



**Auditor of State
Betty Montgomery**

CITY OF CLEVELAND
CUYAHOGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Schedule of Federal Awards Expenditures	1
Notes to the Schedule of Federal Awards Expenditures	7
Independent Accountants' Report on Internal Control on Financial Reporting and on Compliance and Other Matter Required by <i>Government Auditing Standards</i>	9
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	11
Schedule of Findings.....	13
Schedule of Prior Year Findings	17

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**CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Agriculture			
Direct Programs:			
Summer Food Service Program for Children 2004	10.559		\$ 137,427
Subtotal			<u>137,427</u>
Total Department of Agriculture			<u><u>137,427</u></u>
Department of Energy			
Pass Through Programs:			
Ohio Department of Development:			
Weatherization Assistance for Low-Income Persons 2003	81.042		141,169
Weatherization Assistance for Low-Income Persons 2004	81.042		1,063,117
Subtotal			<u>1,204,286</u>
Total Department of Energy			<u><u>1,204,286</u></u>
Department of Health and Human Services			
Direct Programs:			
Healthy Start Initiative Yr 4	93.926		1,190,586
Healthy Start Initiative Yr 5	93.926		863,912
Subtotal			<u>2,054,498</u>
Centers for Disease Control-Investigations and Technical Assistance:			
NACCHO	93.283		1,631
Steps To A Healthier U.S.	93.283		9,802
City Readiness Initiative 04-05	93.283		50,000
Subtotal			<u>61,433</u>
Pass Through Programs:			
Cuyahoga County Board of Health:			
Immunization Grants 2003	93.268		3,243
Immunization Grants 2004	93.268		86,259
Subtotal			<u>89,502</u>
Cuyahoga County Board of Health:			
Preventive Health and Health Services Block Grant:			
Cardiovascular Health	93.991		1,674
Cardiovascular Health 2004	93.991		60,275
Subtotal			<u>61,949</u>
Centers for Disease Control-Investigations and Technical Assistance:			
Regional Medical Response System 2004	93.283		80,390
Subtotal			<u>80,390</u>
Ohio Department of Health:			
Childhood Lead Poisoning Prevention 2003	93.197	18-2-01-1-BD-03	1,727
Childhood Lead Poisoning Prevention 2003	93.197	18-2-01-1-BE-03	(6,301)
Childhood Lead Poisoning Prevention 2004	93.197	18-2-001-1-BD-04	319,524
Childhood Lead Poisoning Prevention 2005	93.197	18-2-001-1-BD-05	220,074
Subtotal			<u>535,024</u>
Centers for Disease Control-Investigations and Technical Assistance:			
Regional Metropolitan Response System	93.283		9,074
Subtotal			<u>9,074</u>

**CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Health and Human Services--continued			
Preventive Health Services-Sexually Transmitted Diseases: Sexually Transmitted Diseases Diagnosis & Treatment 2003	93.977	18-2-001-2-BX-04	14,549
Sexually Transmitted Diseases Diagnosis & Treatment 2004	93.977	18-2-001-2-BX-05	126,167
Subtotal			<u>140,716</u>
Federal AIDS Prevention 2004	93.944	18-2-001-1-DM-04	147,201
Subtotal			<u>147,201</u>
Acquired Immunodeficiency Syndrome (AIDS) Activity 2003	93.118	18-2-001-AS-04	76,145
Acquired Immunodeficiency Syndrome (AIDS) Activity 2004	93.118	18-2-001-2-AS-05	684,331
Subtotal			<u>760,476</u>
Maternal and Child Health Services Block Grant: Infant Mortality Reduction Initiative	93.994	18-2-001-1-DM-01	2,358
Subtotal			<u>2,358</u>
Community Access Program 2004	93.252	18-2-001-1-EJ-04	150,746
Subtotal			<u>150,746</u>
Ohio Department of Alcohol and Drug Addiction Services: Block Grants for Prevention and Treatment of Substance Abuse: Centerpoint/Reward 2004	93.959		134,522
Centerpoint/Reward 2005	93.959		103,720
Student Assistance 2004	93.959		35,912
Student Assistance 2005	93.959		36,069
Subtotal			<u>310,223</u>
Ohio Department of Development: Low-Income Home Energy Assistance 2003	93.568		638,958
Low-Income Home Energy Assistance 2004	93.568		684,927
Subtotal			<u>1,323,885</u>
Supplemental Empowerment Zone - Title XX	93.585	G-98-01-244	256,834
Subtotal			<u>256,834</u>
Total Department of Health and Human Services			<u><u>5,984,309</u></u>
Department of Housing & Urban Development			
Direct Programs:			
Community Development Block Grants:			
CDBG XXI	14.218		(2,322)
CDBG XXII	14.218		
CDBG XXIII	14.218		
CDBG XXIV	14.218		5,949
CDBG XXV	14.218		109,335
CDBG XXVI	14.218		135,000
CDBG Yr 27	14.218		4,225,524
CDBG Yr 28	14.218		3,697,329
CDBG Yr 29	14.218		14,791,057
CDBG Yr 30	14.218		10,870,096
CDBG Float Loan	14.218		8,939,825
CDBG - Home Ownership Zone - Sec 108LN	14.218	CDBG Funded	
Subtotal			<u>42,771,793</u>
Yr 29 Fair Housing Grant	14.218	CDBG Funded	63,743
Yr 30 Fair Housing Grant	14.218	CDBG Funded	33,888
SHAP/CHORE 2003-2004	14.218	CDBG Funded	101,702
SHAP/CHORE 2004-2005	14.218	CDBG Funded	64,275

**CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Housing & Urban Development--continued			
School Safety Initiative	14.218	CDBG Funded	150,000
6th District Night Out Against Crime	14.218	CDBG Funded	4,500
CDBG AIDS Yr 28	14.218	CDBG Funded	41,303
CDBG AIDS Yr 29	14.218	CDBG Funded	430,051
CDBG AIDS Yr 30	14.218	CDBG Funded	214,375
Project Clean yr30 CDBG	14.218	CDBG Funded	947,475
Direct Programs:			
Demolition and Board Up yr 29	14.218	CDBG Funded	1,361,754
Code Enforcement yr 29	14.218	CDBG Funded	
Code Enforcement yr 30	14.218	CDBG Funded	1,099,381
Demolition yr 30	14.218	CDBG Funded	668,528
Subtotal			<u>5,180,975</u>
Multifamily Property Disposition	14.199		5,694,868
Subtotal			<u>5,694,868</u>
HOME Investment Partnerships Program 1992	14.239		1,377,200
HOME Investment Partnerships Program 1993	14.239		
HOME Investment Partnerships Program 1995	14.239		19,146
HOME Investment Partnerships Program 1996	14.239		(12,622)
HOME Investment Partnerships Program 1997	14.239		(58,427)
HOME Investment Partnerships Program 1998	14.239		(234,757)
HOME Investment Partnerships Program 1999	14.239		115,677
HOME Investment Partnerships Program 2001	14.239		1,835,246
HOME Investment Partnerships Program 2002	14.239		2,274,542
HOME Investment Partnerships Program 2003	14.239		3,330,683
HOME Investment Partnerships Program 2004	14.239		150,000
Subtotal			<u>8,796,688</u>
Emergency Shelter Grants Program 1999	14.231		6,197
Emergency Shelter Grants Program 2000	14.231		21,706
Emergency Shelter Grants Program 2001	14.231		18,300
Emergency Shelter Grants Program 2002	14.231		105,374
Emergency Shelter Grants Program 2003	14.231		979,879
Emergency Shelter Grants Program 2004	14.231		95,250
Subtotal			<u>1,226,706</u>
Housing Opportunities for Persons With Aids 1998	14.241	CDBG Funded	31,151
Housing Opportunities for Persons With Aids 2001	14.241	CDBG Funded	280,275
Housing Opportunities for Persons With Aids 2002	14.241	CDBG Funded	169,016
Housing Opportunities for Persons With Aids 2003	14.241	CDBG Funded	669,367
Housing Opportunities for Persons With Aids 2004	14.241	CDBG Funded	594,541
Housing Opportunities for Persons With Aids 2005	14.241	CDBG Funded	281,063
Subtotal			<u>2,025,413</u>
Lead - Based Paint Hazard Control in Privately - Owned Housing 2001	14.900		1,055,885
Subtotal			<u>1,055,885</u>
Lead Reduction 2003-2007	14.905		350,272
Subtotal			<u>350,272</u>
Empowerment Zones Program	14.244		14,647,589
Subtotal			<u>14,647,589</u>
Total Department of Housing and Urban Development			<u><u>81,750,189</u></u>

**CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Justice			
Direct Programs:			
Local Law Enforcement Block Grants Program 01	16.592		12,021
Local Law Enforcement Block Grants Program 02	16.592		561,126
Local Law Enforcement Block Grants Program 03	16.592		798,098
Subtotal			1,371,245
Public Safety Partnership and Community Policing Grants:			
Creating a Culture of Integrity	16.710		9,139
Subtotal			9,139
Pass Through Programs:			
Office of Criminal Justice Services:			
Byrne Formula Grant Program 2003:			
2003 Caribbean Gang Task Force	16.579		11,318
Homeland Security 2003	16.579		93,951
Police MDC	16.579		137,176
Subtotal			242,445
Byrne Formula Grant Program 2004:			
2004 Caribbean Gang Task Force	16.579		7,808
Cleveland Team Approach To Domestic Violence	16.579		16,266
Homeland Security 2004	16.579		29,022
Mobile Data Center II	16.579		226,212
Subtotal			279,308
Violence Against Women Formula Grants 2003:			
VAWA Team Approach 2003	16.588		30,858
TEAM Approach to VAWA	16.588		10,975
Subtotal			41,833
Violence Against Women Formula Grants 2004			
	16.588		7,368
Subtotal			7,368
Juvenile Accountability Incentive Block Grants 2003			
	16.523		175,053
Juvenile Accountability Incentive Block Grants 2004	16.523		304,973
Subtotal			480,026
Public Safety Partnership and Community Policing Grants:			
Cops in School	16.710		893,961
Subtotal			893,961
Law Enforcement Trust Fund			
	16.XXX		472,202
Subtotal			472,202
Total Department of Justice			3,797,527
Department of Treasury			
Direct Programs:			
G.R.E.A.T. 1998	21.053		164,347
G.R.E.A.T. 1999	21.053		164,261
G.R.E.A.T. 2000	21.053	ATC000066	142,813
G.R.E.A.T. 2001	21.053	ATC010045	184,857
G.R.E.A.T. 2002	21.053	ATC020121	78,277
G.R.E.A.T. 2003	21.053		66,536
Subtotal			801,091
Total Department of Treasury			801,091

**CITY OF CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Labor			
Pass Through Programs:			
Ohio Department of Jobs and Family Services:			
WIA Adult Program	17.258		6,482,395
WIA Youth Program	17.259		5,132,847
WIA Dislocated Worker Program	17.260		2,676,924
Subtotal			<u>14,292,166</u>
Total Department of Labor			<u>14,292,166</u>
Department of Transportation			
Direct Programs:			
Airport Improvement Program	20.106		17,838,013
Subtotal			<u>17,838,013</u>
Highway Planning and Construction:			
Federal Grant - Memphis Ave. Brooklyn	20.205		65,237
Federal Highway Administration	20.205		57,474
Federal- Memphis Ave	20.205		3,210,759
Subtotal			<u>3,333,470</u>
Pass Through Programs:			
Ohio Department of Transportation			
Highway Planning and Construction:			
Brookpark Road Relocation	20.205		33,924
UPARR Bisbee Park	20.205		265,093
Bessemer Ave	20.205		752,882
Transportation Enhance TEA 21	20.205		125,790
Subtotal			<u>1,177,689</u>
Total Department of Transportation			<u>22,349,172</u>
Environmental Protection Agency			
Direct Programs:			
Air Pollution Control Program Support 2002	66.001		22,103
Air Pollution Control Program Support 2003	66.001		(57,207)
Air Pollution Control Program Support 2004	66.001		1,646,743
Air Pollution Control Program Support 2005	66.001		696,340
Subtotal			<u>2,307,979</u>
Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach:			
US EPA Lead Poison Prev	66.716		35,800
Subtotal			<u>35,800</u>
Pass Through Programs:			
Ohio Environmental Protection Agency:			
Air Pollution Control Program Support 1999	66.001		10,898
Subtotal			<u>10,898</u>
Chemical Emergency Preparedness and Prevention:			
Bio-Watch Program 2003	66.810		134,678
Bio-Watch Program 2004	66.810		236,449
Bio-Watch Program 2005	66.810		1,905
Subtotal			<u>373,032</u>
Total Environmental Protection Agency			<u>2,727,709</u>

CITY OF CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grant/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Federal Expenditures
Department of Homeland Security			
Direct Programs:			
FEMA- Fire 2003	97.044		342,796
Subtotal			<u>342,796</u>
FEMA- Federal	97.036		125,791
Subtotal			<u>125,791</u>
Metropolitan Medical Response System 2003	97.071		53,051
Metropolitan Medical Response System 2004	97.071		10,024
Subtotal			<u>63,075</u>
Urban Area Security Initiative	97.007		1,237,259
2003 Homeland Security	97.007		86,730
Subtotal			<u>1,323,989</u>
TSA Cooperative Agreement	97.072		630,081
Subtotal			<u>630,081</u>
Pass Through Programs:			
Ohio Emergency Management Agency			
State Homeland Security Part 1	97.007		19,990
State Homeland Security 2003	97.007		8,000
Subtotal			<u>27,990</u>
Department of Homeland Security			<u>2,513,722</u>
Grand Total			<u>\$ 135,557,598</u>

