



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, 2005 and 2004, and have issued our report thereon dated September 29, 2006.

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 September 29, 2006, for the years ended December 31, 2005 and 2004.

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.

NONCOMPLIANCE CITATIONS

1. **Ohio Rev. Code Sections 5705.13 and 5705.36** require 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 donation 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 2005 and 2004. The Village should ensure 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.

A similar comment was made in the Village's 2003-2002 audit.

NONCOMPLIANCE CITATIONS (Continued)

2. **Ohio Rev. Code Section 5705.39** requires the total appropriation from each fund shall not exceed the total estimated revenue.

For 2004, appropriations exceeded estimated resources in the Special Revenue Street Construction Fund by \$7,009. The Village should monitor their appropriations and certificate of estimated resources to ensure that appropriations do not exceed the certificate of estimated resources.

A similar comment was made in the Village's 2003-2002 audit.

3. **Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation 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. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- A. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

- B. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

- C. **Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

NONCOMPLIANCE CITATIONS (Continued)

3. Ohio Rev. Code Section 5705.41(D) (Continued)

During 2005 and 2004, 14% (11 out of 80) of the expenditures tested were not certified by the Clerk/Treasurer prior to incurring the obligation. It was also found that none of the exceptions above were utilized for the items found to be in noncompliance. The Village should certify the availability of funds pursuant to Ohio Rev. Code Section 5705.41(D).

A similar comment was made in the Village's 2003-2002 audit.

4. Ohio Rev. Code Section 9.24 states that no state agency and no political subdivision shall award a contract for goods, services, or construction, paid for in whole or in part with state funds, to a person against whom a finding for recovery has been issued by the Auditor of State, if the finding for recovery is unresolved. The Auditor of State shall maintain a database, accessible to the public, listing persons against whom an unresolved finding for recovery has been issued. The database may be accessed at the Auditor of State website at www.auditor.state.oh.us. Before awarding a contract for goods, services, or construction, paid for in whole or in part with state funds, the state agency or political subdivision shall verify that the person to whom the state agency or political subdivision plans to award the contract does not appear in the Auditor of State database.

During 2005 and 2004, the Village awarded various contracts; however, there was no documentation to show the Village verified there were no unresolved findings for recovery against this vendor. The Village should utilize the Auditor of State's database when awarding contracts to ensure contracts are not awarded to individuals with unresolved findings for recovery.

5. 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 collect 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. The Mayor's Court should distribute the monthly collections to the Village Treasury by the first Monday of the following month.

A similar comment was made in the Village's 2003-2002 audit.

RECOMMENDATIONS

1. Pre-signed Checks

Seven checks utilized to facilitate the refund or forfeiture of bond amounts as a result of Mayor's Court activities were found to reflect the Mayor's signature prior to being filled out with the payee name, date, and/or amount. By signing checks that are not properly completed, the Village is subjected to an increased risk that misappropriation of assets could occur.

In order to enhance internal controls, checks should only be signed after all other pertinent information has been completed. This would help reduce the possibility of fraudulent checks being easily negotiated.

RECOMMENDATIONS (Continued)

2. Recording of Transactions

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

- 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 Levy Fund and Capital Project Fund. This caused tangible personal property and real estate taxes accounts to be over and understated, respectively.
- The Clerk/Treasurer incorrectly recorded cemetery interest receipts in the General Fund. This caused General Fund interest and Cemetery Fund interest to be over and understated, respectively.

To improve accountability over posting of taxes and cemetery interest receipts, the Clerk/Treasurer should post the taxes as they are shown on the distribution sheets, recording the receipts in the appropriate fund and account. Additionally, the Clerk/Treasurer should record all cemetery interest receipts in the appropriate fund.

A similar comment was made in the prior 2003-2002 audit.

3. Disaster Recovery Plan

The Village has not adopted a disaster recovery plan. Without effective business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. In addition, the Village could incur substantial costs in attempting to retrieve and recreate pertinent financial information for internal and external purposes.

The Village should formally prepare and adopt a disaster recovery plan as evidenced in the minute records. The disaster recovery plan should be tested and subsequently distributed to each respective Village department. The results of the tests performed should be documented and reviewed so that improvements in the plan can be made. This will help ensure the Village has effective disaster recovery plans developed to efficiently restore critical resources in the event of a disaster.

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

September 29, 2006