Summit County Land Reutilization Corporation
Preliminary Audit Report

Prepared for:

SCLRC Board of Directors
Audit Committee

Approved by Audit Committee
June 4, 2018

Summit County
Internal Audit Department
175 South Main Street
Akron, Ohio 44308

Lisa L. Skapura, Director
Jon Keenan, Deputy Director
Brandon Schmidt, Senior Auditor
Mario Warren, Staff Auditor
Amanda Winkelman, Staff Auditor

Summit County Land Reutilization Corporation
Performance Audit General Report

Table of Contents

EXECUTIVE SUMMARY

Total Number of Issues –12

Policies and Procedures

Section	# Issues	Issue Descriptions	Page Ref.
Policies and Procedures Manual	4	• Insufficient or no written policies and procedures for several areas. • Employees not acknowledging receipt of policies and procedures. • SCLRC Board did not formally approve the Human Resource Manual. • RC-2 did not contain all relevant records.	8

Internal Controls

Strong Internal Controls:

Testing Section	# Issues	Issue Description	Page Ref.
P-Card	0	N/A	13
Neighborhood Initiative Program (NIP)			14
Side Lot Program			14
Community Development Matching Grant Fund Program			14
Board Meetings			15

Weaknesses in Internal Controls:

Testing Section	# Issues	Issue Descriptions	Page Ref.
Revenue	2	• Improper segregation of duties over revenue collection and deposit. • Monthly bank reconciliation not approved and insufficient written policies and procedures.	10
Expenditures	3	• Equitable distribution of payments not formally tracked. • Inadequate 1099 process and insufficient policies and procedures. • Improper segregation of duties over the purchasing and receiving functions.	11
Personnel Files	2	• Performance evaluations were not formally documented. • Confidential information was not maintained separately.	12
Welcome Home Program	1	• Written approval/rejection notification not sent to applicants.	15

GENERAL BACKGROUND

The Summit County Land Reutilization Corporation (SCLRC) provides support to neighborhood and community reinvestment and economic development efforts through the strategic acquisition, reclamation, rehabilitation and reutilization of property in Summit County to revitalize neighborhoods and communities, stabilize property values, reduce blight, return property to productive use and improve the quality of life in the community. The SCLRC is a non-profit community improvement corporation governed by a seven member Board of Directors consisting of the following: the Summit County Fiscal Officer, the Summit County Executive, a Summit County Council representative, a representative of the largest municipality (City of Akron), a representative of a township with a population over 10,000 (recommended by the Summit County Township Trustees Association) and two additional directors, of which one must have real estate experience. SCLRC is funded through Summit County's delinquent tax and assessment collection (DTAC) fund; SCLRC receives 5% of Summit County's DTAC fund for operating income. Additionally, SCLRC receives funds through application fees, the sale of land and obtaining funds as a state or federal grant applicant.

SCLRC offers various programs that provide support to revitalize neighbourhoods and communities within Summit County.

Demolition/Neighborhood Initiative Program (NIP)

A residential demolition program designed to assist with stabilizing property values through the strategic demolition of abandoned, vacant and blighted structures. The program is administered through the Ohio Housing Finance Authority (OHFA) and is funded through an allocation of Hardest Hit Funds (HHF) from the U.S. Treasury. To date, SCLRC has been awarded more than $9.5 million in demolition funding through the NIP. The SCLRC is able to use its existing funds in each of Summit County's thirty-one (31) communities and the SCLRC works with each community to identify properties, beyond the standards for rehab or repair, which would be appropriate for the NIP.

Side Lot Program

This program assists in facilitating the reclamation, rehabilitation and reutilization of vacant, abandoned, tax-foreclosed, or other real property within Summit County. SCLRC efficiently holds and manages vacant, abandoned, or tax-foreclosed real property pending its reclamation, rehabilitation and reutilization and assists end-users (e.g., governmental entities, schools, nonprofit organizations, individuals, etc.) to assemble, clear and clear the title of the property in a coordinated manner.