**CITY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Basis of Presentation

The accompanying Schedule of Federal Awards Expenditures includes the federal grant activity of the City of Cleveland (the "City") and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Longwood Grant

The United States Department of Housing and Urban Development (HUD) made available an UpFront grant to the City in connection with the demolition, rebuilding and redevelopment of the Longwood apartments.

The funding for the Plan is forecast to come from a variety of public and private sources, including, without limitation, tax-exempt bonds issued under Section 103 of the Internal Revenue Code of 1986, private sector equity derived from benefits associated with the low income housing tax credits, HUD section 221 (d)(4) mortgage insurance, HUD UpFront Grant Program Funds, and City general obligation bond, public utility, Housing Trust Fund, and NDA funds.

The UpFront Grant will be allocated and loaned to the Developer throughout the various phases of the project in accordance with a Promissory Note, Interest on this Note shall begin to accrue on April 1, 2006 at a fixed annual rate of 0.25% with this Note maturing on April 1, 2046.

Park Village

United States Department of HUD made available an UpFront Grant in the amount of \$981,836 for the rehabilitation of the Park Village Apartments.

In addition to the Upfront Grant, funding for the Plan includes, without limitation, a private lender first mortgage, a Community Development Block Grant Float Loan and private sector equity derived from benefits associated with low income housing tax credits.

The UpFront Grant funds are being loaned to the Developer in accordance with the Promissory Note. Interest on this Note began to accrue on March 19, 2003 at a fixed annual rate of 5.23% per annum with this Note maturing on March 19, 2033.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Honorable Jane L. Campbell, Mayor, Members of Council, and the Audit Committee:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated May 31, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated May 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery
Auditor of State

May 31, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT OF COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Honorable Jane L. Campbell, Mayor, Members of Council, and the Audit Committee:

Compliance

We have audited the compliance of the City of Cleveland, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Cleveland complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2004. In a separate letter to the City's management dated May 31, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Federal Awards Expenditures

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cleveland as of and for the year ended December 31, 2004, and have issued our report thereon dated May 31, 2005. Our audit was performed to form opinions on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The accompanying federal awards expenditures schedule provides additional information as required by OMB Circular A-133 and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery
Auditor of State

May 31, 2005

**CITY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2004
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA# 14.199, Multifamily Property Disposition CFDA# 14.218, Community Development Block Grants CFDA# 14.239, Home Investment Partnerships Program CFDA# 14.244, Empowerment Zones Program CFDA# 20.106, Airport Improvement Program CFDA# 20.205, Highway Planning and Construction CFDA# 93.926, Healthy Start Initiative
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 3,000,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**CITY OF CLEVELAND
 CUYAHOGA COUNTY
 FOR THE YEAR ENDED DECEMBER 31, 2004
 SCHEDULE OF FINDINGS**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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The comment with an asterisk (*) denotes a comment that was previously reported to management in the December 31, 2003 audit report for which corrective action has not been taken.

Finding Number	2004-001
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DIVISION OF INTERNAL AUDIT’S ORGANIZATIONAL STRUCTURE AND THE HEALTH CARE COVERAGE AUDIT

Organizational Structure *

The City has an internal audit function within the organization which is formulated in accordance with the Standards for Professional Practice of Internal Auditing. However, this function is not complying with the first standard as its internal auditors are not independent from the organization. The Standards state “The internal audit activity should be independent, and internal auditors should be objective in performing their work. The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.” The use of the word “should” in the Standards represents a mandatory obligation.

In accordance with these standards, the determination of the objectivity of the internal audit division is based on the level within the organization to which the department reports. This includes direct access to all levels of the organization and the level that oversees employment decisions related to the internal auditor. Currently, all reports issued by the Division of Internal Audit (DIA) are submitted to the Mayor’s Office, City Council and the Audit Committee. However, the DIA is within the Department of Finance and the Manager of Internal Audit reports directly to the Finance Director and Assistant Finance Director. In fact, the Manager must obtain the Finance Director’s approval prior to the issuance of any report. This type of organizational structure could affect the DIA’s ability to audit all areas of the City objectively.

