations and costs in the Building Department.

Financial Implication: If the Village was able to reduce operations expenditures by 10 percent through the aforementioned strategies, it would save approximately \$800 annually. This is based on the abovementioned adjustment which excludes animal control, demolition and Master Plan costs, to provide a conservative estimate. Additionally, a reduction of \$800 from the adjusted figure would result in Orange still exceeding the respective peer average ratios, which further illustrates that this is a conservative estimate of potential savings. Therefore, depending upon the coding of expenditures and other factors, the actual costs savings could be greater than \$800 per year.

Financial Implications Summary

The following table presents a summary of annual cost savings identified in this section of the report.

Table 3-7: Performance Audit Recommendations

Recommendation	Annual Cost Savings
R3.1 Reduce professional service costs.	\$800
Total	\$800

Source: AOS Recommendations

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Village Response

The letter that follows is Orange Village's official response to the performance audit. Throughout the audit process, staff met with Village officials to ensure substantial agreement on the factual information presented in the report. When Village officials disagreed with information contained in the report and provided supporting documentation, the audit report was revised.

Regarding the comments about efficiency and effectiveness in the Village's official response, the performance audit concluded that the Finance Department is efficiently staffed and organized, and the Building Department's organizational structure and current staffing levels are reasonable. However, the intent of the recommendations in the performance audit is to improve the efficiency and effectiveness of operations in these departments.

Rather than increasing staffing levels solely for the purpose of developing and maintaining a financial forecast, the Village is encouraged to maintain its current staffing levels in the Finance Department because they are efficient. Implementing the recommendations in the performance audit and identifying other improvements should enable the Finance Department to dedicate time to developing and maintaining long-term financial forecasts (see **R2.1**). In particular, the Finance Department would significantly improve efficiency by fully using the functionality of the current or new software package (see **R2.4**) and developing strategies to reduce financial audit citations in the future (see **R2.3**).

Readers should review **R2.4** in its entirety in order to obtain a full understanding of the recommendation. Taking the steps outlined in **R2.4** would avoid the potential for implementing another system that the Village subsequently concludes is ineffective.

Contrary to the Village's official response, **R3.1** discusses the Village's and peers' certifications and ISO ratings in relation to the expenditure comparisons (see page 3-13). Additionally, the recommendation that the Building Commissioner work with the Finance Department to ensure the inclusion of appropriate costs is supported by the Building Commissioner referring all audit questions pertaining to the Building Department's expenditures to the Treasurer (see page 3-14).



Orange Village

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Kathy U. Mulcahy
Office of the Mayor

March 31, 2010

Auditor of State of Ohio, Mary Taylor
Danielle M. Lorenz, MBA
Senior Audit Manager
Performance Audit Section
Voinovich Government Center
242 Federal Plaza West, Suite 302
Youngstown, Ohio 44503

Re: Performance Audit – Administration Response

Dear Ms. Lorenz,

I am submitting this letter as our official response and comments relative to the 2010 Performance Audit report of Orange Village's Finance and Building departments. Overall, the audit report reflects very positively on the operations and we are very pleased to have independent confirmation of the effectiveness and efficiency of these vital operations.

FINANCE DEPARTMENT:

- ***R2.1: Orange should develop a formal, multi-year strategic plan that incorporates meaningful goals, measurable objectives, and related performance measures and timeframes for each department.***

Comment: There is no dispute about the value in planning ahead and, as noted, we feel that Orange Village has implemented and utilizes multiple planning activities, such as, ten-year infrastructure plans, 5 year capital equipment projections, yearly goal setting, master planning of the community's

zoning and land preservation goals, community survey, master planning for the park and multiple planning studies for a new service department facility.

Being able to create long-term financial forecasts was one of the objectives I originally identified as being unmet and one of the reasons for requesting this Performance Audit was to identify appropriate staffing in the Finance Department in order to achieve additional financial analysis and planning. Unfortunately, I do not feel that this Performance Audit adequately examined the relationship of our current department to the needs we will have in order to meet this recommendation. Though the report indicates that implementing R2.3 and R2.4 will enable this to happen, I have my reservations about the sufficiency of that conclusion. However, it should be noted that creating a multi-year financial forecast remains a priority goal of this administration to accomplish by late 2010.

- R2.2: Orange should revise its purchasing and vendor payment practices. Specifically, Orange should continue recording encumbrances in the Purchase Order module. In addition, the Village should update its vendor payment procedures to avoid incurring late fees and to obtain discounts for early payment. For example, the Village could adopt a policy that allows the Mayor to approve payments of such invoices and then report on them at the next Council meeting. Lastly, Orange should develop a policy that defines the use of purchase orders. Barring exceptions in State law and for other appropriate items, the Village should use purchase orders.