Community Development Matching Grant Fund Program

The SCLRC Community Matching Grant Fund Program is available to local governments and nonprofits to support projects that further the mission of the SCLRC (e.g., property acquisition, demolition, site remediation, greening, maintenance, etc.). Grant funds are available on a 50% match basis only. Organizations are limited to one (1) application and/or open grant award at a time under this program.

Structure Foreclosure Program (Welcome Home Program & Building for Business Program)

This program is designed for people, or organizations, interested in acquiring residential, commercial or industrial property through SCLRC. Eligible properties may also include properties that are already owned by the SCLRC that have been renovated by the SCLRC to meet minimum renovation requirements or that are intended to be completed by an approved applicant.

IAD compared the SCLRC's 2016 expenditures and revenue, staffing levels, programs and properties demolished in 2017 to land reutilization corporations from comparably populated counties – Montgomery and Lucas. The comparisons are represented in the graphs below:
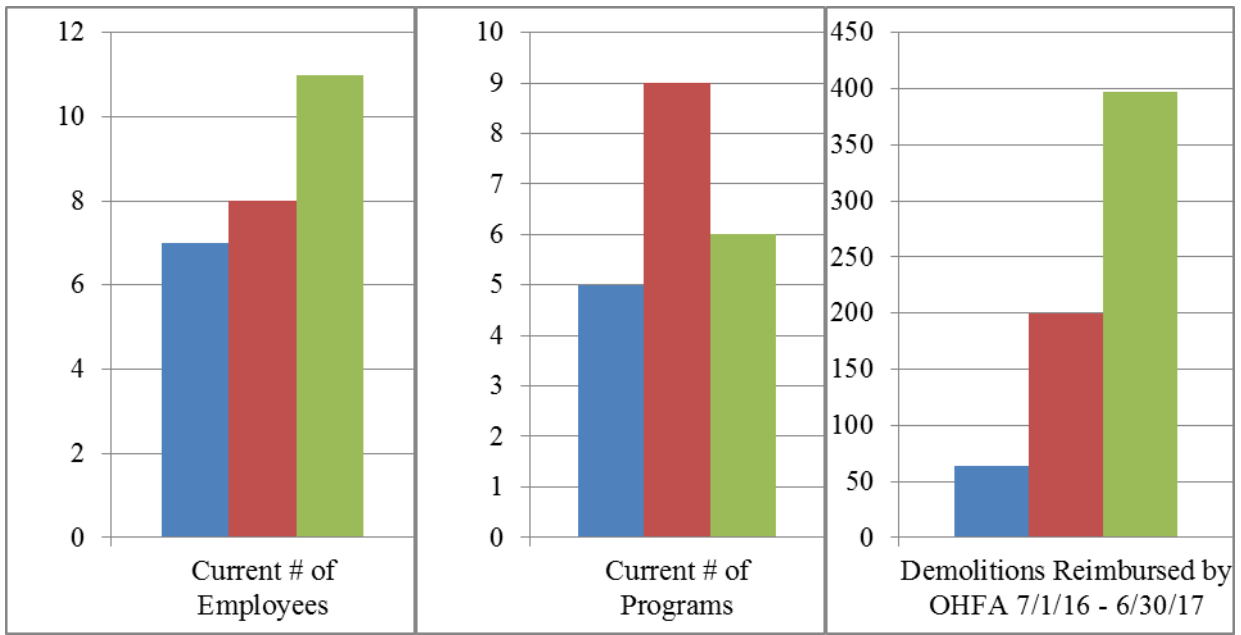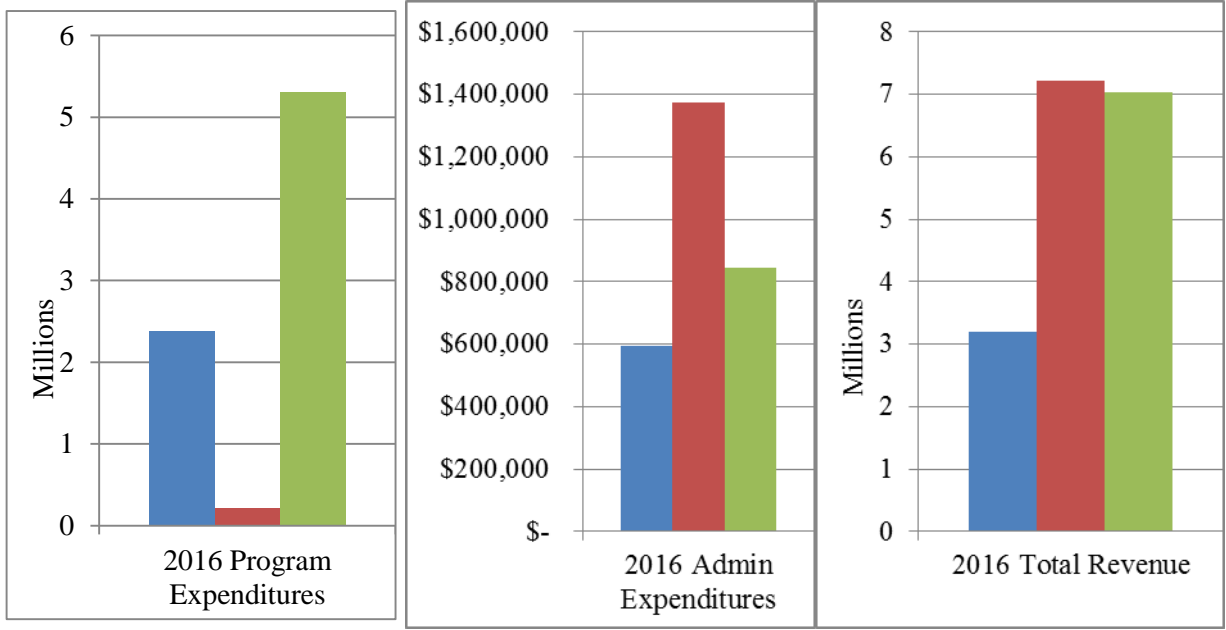
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The primary focus of this review was to provide the Summit County Land Reutilization Corporation with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the Summit County Land Reutilization Corporation.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Objectives:

