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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, 1999 and 1998, and have issued our report thereon dated June 16, 2000 which we noted an error resulting in the understatement of the Agency Fund cash balance requiring a restatement of January 1, 1998 fund cash balance.

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 the internal controls. We have issued the required report dated June 16, 2000 as of and for the years ended December 31, 1999 and 1998.

In addition to the items communicated to you in the report mentioned above, 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 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 to the state treasury should be distributed by the first business day of the following month.

During 1999 and 1998 the required distributions were typically not made within the designated due dates.

2. **Ohio Rev. Code Sections 4115.04 and 4115.05** requires an entity to obtain the prevailing wages in their area for the types of labor required to complete the project they are going to bid before such project is bid and again when the contract is awarded, if the award is made more than 90 days after the original prevailing wage is determined.

The Village did not obtain the prevailing wages for two contracts awarded during 1999 and 1998. The Village should establish procedures that would ensure that prevailing wage requirements are met before any bids are advertised.

Village of Boston Heights

NONCOMPLIANCE CITATIONS (CONTINUED)

3. **Ohio Rev. Code Section 5705.41(B)** provides that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated.

The Village had expenditures plus encumbrances that exceed appropriation as follows for 1999 and 1998:

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditure Plus Encumbrances</u>	<u>Excess</u>
<u>1999</u>			
General Fund			
Police Department/ Supplies & Materials	\$20,000	\$31,577	(\$11,577)
Fire Department/ Supplies & Materials	1,974	3,090	(1,116)
Lands & Building/ Contractual Services	42,500	65,057	(22,557)
Supplies & Materials	7,500	10,027	(2,527)
Special Revenue			
Fire Levy/Capital Outlay	66,000	75,538	(9,538)
<u>1998</u>			
General Fund			
Police/ Salaries & Wages	\$259,910	\$269,703	(\$9,792)
Personal Benefits	70,745	85,433	(14,688)
Contractual Services	42,000	57,812	(15,812)
Supplies & Materials	20,000	27,562	(7,562)
Fire/ Supplies & Materials	1,000	4,570	(3,570)
Street/ Salaries & Wages	83,416	90,286	(6,870)
Mayor's Office/ Personal Benefits	3,500	4,809	(1,309)
Clerk of Courts/ Capital Outlay	3,000	4,669	(11,669)
Special Revenue Fund			
Park/Capital Outlay	27,000	40,095	(13,095)
Capital Projects			
Capital Projects/Capital Outlay	15,500	19,067	(3,567)

The above could have resulted in the Village spending in excess of available funds. The Village should establish procedures to ensure expenditures plus encumbrances do not exceed appropriations.

NONCOMPLIANCE CITATIONS (CONTINUED)

4. **Ohio Rev. Code Section 135.21 and 5705.10** requires all interest be posted to the General Fund with exception to Ohio Constitution, Article XII, Section 5a which states that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal.

During 1998 and 1999, the Clerk/Treasurer made investments of pooled cash assets from various funds, including the Special Revenue State Highway and Special Revenue Street Construction Maintenance & Repair funds, which received revenue from Gasoline and Motor Vehicle License Taxes. However, these funds did not receive interest. In addition, the Village posted interest to the Special Revenue Park Fund, Special Revenue Road Levy Fund and Special Revenue Fire Levy Fund contrary to the above requirements.

The Village should implement procedures to ensure that all required funds receive their portion of the interest earned from deposits and investments. In addition, the Village should allocate, on a monthly basis, an equitable portion of the interest income earned throughout the year.

5. **Ohio Rev. Code Sections 1901.261, 1907.261, 1905.02** and Auditor of State Bulletin No. 97-019, requires fees collected for computer operations by the Mayor's Court be placed in a Special Revenue Fund of the Village.

The Village distributed computer fee monies to the General Fund Mayor's Court Computerization account, in the amounts of \$18,899 in 1999 and \$15,786 in 1998. This caused the Village to be in violation of the above sections. The Village should establish a Mayor's Court Computerization Fund in the Special Revenue Fund and account for the computer fees within this fund.

6. **Ohio Admin. Code Section 117-5-11(C)** states that each expenditure or encumbrance charged against an appropriation account shall be posted and subtracted from the appropriated balance producing a declining unencumbered balance. This procedure is to be initiated by an executed purchase order. Rule 117-5-05 establishes the required purchase order procedures. The name of the vendor or payee as it appears on the purchase order is entered in the "debit" column and also subtracted from the unencumbered balance. When the invoice is received from the vendor or payee and a warrant written to meet the obligation, the name of the vendor or payee is again entered and the amount of the warrant is entered in the "amount of warrant" column.