We recommend the internal audit function be restructured in order to comply with the Standards for Professional Practice of Internal Auditing and require the Director of Internal Audit to report directly to the Mayor. This reporting change will create true independence in Internal Audit and remove them from the Director of the financial functions they will audit. Furthermore, we recommend that the scope and activities of the DIA be approved by the Audit Committee and all subsequent reports be reviewed by the Audit Committee.

Independence of the Division of Internal Audit was originally discussed in a report from the Auditor of State to the City, dated May 30, 2002. The importance of this recommendation is magnified by the events of the following internal control weakness.

Health Care Coverage Audit

For 2004, the City paid over \$51 million for medical coverage and \$3.9 million for dental coverage. These numbers reflect both the City’s and employees’ share; with the City paying approximately 90% of the premium for health care and 100% for dental coverage.

On October 30, 2003, the Manager of the DIA mailed a “Verification Form for City Employee’s Dependents” to all City employees requiring completion of the form and the submission of official documentation as proof of dependent status for each of their dependents. The information was being requested in connection with the City’s new payroll and human resource system and was being compared to the Department of Personnel and Human Resources database.

**CITY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2004
SCHEDULE OF FINDINGS**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004-001
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DIVISION OF INTERNAL AUDIT'S ORGANIZATIONAL STRUCTURE AND HEALTH CARE COVERAGE AUDIT (Continued)

On May 18, 2005, the City's DIA issued an audit report on whether the dependents of the City's employees met the eligibility requirements for health care coverage. The conclusion states, "Based on the audit analysis, we concluded that internal controls within the Department of Personnel and Human Resources related to maintaining health care benefit information and documentation were not adequate or effective for the period of September 1, 2001 through April 30, 2004."

The report identifies 226 and 248 employees respectively, whose medical coverage and dental coverage was changed from family to single coverage. This was due to those employees who had claimed single coverage in the survey being unable to claim family coverage because they did not present supporting documentation to justify claiming their dependents. In addition, the report also states that another 105 employees with family coverage either did not complete the survey or provide support for their dependents despite being warned that the failure to respond could result in a change in their benefits status. The 105 employees in question are not included in the number of employees who had their coverage changed as their status has yet to be determined.

Based on the test results, the internal audit report states, "The City potentially overpaid Providers up to a maximum of \$2,842,565 during the audit period of September 1, 2001 through April 30, 2004 due to incomplete health insurance data within the Department of Personnel and Human Resources database." This projection was based on the employees only being entitled to single coverage during the period. Also, the City estimated they have saved approximately \$1.1 million in health and dental insurance premiums since removing the ineligible dependents.

The internal audit report was forwarded to the City's Law Department in order to determine whether legal action was necessary.

On May 18, 2005, Teresa M. Beasley, Director, and Richard F. Horvath, Chief Counsel for the City's Law department issued their opinion which states the following:

"The Audit Report does not establish that City funds were misspent and, thus, the City has no basis under Ohio Revised Code Section 117.28 to make a claim for recovery of funds against any City employee. Even if the Audit Report established that City funds were misspent, employees have numerous persuasive defenses to any claim for recovery. Conducting an internal investigation of the facts relating to each employee whose coverage changed as a result of the Audit Report would be time-consuming, expensive, detrimental to union/management relations and employer/employee relations, and might impose significant new liabilities on the City".

The opinion further states that City officials gave assurances to union leaders and other City employees that the purpose of the audit was not punitive and that employees who cooperated would not be penalized other than having their benefit status changed.

**CITY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2004
SCHEDULE OF FINDINGS**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004-001
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**DIVISION OF INTERNAL AUDIT'S ORGANIZATIONAL STRUCTURE AND HEALTH CARE
COVERAGE AUDIT (Continued)**

Based on this opinion, the Division of Internal Audit is not investigating whether the City overpaid medical and dental providers or whether these reporting errors were due to City deficiencies in reporting and other internal control weaknesses.

Since public funds were reported as potentially misspent by the City's own Division of Internal Audit, we recommend the City investigate further as to whether the reported weaknesses in the employees' medical and dental coverage were operational in nature or a deliberate attempt by employees to defraud the medical system. In order to accomplish this goal, the City should document the support received from all of its employees for any dependents the employees are claiming and the City is paying for.

CITY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2004
SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (B)

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2003-000	Over reimbursement of Council member expenses.	Yes	Finding no longer valid
2003-002	Daily Duty Assignment reports for police officers were not approved by the Officer-in Charge.	No	Partially corrected as the finding is being reported in the 2004 management letter due to improvements in the approval process.