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MANAGEMENT LETTER

City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Mayor Justin M. Bibb, Members of City Council, and the Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements defined in our Independent Auditor's Report of the City of Cleveland, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements and have issued our report thereon dated June 28, 2023.

Government Auditing Standards require us to communicate deficiencies in internal control, as well as, report on compliance with certain provisions of laws, regulations, contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated June 28, 2023, for the year ended December 31, 2022.

2 CFR Part 200 subpart F requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated June 28, 2023, for the year ended December 31, 2022.

We are also submitting the following comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. The comments reflect matters that do not require inclusion in the *Government Auditing Standards* or Single Audit reports. Nevertheless, the comments represent matters for which we believe improvements in compliance or internal controls, or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations. The comments appearing with an asterisk (*) denotes a comment which had been previously reported to management in the 2021 audit report for which no corrective action has not been taken. The comments reflect our continuing desire to assist your City but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding the comments, please contact your regional Auditor of State office.

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Noncompliance Findings

1. Public Record Requests

Ohio Rev. Code § 149.43(B)(1) states in part, "Upon request by any person and subject to division (B)(8) of this section, all public records responsive to a request by the public shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. Subject to division (B)(8) of this section, upon request by any person, a public office or person responsible for public records shall make copies of the requested public record available to the requester at cost and within a reasonable period of time."

A test of seventeen public records requests disclosed three instances where the response was not made in a reasonable time frame, with the longest response period being ten months.

This weakness could result in improper withholding of public records and potential lawsuits.

The City should ensure public records are responded to in a timely manner according to their policy.

2. 200 CFR 200- SEFA Reporting

2 CFR Subpart F § 200.510(b) requires the auditee to prepare a Schedule of Expenditures of Federal Awards (the Schedule) for the period covered by the City's financial statements which must include the total federal awards expended as determined in accordance with § 200.502.

At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the AL number or other identifying number when the AL information is not available.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule and note whether or not the auditee has elected to use the 10 percent de minimis cost rate as covered in § 200.414 Indirect (F&A) costs.

The City's Schedule of Expenditures of Federal Awards understated expenditures in the Community Development Block Grant Section 108 Loan Guarantee Program (AL#14.248) by \$3,190,355. This was due to the City excluding the Loan Program's ending cash balance from the expenditure total.

Errors and omissions on the Schedule of Expenditures of Federal Awards (the Schedule) could adversely affect future grant awards in addition to causing an inaccurate assessment of major federal programs that would be subjected to audit. Adjustments, to which management has agreed, are reflected in the Schedule.

City management should implement a system to review the Schedule for errors and omissions. This will help ensure the Schedule is complete and accurate and major federal programs are correctly identified and tested for audit.

3. Updating of the Indirect Cost Plan

Appendix VII of Part 200 Section D(1)(b) states, "A government department or agency unit that receives more than \$35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. Other governmental department or agency must develop an indirect cost proposal in accordance with the requirements of this Part and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs."

Appendix VII of Part 200 Section D(1)(d) states, "Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant agency for indirect costs. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

During 2022, the City had indirect costs of approximately \$367,000 charged to various federal programs. This represented less than one half percent of the total expenditures reported on the Schedule of Expenditures of Federal Awards. However, the rates used by the City were based on a 2014 indirect cost rate plan, which in some cases differed from the proposal. The City did not provide physical evidence the proposal or deviations from the proposal were approved by the cognizant agency (Department of Housing and Urban Development). Further, there was no evidence the City developed or submitted an updated plan within six months of its fiscal year end.

Not updating and obtaining proper approval of the indirect cost rate plan could lead to the City not receiving all available grant funds and potential non-compliance with federal regulations.

The City should develop procedures to ensure indirect costs are charged to federal programs based upon a current cost rate plan. Further, the City should update its indirect cost rate plan within the required six months and obtain approval from the cognizant agent when necessary.

Recommendations

1. CCA - Stale Dated Checks *

Ohio Rev. Code §9.39 provides that unclaimed money shall be deposited to the credit of a trust fund and shall be retained there until claimed by its lawful owner. If not claimed within a period of five years, the money shall revert to the General Fund of the Public Office.

As of December 31, 2022, the City's CCA Key Bank account reconciliation had 6,730 refund checks totaling \$2,596,548 that were outstanding for more than one year.

