



Auditor of State Betty Montgomery

MANAGEMENT LETTER

Village of Boston Heights
Summit County
45 E. Boston Mills Road
Hudson, Ohio 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, 2003 and 2002, and have issued our report thereon dated July 19, 2004.

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 July 19, 2004, for the years ended December 31, 2003 and 2002.

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 audit, 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. The items indicated with an asterisk (*) denotes a comment which has been previously reported on in our audit of the fiscal years ended December 31, 2002 and 2001 financial statements in which no corrective action has been taken.

NONCOMPLIANCE CITATIONS

- *1. Ohio Revised 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 by the designated due dates. The Mayor's Court should distribute the monthly collections to the Village Treasury by the first Monday of the following month.

- 2. Ohio Rev. Code Sections 5705.13 and 5705.36** requires the principal of a nonexpendable trust fund and any addition to the principal arising from sources other than the reinvestment of investment earnings to the fund that has been established for receiving donations and/or contributions pursuant to Ohio Rev. Code Section 5705.131 must be excluded from the amount of unencumbered balances that are certified.

The Village has a nonexpendable trust fund established for its Cemetery. This fund has an original principal balance of \$350 which was improperly included in the amount certified to the Summit County Fiscal Officer for 2003 and 2002. The Village should ensure that the principal amount of the nonexpendable trust fund be excluded from the amounts certified to the Summit County Fiscal Officer as being available for expenditures.

NONCOMPLIANCE CITATIONS (Continued)

3. **Ohio Rev. Code 5705.39** requires the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

For 2003 and 2002, appropriations for the General Fund exceeded the Amended Official Certificate of Estimated Resources by \$7,123 and \$6,042, respectively. The Village should monitor their appropriations and certificate of estimated resources to ensure that appropriations do not exceed the certificate of estimated resources.

- *4. **Ohio Rev. Code Section 5705.41(D)** states in part, that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time that the contract or order was made and at the time he is completing his certification a sufficient sum was appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000 (which was increased to \$3,000 as of April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Council upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

Proper certification of funds by the Clerk/Treasurer was not obtained for 8 out of 44 expenditures tested during 2003 and 2002. As a result, the Village could inadvertently over-expend certain appropriations. Prior to entering into commitments, the Clerk/Treasurer should properly certify that funds are available for expenditure.

RECOMMENDATIONS

*1. Recording of Transactions

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

- The Clerk/Treasurer incorrectly posted a tangible personal property tax receipt to real estate taxes in the General Fund. This caused the real estate and tangible personal property tax accounts to be over and understated, respectively. The amount was immaterial and reclassification was not made.
- The Clerk/Treasurer incorrectly recorded an income tax receipt distribution from Regional Income Tax Agency to the real estate taxes in the General Fund. This caused the real estate and income tax accounts to be over and understated, respectively. The amount was immaterial and reclassification was not made.

RECOMMENDATIONS (Continued)

***1. Recording of Transactions (Continued)**

- The Clerk/Treasurer incorrectly recorded property taxes on public utilities in tangible personal property taxes in the General Fund, Special Revenue Road and Bridge Fund, and Special Revenue Fire Fund. This caused tangible personal property and real estate taxes accounts to be over and understated, respectively. The amount was immaterial and reclassification was not made.
- The Clerk Treasurer incorrectly recorded property taxes on public utilities in the public utility reimbursement account in the General Fund, Special Revenue Road and Bridge Fund, Special Revenue Fire Fund and Capital Projects Funds. This caused tangible personal property and real estate taxes accounts to be over and understated, respectively. The amount was immaterial and reclassification was not made.
- The Clerk/Treasurer incorrectly recorded an income tax distribution from the state as local government in the General Fund. This caused local government and income taxes to be over and understated, respectively. The amount was immaterial and reclassification was not made.
- The Clerk/Treasurer incorrectly recorded debt payments as Transportation Disbursements within General Fund and the Fire Levy - Special Revenue Fund. This caused the Debt Service: Principal Payment and Debt Service: Interest Payments to be over and understated, respectively. Reclassification was made to the financial statements to properly reflect the debt payment.

To improve accountability over posting of taxes, the Clerk/Treasurer should post the taxes as they are shown on the distribution sheets, recording the receipts in the appropriate fund and account. Debt payments for principal and interest should be classified as Debt Service: Principal and Interest when the payments are made.

2. Approval of Debt

During 2003, the Village entered into Notes with the local bank in the amount of \$242,000 for the purchase of a tractor and for road improvements. These notes were not formally approved by Council in the minutes.

Council should formally approve all Village debt at a monthly Council meeting prior to entering into the debt. This will help ensure that the Village is not placed in undue hardship, in regards to expenditures, with the issuance of any Village debt and all pertinent information documented within the minutes.

3. Credit Card/Cell Phone Policy

The Village provides cell phones and credit cards for use by authorized employees and government-owned vehicles for use by authorized users.

The use of these items should be specified in a policy established by Council. The Village should establish these policies, and these policies should, at a minimum, identify authorized users; guidelines for allowable use/ purchases; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by Council.

RECOMMENDATIONS (Continued)

4. Building Permits

During the testing of building permit fees, variances were noted between the amount charged and the amount documented within the building permit file. The following was noted during testing:

- Residential rates were charged to some commercial applications.
- Amounts charged did not always reflect what was marked on zoning applications.
- Engineer Plan Review and/or Building Official Plan Review fees were charged at different rates for similar projects.
- Residential Permit Application were not always properly filled out by the Building Inspector.
- The base building permit fee was not properly charged on some permits.

As a result, fees were over and under charged during 2003 and 2002, with a total variance that was immaterial to the financial statements.

The Village should appoint an individual to review the building permit applications at the time the applications are submitted to help ensure that proper amounts are charged and the support for these amounts are included within the file.

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

Betty Montgomery
Auditor of State

July 19, 2004