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MANAGEMENT LETTER

Village of Boston Heights
Summit County
45 E. Boston Mills Road
Hudson, OH 44236

To the Village Council:

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the Village of Boston Heights, Summit County, Ohio, (the Village) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated March 8, 2002.

Government Auditing Standards also require that we describe the scope of our testing of compliance with laws and regulations and internal control over financial reporting and report any irregularities, illegal acts, other material noncompliance and reportable conditions in internal controls. We have issued the required report dated March 8, 2002, for the years ended December 31, 2001 and 2000.

We are also submitting for your consideration the following comments on the Village's compliance with applicable laws and regulations and on its internal controls. These comments reflect matters that, while in our opinion do not represent material instances of noncompliance or reportable internal control conditions, we believe represent matters for which improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audits, we have not fully assessed the cost-benefit relationship of implementing the recommendations suggested below. However, these comments reflect our continuing desire to assist your Village. If you have any questions or concerns regarding these comments, please do not hesitate to contact us.

NONCOMPLIANCE CITATIONS

1. **Ohio Rev. Code Section 733.40** states that revenues collected by the Mayor's Court should be distributed to the Village treasury by the first Monday of the following month and revenues collected and due the state treasury should be distributed by the first business day of the following month.

The required distributions were typically not made within the designated due dates.

A similar comment was made within the prior audit.

2. **Ohio Rev. Code Section 3.06** requires certain public officials and employees to be bonded. In addition, **Ohio Rev. Code Section 733.69** provides for specific requirements as they pertain to Municipal Officers including the requirement that a bond be provided before entering upon the duties of the office.

During 2001 and 2000, the Clerk of Mayor's Court was covered under the Public Officials and Employees Liability Insurance policy, in lieu of being separately covered under a surety bond. This does not provide for adequate safeguarding of assets. The Clerk of Mayor's Court should be separately bonded to ensure the Village's assets are adequately safeguarded in the event of misappropriation of Village monies.

RECOMMENDATIONS

1. Disaster Recovery Plan

The Village has not developed a disaster recovery plan that provides policies and/or procedures for recovering computer environment data in case of a disaster/emergency. This could result in the Village either losing or experiencing inefficient delays in the recovery of the Village's computerized records following a disaster/emergency.

The Village should write and formally adopt a written disaster recovery plan, which includes policies and/or procedures for the recovery of computerized records, to ensure timeliness of recovery of computerized data in case of a disaster or emergency.

A similar comment was made within the prior audit.

2. Backup Procedures Mayor's Court

The Mayor's Court data backup disks are not created daily or stored off-site. Without frequent off-site rotation and storage of backups, data may not be available in the event of a disaster which damages or destroys the computer and backups stored on-site.

Although the Mayor's Court (Court) has obtained a fireproof cabinet for their backup disks, the Court should modify their backup procedures to include daily backup and rotation of these disks to an off-site location with adequate environmental and physical security controls for the backup median.

A similar comment was made within the prior audit.

3. Cashbook-Mayor's Court

The Mayor's Court maintained a cashbook on the computer system; however, there were no year-to-date totals posted to the cashbook. In addition, no expenditures were posted to the cashbook. This made it difficult to reconcile monthly and year-to-date totals, since receipts were maintained on the computer system and expenditures were maintained manually. Therefore, the potential exists for bookkeeping errors which may not be detected in a timely manner.

To ensure accountability and strengthen controls, the Mayor's Court should implement procedures which will improve control over the day-to-day functions of the office. The Mayor should post to the monthly Cashbook Report the total receipts and expenditures to ensure that totals are reconciled. These issues not only reduce the operating efficiency of the Mayor's Court, but also cause the location and verification of data to become difficult and time consuming.

4. Recording of Transactions

The following issues were noted during the testing of the financial statements:

- The Clerk/Treasurer incorrectly posted personal property taxes receipts to the real estate taxes account in the General Fund, the Special Revenue Road and Bridge Fund, and the Special Revenue Fire Fund. This caused the real estate and personal property taxes accounts to be over and understated respectively.
- The Clerk/Treasurer did not post the gross amount of the tax settlement sheets to the receipts ledger in the General Fund. This caused the real estate taxes account in the Capital Projects Fund to be understated and the property taxes account to be overstated.

RECOMMENDATIONS (Continued)

- An income tax receipt was posted to the real estate taxes account when it should have been posted to the income taxes account. This caused the real estate taxes account to be overstated and the income taxes account to be understated.
- Initially, the Proceeds of Notes were recorded as a reduction of an expenditure within the General and Special Revenue Fire Levy Fund. Proceeds of Notes should be classified at gross amount and the expenditure should be classified as Capital Outlay.
- For 2001, the debt payment was reported as Transportation Disbursements within the General Fund. Debt payment for principal and interest should be classified as Debt Service: Redemption of Principal or Interest and Fiscal Charges.

To improve accountability over posting of taxes, the Clerk/Treasurer should post gross real estate and personal property taxes as reflected on the tax settlement sheets to the receipts ledger in their respective funds. In addition, the Clerk/Treasurer should ensure receipts are posted to the correct accounts to ensure appropriate classification.

5. Timely Deposits

For 12 out of 23 motel tax transactions, monies were not deposited in a timely manner (ranging from 3 to 13 days). Delays of this nature could cause Village daily receipts to be lost or misplaced without being detected in a timely manner.

To enhance the Village's controls over cash receipts, the Clerk/Treasurer should deposit receipts in a timely manner.

6. Financial Reporting

The Clerk/Treasurer prepares a package of financial reports for Council, once a month, which is placed in each Council person's mailbox. However, the review of Council minutes did not reveal these reports were formally reviewed and approved by Council.

As all official Village actions are only documented in Council minutes, the specific reports that are approved by Council should be documented in the minutes. This will provide evidence that Council is monitoring financial activities of the Village through the review of these reports.

7. Service Organization

The Village contracts with Automatic Data Processing, Inc., (ADP) for the administration of its payroll. However, ADP does not provide assurances to the Village that it is properly processing the payroll in accordance with its contracted agreement. This procedure does not provide evidence of the control procedure performed by ADP.

In order to reasonably ensure the completeness and accuracy of payroll processed by ADP, a Statement of Auditing Standards No. 70 (SAS70) Tier II report which prescribes testing and reporting standards for audits of payroll processing controls in place at the service organization should be provided. Thus, the Village should obtain a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" from ADP. Such a report, if unqualified, would provide evidence to the Village's management that payroll is being processed in conformance with the Village's payroll policies. Failure to obtain such a report puts the burden on management to provide evidence that payroll is complete and accurate according to payroll policies.

RECOMMENDATIONS (Continued)

These comments are intended for the information and use of the finance/audit committee, management, and the Village Council, and are not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

March 8, 2002