Comments:

- Encumbrances: In 2006 our failure to encumber was cited as a material deficiency for the first time. Upon receipt of the 2006 audit in July, 2008, we responded immediately with the implementation of “Then & Now Certificates” which was deemed acceptable by the State Financial auditors and began formal encumbering in January, 2009.

- Prompt pay discount: If we are able to benefit from an early payment discount, we will do that by issuing a check mid-cycle and reporting on that to council in our next monthly meeting. However, we don’t currently have any discounts offered by our vendors.

- **Table 2-5:** The Performance Audit states that the 2006 audit comments were still in place in 2007. But, please note: the 2006 audit was not provided to the Village until July, 2008, thus eliminating the chance to make changes any earlier than 2009. Though that comment is cited as footnote #10 on page 2-16 of the report, it deserves, in my opinion, a more prominent mention.

- **R2.4** This recommendation discusses our accounting software and suggests that maybe we should spend more time (and money) invested in the program we currently use. The prior staff in the finance department selected this program many years ago. At that time, we had no expectation of encumbering or utilizing purchase orders that we have today. The responsible staff member (former assistant treasurer) compared the Asyst program with the State UAN program and selected the Asyst program based on its lesser cost at the time. But, that selection did not include the purchase order module or any training or anticipation of needing those capabilities in the future. In other words, that choice was a mistake. It is now time for us to change accounting software to a system that is sensitive to the requirements of governmental accounting in the State of Ohio. For that

reason, we have narrowed our search to two vendors: The UAN system offered by the Auditor of State or the SSI system offered by Regional Income Tax Agency. The pros and cons of these two systems are currently being examined by the Village Treasurer, Roger Delman and Assistant Treasurer, Mitch Adell. In conclusion, it is our opinion that it is neither practical nor cost effective to continue with the Asyst program.

BUILDING DEPARTMENT:

***R3.1: “Orange should routinely review the workload levels within the Building Department to ensure they coincide with the necessary staffing levels to effectively operate the Department. For example, a decline in permit and inspection activity would reduce the Department’s workload, thereby requiring fewer staff resources to complete these functions. Additionally, Orange should review salary and benefit levels, as well as its professional services and related practices (e.g. purchasing procedures) to identify potential cost savings. For example, the Village should ensure that it is not contracting for services that could be completed by the Building Commissioner, unless it can show that doing so would be more cost-effective. Furthermore, when reviewing staffing, salary and benefit levels, and professional services, the Village should consider potential impacts on its ISO rating before making any adjustments. Lastly, the Building Commissioner should work with the Finance Department to ensure that the appropriate activities are being charged to the Building Department’s budget.*”**

An integral element of Orange Village’s high ISO rating is the quality of our contracted professionals. Our back-up electrical inspector, Jerry Gerber, is one of the premier experts in his field as is our plans examiner, Gifford Dyer. Finally, our Building Commissioner, Lou Hovancsek, is one of very few building officials in the entire State of Ohio who is certified in every aspect of inspection. Mr. Hovancsek is a State Certified Building Official, Building Inspector, Electrical Safety Inspector AND Plumbing Inspector. We do not believe the comparisons with our peer communities factored this unusually high level of professional expertise into the report. I believe Orange Village benefits from this expertise.

On page 3-13 of the draft Audit report, it is stated that “. . .by working with the Finance Department, the Building Commissioner would ensure that the appropriate costs are reflected in the Building Department’s budget and related financial reports.” Please be advised that this is done as a matter of routine and in great depth during our budgeting process. The department heads receive monthly financial reports showing their actual expenses compared to budgeted expenses. However, this does bring up the interesting point, which was noted, that there are some categories of expenses (e.g. Animal Services) that are accounted for in our building department and may not be included in the financial data from our peer communities. There may be more than a few categories where this applies.

I would like to thank Danielle Lorenz, Mate Rogonjic and the entire audit team for their professionalism, responsiveness and consideration while conducting this Performance Audit in Orange Village. We are always interested in learning ways to improve and/or enhance our operations and remain receptive to good suggestions.

Finally, the study helped to reinforce and confirm what we have already believed in the Orange Village administration: our departments and employees are hard working, efficient and very effective in the performance of their duties on behalf of the residents of Orange Village.

Yours truly,

A handwritten signature in black ink that reads "Kathy U. Mulcahy". The signature is written in a cursive, slightly slanted style.

Kathy U Mulcahy
Mayor, Orange Village

Enclosures

cc: Roger Delman, Finance Officer
Lou Hovancsek, Building Commissioner



**Auditor of State
Mary Taylor, CPA**

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