- To obtain and review the current policies and procedures.

- To review the internal control structure through employee interviews and observations.

- To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by the Summit County Land Reutilization Corporation from January 1, 2017 through December 31, 2017.

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
4. Test procedures for mandatory compliance where applicable.
5. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

6. Meet with the appropriate personnel to obtain an understanding of the control environment.
7. Document the existing control procedures in narratives and/or flowcharts.
8. Compare existing processes to the policies and procedures manual for consistency.
9. Test procedures for compliance where applicable, noting all exceptions.
10. Investigate discrepancies and summarize results.
11. Make recommendations where appropriate.

OBJECTIVE 3 – REVIEW OF SECURITY (covered in a separate report in compliance with ORC §149.433).

1. Perform a general overview of the physical environment and security of the department/agency being audited.
2. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
3. Test security issues where appropriate.
4. Analyze current policies and make recommendations.

DETAILED COMMENTS

Interviews:

To gain an understanding of the SCLRC, IAD performed interviews with the following positions:

- Executive Director
- Director of Acquisition and Development
- Manager of Programs and Property Management
- Manager of Budget and Finance
- Office Manager and Executive Assistant
- Program Assistant

Any issues noted are addressed in the respective sections of this report.

I. Policy and Procedures Review:

SCLRC policies and procedures were reviewed for each of the following applicable testing sections within the audit for accuracy and completeness and compared to current processes for consistency. A sample of employees was haphazardly selected and detail testing was performed to determine if the employees acknowledged receiving and reviewing the SCLRC policy and procedure manual. The SCLRC Records Retention Schedule was also reviewed for completeness and compared to processes throughout the audit to ensure that the schedule contained all relevant documents.

The following issues were noted:

1. Issue:

   Upon review of policies and procedures, IAD noted insufficient policies and procedures over the following areas:
   - Travel and reimbursement
   - Processing payroll
   - Monitoring of the Neighborhood Initiative Program (NIP) Ohio Finance Housing Authority (OHFA) reimbursement process (e.g., processing timeframe, reporting, board presentation, etc.)
   - Redemption of points earned through procurement card purchases

   Recommendation:

   IAD recommends that policy and procedures are created/updated, approved, and disseminated for all functional areas within the department. This will help to ensure that proper procedures are in place and consistently followed within the department.

   Corrective Action Prior to the End of Fieldwork:

   IAD noted a policy and procedure was created related to the travel and reimbursement and payroll processes.

Management Action Plan:

Policies have been created, related to the travel and reimbursement, payroll processes, monitoring of the grant reimbursement request process, and redemption of points earned through procurement card purchases. These policies are scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with these policies.

Target Date: 05/24/18

2. Issue:

    Upon review of the SCLRC's Policy and Procedure Manual, IAD noted that five (5) out of five (5) instances, or 100%, where the employee did not acknowledge receiving and reviewing the SCLRC's Policy and Procedure Manual.

    Recommendation:

    IAD recommends the SCLRC employees sign-off, acknowledging their receipt and review of policies and procedures. This will help to ensure compliance with the policy and procedure manual and best practices.

    Corrective Action Taken Prior to the End of Fieldwork:

    IAD obtained policy and procedure acknowledgement forms for all active SCLRC employees. Additionally, a policy was created regarding policy and procedure manual sign-offs.

    Management Action Plan:

    A policy has been created regarding policy and procedure manual sign-offs. The policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

    Target Date: 05/24/18

3. Issue:

    Upon discussion and review of the Human Resource Policy and Procedure Manual, IAD noted that the manual has not been formally approved by the SCLRC's Board of Directors.

    Recommendation:

    IAD recommends the SCLRC present the Human Resource Policy and Procedure Manual to the Board of Directors for approval. This will help to ensure that procedures are properly approved.

    Management Action Plan:

    Management has updated the organization's policy and procedure manual to incorporate human resource policies and procedures, which will be presented to the board of directors for approval on May 24, 2018.

    Target Date: 05/24/18

4. Issue:

Upon review of the SCLRC Records Retention Schedule (RC-2), IAD noted that it did not contain all relevant records including, but not limited to, the following:
- Personnel Files
- Form I-9s

Recommendation:

IAD recommends that SCLRC update the RC-2 to include all pertinent records and documents and submit to the appropriate parties for approval. This will help to ensure record retention is complete and accurate.

Corrective Action Taken Prior to the End of Fieldwork:

IAD noted that the SCLRC has added the above records to the RC-2 and submitted it to the Records Commission Manager to be included at the next Records Commission meeting.

Management Action Plan:

Management has submitted the updates to the SCLRC Records Retention Schedule (RC-2) to the Summit County Records Commission and requested they be approved by the appropriate parties, including the Summit County Records Commission. The updates are to be presented to the Summit County Records Commission at its next regular meeting, currently scheduled for July 17, 2018.

Target Date: 07/17/18

II. Internal Control Testing:

Risk-based internal control testing and/or observations were performed in the following areas:

- Revenue
- Expenditures
- Personnel Files
- Procurement Card
- Neighborhood Initiative Program (NIP)
- Side Lot Program
- Community Development Matching Grant Fund Program
- Welcome Home Program
- Board Meetings

REVENUE

SCLRC policies and procedures were reviewed, an observation was performed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the revenue cycle and internal controls in place.