Failure to properly account for stale dated checks can result in an inefficient and cumbersome bank reconciliation process.

The City should establish a policy which sets a reasonable amount of time for carrying outstanding checks on their reconciliations. After the established time, the check(s) should be voided, and the funds (check amount) should be held in an unclaimed monies fund in accordance with Ohio Rev. Code Section 9.39 and Auditor of State Bulletin 91-11.

2. IT - Logical Access *

Logical access controls are critical to help ensure computer resources are appropriately protected. Passwords are typically used to authenticate a user before access is granted to the computer system. Multifactor (MFA) authentication, in which a user is required to provide two or more verification factors to gain access to critical data, and strong password policies are key controls in preventing unauthorized user access. In addition, monitoring user access activity via security reports helps to identify suspicious activity.

While the City has password controls in place to restrict user access to critical systems, the following issues were noted:

City Directory Service:

The City uses a directory service to restrict access to individual workstations and their network, which is required to access the financial application. While MFA policies are in place to restrict high level user access and all users accessing the City's network remotely, MFA policies were not enabled for general users accessing AD within the City's network.

Time Keeping Application:

- The password history policy is not enabled for a high level group. This setting allows a user to keep using the same password over again.
- The lockout policy is not enabled for a high level group. This will allow unlimited logon attempts.
- Multifactor authentication policies were not enabled. This is due to a system limitation.

When strong password and MFA are not implemented or enforced, there is an increased risk of unauthorized access to data.

In addition, one critical system that is vendor hosted has a complementary user entity control that encourages user entities to monitor the system's security report and communicate suspicious activity. The City is currently not reviewing the security report on a regular basis.

The risk of inappropriate access or unauthorized changes increases when audit reports are not reviewed on a regular basis.

The City should enforce strong password policies and consider implementing multifactor authentication policies over all significant systems and applications.

Additionally, the City should review the SOC 1 Type 2 reports for their service organizations and ensure they are meeting the Complementary User Entity Controls listed in each.

3. IT - Security Administration *

Security administration helps to ensure computer resources are only provided to users on an as needed basis and according to management's intentions. Effective security administration policies and procedures typically include on-boarding procedures to confirm initial user access is appropriate, periodic review of user access for appropriateness, and off-boarding procedures to ensure timely removal of access upon termination.

Payroll Application:

- New user access is based off mirroring current employee access for similar job positions, rather than creating template roles for specific job functions based on least privilege. The City noted the application does not easily allow for the creation of custom roles but they are working on implementing this control.
- Four users had the ability to edit pay rates, which was beyond their job duties. This access was corrected during field work.
- Six HR employees require elevated access during general wage increase sessions to perform job duties. Due to payroll application setting restrictions, these users are given full access to the system during the general wage increase sessions, which is beyond their job duties.
- Due to payroll application software security restrictions, limited staff from both payroll and HR have full access to the application. This access would allow employees from both divisions to create new users and edit payroll data.

Time Keeping Application:

- 16 of the 22 users sampled did not have a new user access form on file.
- Annual confirmations over user access were not performed during 2022. The City started a confirmation process during fieldwork.
- One active user account with the ability to update and approve timecards belonged to a retired individual. Access was removed during fieldwork.

When security authorization documentation does not provide detailed information regarding the roles and privileges provided within the application, there is an increased risk of unauthorized access to data. The practice of "mirroring" access for users within an application can be especially risky if the account being "mirrored" was previously granted higher level privileges than would be necessary for the new user. In addition, accounts with excessive access may result in the accidental or intentional loss of or damage to data.

The City should develop and implement the following security administration controls:

- Require on-boarding support to identify the specific responsibility and security group access a user should be assigned within an application rather than stating access be based on an existing employee's ability.
- Perform an annual confirmation of user accounts with management to help ensure network and application level access is appropriate for all critical systems.
- Implement an automated process to off-board users to ensure access is removed from all critical systems in a timely manner.

We intend this report for the information and use of the Mayor, City Council, audit committee and management.



Keith Faber
Auditor of State
Columbus, Ohio

June 28, 2023

The Single Audit of City of Cleveland for the
Year ended December 22, 2022, is available as a
digital copy under File No. 909-2023.