



Mary Taylor, CPA

Auditor of State

MANAGEMENT LETTER

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

To the Village Council:

We have audited the financial statements of the Village of Boston Heights, Summit County, Ohio (the Village) in accordance with *Government Auditing Standards*, as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 5, 2008.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, and illegal acts (including noncompliance with laws and regulations), and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated August 5, 2008, for the years ended December 31, 2007 and 2006.

We are also submitting the following comments for your consideration regarding the Village's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the reports *Government Auditing Standards* require. Nevertheless, these comments represent matters for which we believe 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 these recommendations. However, these comments reflect our continuing desire to assist your Village. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Findings

1. **Ohio Rev. Code Section 5705.41(B)** requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2006, expenditures plus outstanding encumbrances exceeded appropriations plus prior year carryover encumbrances in the Capital Projects fund by \$10,420.

The Village should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the legal level of control to avoid overspending.

Noncompliance Findings (Continued)

2. **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 or 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.

1. **"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.

2. **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.
3. **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.

During 2007 and 2006, 8% (6 out of 78) of the expenditures tested were in non compliance. Four of the 6 violations did not have a purchase order and 2 were "then and now" certifications over \$3,000, lacking Village Council's authorization. In addition, we noted for two expenditures tested the purchase order was not dated by the Fiscal Officer.

Noncompliance Findings (Continued)

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

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify the funds are or will be available prior to the obligation by the Village. When prior certification is not possible "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The Village should also obtain a resolution or ordinance from Council for those expenditures over \$3,000 needing a "then and now" certificate. Finally, the Fiscal Officer should ensure all purchase orders are dated at the time that Fiscal Officer certifies the funds.

A similar comment was made in the 2005-2004 audit.

3. **Ohio Rev. Code Section 9.24** indicates that no state agency and no political subdivision receiving more than \$50,000 in state funds in a fiscal year 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, and the amount identified in the unresolved finding for recovery. The database is available at the Auditor of State's website: www.auditor.state.oh.us. Before awarding a contract for goods, services, or construction, paid for in whole or part with state funds, a 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 2007 and 2006, the Village awarded two contracts for road programs, however, there was no documentation to show the Village verified there were no unresolved findings for recovery against the vendors. The Village should utilize the Auditor of State's database when awarding contracts to ensure that contracts are not awarded to individuals with unresolved findings for recovery.

A similar comment was made in the Village's 2005-2004 audit.

4. **Ohio Rev. Code 1907.261 section (A)(2)** provides, in part, that upon receipt of computerization fees from the Court "the treasurer shall place the funds from the fees in a separate fund to be disbursed upon an order of the court in an amount not greater than the actual cost to the court of computerizing the court, procuring and maintaining computerized legal research services, or both.

Noncompliance Findings (Continued)

4. Ohio Rev. Code 1907.261 section (A)(2) (Continued)

The Village uses the Court Computer Fund to pay for the salaries/wages and benefits of the Court Magistrate and Prosecutor. These individuals are not engaged in activities directly related to court computerization or for other appropriate technological expenses of the court. The Village should ensure funds distributed from the Court Computer Fund are only for permissible computerization activities. (See AOS Bulletin 2005-003)

5. Section 105.03 of the Boston Heights Codified Ordinance requires the signature of at least four council members on purchase orders in amounts exceeding \$1,000 and less than \$24,999.99.

During 2007 and 2006 27% (21 out of 78) of the expenditures tested did not have the required signatures of Council members on the purchase order although these expenditures were signed by both the Mayor and the Fiscal Officer.

The Village should implement procedures to ensure their purchase order procedures comply with Section 105.03 of the Boston Heights Codified Ordinance.

Recommendations

1. 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.

A similar comment was made in the Village's 2005-2004 audit.

2. Posting of Budgetary Information

The following budgetary information was not properly or timely posted to the Village's accounting system including:

- 4 of 6 funds' Original Estimated Resources in 2006;
- 5 of 6 funds' Final Estimated Resources in 2006;
- 1 of 6 fund's Original Appropriations in 2006;
- 4 of 6 funds' Final Appropriations in 2006;
- 2 of 6 funds' Original Appropriations in 2007; and
- 4 of 6 funds' Final Estimated Resources in 2007

Recommendations (Continued)

2. Posting of Budgetary Information (Continued)

In order to help ensure proper and timely posting of the Village's Budgetary information, the Village should post all appropriation measures upon approval of Council and changes to estimated resources upon certification from the County. Additionally, the Village should review the Appropriation Status Report and Receipt Account Status Report after posting to ensure amounts were properly posted.

A similar comment was made in the Village's 2005-2004 audit.

3. Fire/EMS Payroll Procedures

Village Fire Department Management have not adopted procedures or policies which address who or how many Fire/EMS employees will be on call during any certain time. Failure to implement a policy has resulted at times to an excessive number of Fire/EMS employees responding to calls. The Village, whose policy is to pay employees on a per run basis, is then obligated to pay each employee who has responded to the call.

The Village should implement procedures which clearly defines the number of Fire/EMS employees who will be on call at all times. In addition, monitoring procedures should be established to ensure these procedures once implemented are being strictly adhered to. These procedures, once implemented will assist in reducing excess overhead costs related to Fire/EMS runs.

4. Cash Reconciliation

Although never out of balance during the testing of the December 31, 2007 and 2006 cash reconciliations and associated outstanding check listings, the following was noted:

2007

- Several amounts on the reconciliation were improperly recorded, including the Petty Cash Change Fund, which was recorded as \$300 instead of \$200, Cash in Transit to Depository, which was recorded as \$81,304 instead of \$1,473 and the outstanding check amount, which was recorded as \$33,556 instead of \$33,651. Additionally, Unposted Receipt Adjustments should have been recorded as \$82,163;
- The Court Bank Balance as of December 31, 2007 was included twice; and
- The principal, in the amount of \$350, of Cemetery Trust Fund was being added to the reconciliation which was already included in the December 31, 2007 fund balance.

2006

- Several amounts on the reconciliation were improperly recorded, including the Petty Cash Change Fund, which was recorded as \$300 instead of as \$200; Cash in Transit to Depository, which was recorded as \$4,584 instead of as \$50; and the outstanding check amount, which was recorded as \$16,335 instead of \$17,491. Additionally, Unposted Receipt Adjustments should have been recorded as \$3,738;
- The Court Bank Balance as of December 31, 2006 was included twice; and
- The principal, in the amount of \$350, of Cemetery Trust Fund was being added to the reconciliation which was already included in December 31, 2006 fund balance.

Recommendations (Continued)

4. Cash Reconciliation (Continued)

In order to correct these issues, the Village should:

- Ensure that all reconciling items are properly classified and recorded with the proper amounts.
- Ensure not to duplicate ending bank balance amounts.
- Ensure not to include the principal amounts of Nonexpendable Trust Funds when included in the December 31, fund balances.

5. Nepotism Policy

The Village has not adopted a nepotism policy wherein it addresses the employment of village personnel who are relatives or close friends of village management. Employment of personnel who are relatives or close friends of village management, without a nepotism policy, could lead to ethics violations and/or conflicts of interest.

We recommend the Village adopt a nepotism policy wherein it addresses the hiring and employment of relatives and/or close friends.

We intend this report for the information and use of the Village Council, audit committee, and management.



Mary Taylor, CPA
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August 5, 2008