A sample of bank deposits was haphazardly selected for detail testing to ensure proper segregation of duties, appropriate recording into the respective accounting system, and timeliness and accuracy of the deposit. Manual receipts were reviewed to ensure completeness and they were issued in sequential order. Bank reconciliations were selected for detail testing to ensure a bank reconciliation was performed each month, proper support existed and a supervisory review was performed and documented. A sample of application fees were reviewed to ensure the correct funds were received and deposited in compliance with SCLRC's guidelines. Confirmation was obtained to ensure the SCLRC's employees are bonded against loss or theft.

The following issues were noted:

5. <u>Issue:</u>

    Upon detail testing of cash receipts, IAD noted three (3) out of ten (10) instances, or 30%, of improper segregation of duties over the receipting and depositing process.

    <u>Recommendation:</u>

    IAD recommends that the revenue collection, reconciliation and deposit processes be performed by separate individuals and policies and procedures be created for those functions. This will help to ensure a proper segregation of duties.

    <u>Corrective Action Taken Prior to the End of Fieldwork:</u>

    IAD noted a policy and procedure was created regarding the segregation of duties of receipting and depositing funds.

    <u>Management Action Plan:</u>

    A policy and procedure has been created regarding segregation of duties over the receipting and depositing process. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

    Target Date: 05/24/18

6. <u>Issue:</u>

    Upon detail testing of bank reconciliations, IAD noted twelve (12) out of twelve (12) instances, or 100% where a supervisor review was not documented on the bank reconciliation. In addition, IAD noted a policy and procedure does not exist regarding the approval of monthly bank reconciliations.

    <u>Recommendation:</u>

    IAD recommends monthly bank reconciliations be reviewed and a supervisor signature be documented on the bank reconciliation. In addition, IAD recommends a policy and procedure be created regarding the review and approval of bank reconciliations. This will help to ensure bank reconciliations are properly monitored.

    <u>Corrective Action Taken Prior to the End of Fieldwork:</u>

    IAD noted a policy and procedure was created regarding the formal review of bank reconciliations.

    <u>Management Action Plan:</u>

    A policy and procedure has been created regarding the review and approval of bank reconciliations. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

    Target Date: 05/24/18

EXPENDITURES

SCLRC policies and procedures were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the expenditure cycle and internal controls in place. A sample of expenditures was randomly selected and detail expenditure testing was performed to confirm proper approval, informal competitive bidding was conducted when applicable, the appropriate vendor and invoice amount were paid and there was no conflict of interest. The equitable distribution of work process was reviewed to determine if it appeared reasonable. 2016 and 2017 vendor payments were reviewed to ensure a Form 1099 was submitted, when applicable. In addition, a sample of merchandise purchases was judgmentally selected and detail testing was performed to ensure proper segregation of duties over the purchasing and receiving functions.

The following issues were noted:

7. Issue:

Upon discussion with SCLRC personnel, IAD noted that equitable distribution of payments to vendors was not formally tracked among the various vendors.

Recommendation:

IAD recommends that the SCLRC create a report of all contractors by type of work performed, along with amount of funds paid to date, and review the listing to ensure the equitable distribution appears reasonable. This will help to ensure funds disbursed to vendors are properly monitored.

Corrective Action Prior to the End of Fieldwork:

IAD obtained an updated policy and procedure regarding the tracking of equitable distribution to contractors.

Management Action Plan:

A policy and procedure has been created regarding the tracking of equitable distribution to contractors. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

Target Date: 05/24/18

8. Issue:

Upon detail testing of the SCLRC's Form 1099 process, IAD noted four (4) out of four (4) instances where 2017 Form 1099's were completed but not submitted prior to the 2018 deadline (1/31/18) and two (2) out of two (2) instances where 2016 Form 1099's were not completed and submitted prior to the 2017 deadline (1/31/17). Additionally, IAD noted no documented policies and procedures regarding the Form 1099 process.