The Clerk did not post encumbrances charged against appropriation accounts which would have produced declining unencumbered balances.

RECOMMENDATIONS

1. **Disaster Recovery Plan-Mayor's Court**

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.

RECOMMENDATIONS (CONTINUED)

2. Password Parameters-Mayor's Court

The passwords for the GBS Computer & Communication Systems software are not periodically changed. Infrequent changing of passwords increase the risk of password disclosure to unauthorized individuals and could result in unauthorized access to sensitive data files and resources.

The Village should require that all passwords be changed at least quarterly and be at least six characters in length and not easily guessed.

3. 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 data back-up and rotation of these disks to an off-site location with adequate environmental and physical security controls for the back up median.

4. Building Permit Receipt Procedures

The Village Building Inspector maintains a handwritten manual log to account for the building permit sales and other related activities. The following conditions were noted during the review of the Building Permit records:

- Several transactions recorded within the Building Permit Log were illegible.
- Reconciliations were not performed between the Building Permit Log and the Cash Receipts Journal.
- The engineering fees collected were not recorded within the Building Permit Log.
- Several transactions were posted to the wrong receipt account.

As a result, errors or irregularities can go undetected. To strengthen accountability controls over the building permit receipt procedures:

- All transactions should be legibly written within the Building Permit Log.
- Monthly reconciliations should be performed between the Building Permit Log and the Cash Receipts Journal.
- The Building Permit Log should include all related receipts, including engineering fees. The Log should also include the Clerk/Treasurer's receipt number to assist in the reconciling process.
- During the monthly reconciliation, corrections should be made to either the Building Permit Log or the Cash Receipts Journal when errors are detected.

5. Stale Dated Checks

The Village's outstanding checks list reflected 10 stale dated outstanding checks in 1999 and 9 stale dated outstanding checks in 1998.

In order to account for the funds properly, the Village should establish an Expendable Trust Fund (Unclaimed Monies Fund) for the unclaimed money. The money shall remain in the Expendable Trust Fund until claimed by its lawful owner, or until a period of five years has past. After five years have past without the money being claimed, the money should then be reverted back to the General Fund of the Village. To eliminate the stale dated checks as reconciling items, the following procedures should be performed: 1) a memorandum pay-in should be made to the Unclaimed Monies Fund and 2) post the warrant/check number, name of the payee and identify the money as unclaimed to the cash journal and receipt ledger. If the rightful owner claims the unpaid money, a check in the amount of the original check should be paid from the Unclaimed Monies Fund.

6. Audit Committee

The Village has not established an Audit Committee to monitor and review the Village's accounting and financial reporting practices, monitor the progress of the financial and compliance audit, evaluate the results of the audit, and ensure the issues identified are remedied.

The Village should establish an Audit Committee to serve as a liaison between management and its auditors. The primary functions of such a Committee are to monitor and review the Village's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors.

The Audit Committee should be actively involved in:

- 7 Meeting with the Village's independent auditors before and after each audit;
- 7 Monitoring the progress of the financial and compliance audit;
- 7 Evaluating the results of the financial and compliance audit; and
- 7 Ensuring that the internal control and legal compliance issues identified in the audit are promptly and effectively remedied.

In addition, the Audit Committee should meet regularly (perhaps quarterly) to monitor the Village's legal compliance, financial condition, and controls over safeguarding of assets. The Audit committee can include members of the Village Council. However, it can also include representation that is independent from management or elected officials. For example, the Committee could include professionals knowledgeable in the Village's financial operations, such as attorneys or bankers.

7. Gasoline Usage Policy

Although the Village has written procedures for the use of its gas pumps, no formal policy has been adopted.

To help ensure the completeness and accuracy of amounts reported and that gasoline is used solely for Village business, the Village should adopt a policy that includes the following controls:

- The gas pump should be locked and only those Village designated parties should have a key.
- A gas log should be used each time gas is placed in any vehicle by Village officials or employees. The log should document the date, gallons pumped and signature of the official or employee. In addition, a copy should be retained by the Clerk/Treasurer and the official or employee.
- A mileage log should be maintained by each person documenting odometer readings and the number of miles actually traveled on Village business.
- The log should be signed by the official or employee and Village management to help ensure the completeness and accuracy of gasoline reported used for Village business.

8. Hiring of Family Members Policy

The Village has not adopted a policy that addresses the hiring of family members. Without a policy to document the procedures used when considering goods or services to be provided by Village related parties, Village officials could be subject to ethics violations.

Council should adopt a policy that addresses the hiring of family members. This policy should specifically address how the Village will ensure that Village officials do not have an interest in a public contract. The Village should consult the Ohio Ethics Commission for guidance, as needed.

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



Jim Petro
Auditor of State

June 16, 2000