Recommendation:

IAD recommends that the SCLRC issue 1099 Forms to all applicable vendors with an aggregate annual payment of six hundred dollars ($600) or more. This will help to ensure compliance with IRS regulations. In addition, IAD recommends that 1099 policy and procedures are created/updated, approved, and disseminated for all functional areas within the department. This will help to ensure that proper procedures are in place and consistently followed within the department.

Corrective Action Prior to the End of Fieldwork:

IAD noted the 2016 Form 1099s were sent to all applicable vendors. Additionally, IAD noted a policy and procedure has been created related to the Form 1099 process.

Management Action Plan:

A policy and procedure has been created related to the Form 1099 process. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

Target Date: 05/24/18

9. Issue:

Upon detail testing of purchases, IAD noted seven (7) of eleven (11) instances, or 64%, where IAD could not determine proper segregation of duties over the purchasing and receiving process due to the fact that the packing slip was not initialed. Additionally, upon review of policies and procedures, IAD noted no documented policies and procedures related to proper segregation of duties over the purchasing and receiving process.

Recommendation:

IAD recommends that an employee independent of the employee who placed the order, reconcile the items received to the packing slip and initial the slip. In addition, IAD noted that written policies and procedures be created/implemented, approved and disseminated. This will help to ensure a proper segregation of duties and that proper procedures are in place and consistently followed.

Corrective Action Prior to the End of Fieldwork:

IAD obtained an updated policy and procedure over the purchasing and receiving process noting proper segregation of duties.

Management Action Plan:

A policy and procedure has been created regarding segregation of duties related to the purchasing and receiving process. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

Target Date: 05/24/18

PERSONNEL FILES

SCLRC policies and procedures were reviewed and an interview was conducted to gain an understanding of the personnel file process. All active employees were selected and detail testing was performed to ensure completeness of records, an annual performance evaluation was performed and proper amount of training hours were obtained in accordance with policies and procedures. Employee job descriptions were obtained and reviewed for positions that require professional licensures or certifications and detail testing was performed to ensure the professional licensures or certifications were obtained, when applicable.

The following issues were noted:

10. Issue:

    Upon detail testing of performance evaluations, IAD noted four (4) of four (4) instances, or 100%, where annual performance evaluations were not formally documented.

    Recommendation:

    IAD recommends formal performance evaluations be performed and documented annually for all employees. This will help to ensure consistency with best practice.

    Corrective Action Prior to the End of Fieldwork:

    IAD noted the four (4) annual evaluations have been completed.

    Management Action Plan:

    A policy and procedure has been created related to employee performance evaluations. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

    Target Date: 05/24/18

11. Issue:

    Upon detail testing of personnel files, IAD noted that confidential information was not maintained separately from the employee's personnel file (e.g., Form I-9s).

    Recommendation:

    IAD recommends that all confidential information be separately maintained. This will help to ensure security of confidential information.

    Corrective Action Prior to the End of Fieldwork:

    IAD noted that a policy and procedure was created regarding confidential information being maintained separately from the employee's personnel file.

    Management Action Plan:

    A policy and procedure has been created regarding the maintenance of confidential employee information separately from the employee's personnel file. This policy is scheduled to be presented to the board of directors for approval on May 24, 2018. Management will monitor to ensure compliance with this policy.

    Target Date: 05/24/18

PROCURMENT-CARD

SCLRC policies and procedures were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the procurement card program, processes and control environment. All active cardholders were reviewed to confirm that they were active employees and that a Procurement Cardholder Acknowledgment Form was signed. All active cardholders were contacted to verify that the correct card was in their possession.

A sample of procurement card transactions were haphazardly selected and detail testing was performed to ensure the following:

- Sales tax was exempted from all purchases,
- There was appropriate supporting documentation (receipts, order forms, etc.),
- The purchase was reasonable,
- Proper management approval was obtained prior to the purchase via email,
- The transaction was properly booked into the QuickBooks system,
- The bank statement was signed off by the Executive Director after the reconciliation was performed.

Additionally, PNC credit card point's statement activity was reviewed to ensure points that were redeemed appeared reasonable.

No issues were noted.

NEIGHBORHOOD INITIATIVE PROGRAM (NIP)

SCLRC policies and procedures and NIP guidelines were reviewed, interviews were conducted, and flowcharts were created and approved to gain an understanding of the NIP processes. The NIP reimbursement process was reviewed and reimbursements were selected to determine the timeliness of the submission for reimbursement by SCLRC.

No issues were noted.

SIDE LOT PROGRAM

SCLRC policies and procedures and Side Lot Program guidelines were reviewed, interviews were conducted, and flowcharts were created and approved to gain an understanding of the Side Lot Program process. Testing attributes were developed and Side Lot Program properties transferred were haphazardly selected for detail testing to ensure the following:

- The application was completed,
- The applicant was eligible,
- The application was approved,
- The agreement was executed,
- The Conveyance Form was sent to the Fiscal Office,
- The Combine Form was sent to the Fiscal Office,
- The correct purchase price received and deposited,
- The disposition letter was sent to the applicant.

Additionally, Side Lot Program transfers were reviewed and detail testing was performed to ensure that SCLRC Board of Directors approval was obtained when certain side lot acquisition thresholds were met, in accordance to SCLRC policies and procedures.

No issues were noted.

COMMUNITY DEVELOPMENT MATCHING GRANT FUND PROGRAM

SCLRC policies and procedures and Community Development Matching Grant Fund Program guidelines were reviewed, interviews were conducted, and flowcharts were created and approved to gain an understanding of the Community Development Matching Grant Fund processes. Testing attributes were developed and Community Development Matching grants were haphazardly selected for detail testing to ensure the following:

- The application was completed,
- The applicant was eligible,
- The application was approved,
- The matching grant fund agreement was executed,
- The applicable documentation was received for reimbursement,
- The applicable documents were received prior to reimbursement,
- The program checklist was completed,
- The reimbursement agrees to the agreement/invoices,
- The invoice was properly approved in Bill.com,
- The extension was approved when applicable,
- The closeout report was sent to the grantee.

No issues were noted.

WELCOME HOME PROGRAM

SCLRC policies and procedures and Welcome Home Program guidelines were reviewed, interviews were conducted, and flowcharts were created and approved to gain an understanding of the Welcome Home Program process. Testing attributes were developed and Welcome Home Program properties sold were selected for detail testing to ensure the following:

- The minimum offer rate was calculated,
- The application was submitted,
- The interest and offer form were submitted,
- The correct application was submitted,
- The final bid price was higher than minimum offer rate calculated by the SCLRC,
- The purchase agreement properly executed,
- The mortgage was properly executed,
- The note was properly executed,
- The final inspection was conducted,
- The mortgage was released.

The following issue was noted:

12. Issue:

Upon detail testing of Welcome Home Program properties sold in 2017, IAD noted four (4) out of four (4) instances, or 100%, where the applicant was not notified in writing that the application submitted was approved/denied, per Welcome Home Program guidelines.

Recommendation:

IAD recommends that the SCLRC notify each applicant in writing regarding the approval/denial of the application. This will help to ensure compliance with Welcome Home Program guidelines.

Management Action Plan:

Management will monitor to ensure compliance with applicable program guidelines regarding the notification, in writing, of the approval/denial of applications for this program.

Target Date: Immediate / 05/21/18

<u>BOARD MEETINGS</u>

A sample of SCLRC meeting minutes was judgmentally selected and detail testing was performed to determine compliance with Robert's Rules of Order to ensure compliance with best practices.

No issues were noted.

II. <u>Security</u>:

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with ORC §149.433.