

OHIO AUDITOR OF STATE KEITH FABER



MANAGEMENT LETTER

Village of Bratenahl
Cuyahoga County
411 Bratenahl Road
Bratenahl, Ohio 44108

To the Village Council:

We have audited the financial statements of the Village of Bratenahl, Cuyahoga County, Ohio (the Village) in accordance with *Government Auditing Standards*, as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 4, 2019, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Government Auditing Standards require us to report significant internal control deficiencies, fraud (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 March 4, 2019, for the years ended December 31, 2016 and 2015.

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 *Government Auditing Standards* reports. 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. These comments reflect our continuing desire to assist your Village but are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Findings

1. Mayor's Court Distribution

Ohio Rev. Code § 733.40 requires all fines, forfeitures, and costs in ordinance cases, all fees that are collected by the mayor, and any other fees and expenses that have been advanced out of the treasury of the municipal corporation, and all money received by the mayor for the use of the Village shall be paid by the mayor into the treasury of the municipal corporation on the first Monday of each month.

All 24 mayor's court payments were made after the first Monday of the month. Failure to record mayor's court payments timely could result in bank reconciliation and other accounting errors.

The Mayor's Court should make all distributions on the first Monday of each month as required by the aforementioned requirements.

2. Expenditure Certifications *

Ohio Rev. Code §5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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.

Noncompliance Findings – (Continued)

2. Expenditure Certifications – (Continued) *

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.

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 that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

Eight out of 23 and four out of 22 disbursements tested in 2015 and 2016, respectively, were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the Village followed the aforementioned exceptions. Additionally, the Village often used "blanket" certificates for purchases during the audit period. However, a resolution authorizing a maximum amount of such certificates could not be located and we noted an instance where the same purchase order number was utilized for two different certificates.

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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. Additionally, the Village should ensure a maximum blanket certificate amount is authorized by Council and should ensure that purchase orders numbers are not duplicated and that only one blanket purchase order per appropriation line-item is outstanding at a time.

Noncompliance Findings – (Continued)

3. Budgetary Accounting

Ohio Admin. Code 117-2-02 (c)(1) requires all local public offices to integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This includes designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

At December 31, 2016, the following funds had variances between the Final Certificate of Estimated Resources and the accounting system:

<u>Fund</u>	Approved Estimated <u>Receipts</u>	Accounting System Estimated <u>Receipts</u>	<u>Variance</u>
General Fund	\$4,023,945	\$4,303,847	(\$279,902)
State Highway Fund	4,300	6,000	(1,700)
Parks and Recreation Fund	133,589	145,000	(11,411)
Drug Law Enforcement	1,053	5,000	(3,947)
Computer Fund	19,399	35,000	(15,601)

At December 31, 2015, the following funds had variances between the Final Certificate of Estimated Resources and the accounting system:

<u>Fund</u>	Approved Estimated <u>Receipts</u>	Accounting System Estimated <u>Receipts</u>	<u>Variance</u>
State Highway Fund	\$4,000	\$8,000	(\$4,000)
Parks and Recreation Fund	129,536	119,536	10,000
Drug Law Enforcement	1,000	10,000	(9,000)
Computer Fund	2,000	50,000	(48,000)

Failure to accurately record budgetary receipts in the accounting system could lead the Village to overspend their appropriation authority and to financial decisions being made with improper information.

The Village should periodically review the computerized budgetary reports to ensure budgetary receipts are posted accurately and timely. Timely and accurately posting budgetary receipts will help the Village better monitor its budget performance and maintain compliance with budgetary laws and regulations.

Noncompliance Findings – (Continued)

4. Appropriations Exceeding Estimated Resources

Ohio Rev. Code § 5705.39 indicates the total appropriation from each fund shall not exceed the total estimated revenue available for expenditure.

The following funds had appropriations exceeding estimated resources at December 31, 2016:

<u>Fund Name</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund	\$4,417,974	\$5,078,921	\$606,947
State Highway Fund	4,661	6,000	1,399
Drug Law Enforcement	1,053	21,000	19,947
Computer Fund	33,140	35,000	1,860

The following fund had appropriations exceeding estimated resources at December 31, 2015:

<u>Fund Name</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Computer Fund	\$16,841	\$35,069	\$18,228

Appropriations in excess of estimated resources could lead to overspending and negative cash fund balances.

Management should review each fund to ensure appropriations do not exceed estimated resources.

5. Interfund Transfers

Ohio Rev. Code § 5705.14 includes requirements and allowable purposes for interfund transfers. This section also requires, with the exception of transfers from the general fund, that transfers shall only be made by resolution of the taxing authority passed with the affirmative vote of two-thirds of the members. 1989 Op. Atty. Gen. No. 89-075 indicates the governing board may approve interfund transfers from the general fund to other funds of the subdivision within its annual appropriation measure provided that the measure was passed by a simple majority of the board members.

In 2015, an interfund transfer of \$8,500 from the general fund to a capital projects fund was recorded in the accounting system. Evidence of Council approval via either the annual appropriation resolution or a separate resolution could not be located. Since this transfer would have otherwise been allowable, no finding for adjustment was proposed.

The Village should ensure transfers made between funds are either approved via the annual appropriation measure or separate resolution. Transfers must also be consistent with the allowable transfer purposes described in Ohio Rev. Code § 5705.14.

Noncompliance Findings – (Continued)

6. Interest Allocation

Ohio Rev. Code § 135.21 indicates in part all investment earnings, except as otherwise expressly provided by law, shall be credited to the Village's General Fund. In addition, **Ohio Constitution, Article XII, Section 5a**, indicates interest earned on money derived from a motor vehicle license or fuel tax must follow the principal.

The Village invests cash from pooled funds which included the Street Construction Maintenance and Repair Fund, the State Highway Fund and Permissive License Tax Fund. During 2015 interest was allocated to these funds pursuant to the aforementioned requirements. However, in 2016 there was no interest allocated to these funds. We also noted that an immaterial amount of interest was allocated to the debt service fund in 2015 although the requirements indicate this should have been allocated to the General Fund.

The Village should review the requirements related to interest allocation and ensure interest is allocated to the proper funds.

7. Legal Level of Budgetary Control

Ohio Rev. Code § 5705.38(C) indicates appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

The Village's general fund appropriations include budgeted amounts for personal services. However, the Village other funds, some of which included personal service disbursements, were budgeted only at the fund level of control contrary to the aforementioned requirements.

Failure to budget funds at the required level of control inhibits management's ability to monitor the Villages spending and is not compliant with statute.

The Village should ensure each fund is budgeted at the required minimum legal level of control required by the Ohio Revised Code.

8. Mayor's Court Records

Ohio Rev. Code Section 2335.25 indicates each clerk of a court of record shall enter in a journal or cashbook an accurate account of all moneys collected or received in the clerk's capacity, on the days of the receipt, and in the order of time so received, with a minute of the date and suit, or other matter, on account of which the money was received.

The Village Mayor's Court open item listing did not agree to its bank account balances by difference of \$7,339 and \$13,066, at December 31, 2016 and 2015 respectively. Management indicated the court had recently upgraded its software system and during this upgrade all voided cases were inadvertently reopened resulting in these variances.

Failure to maintain an accurate open items listing increases the risk of errors and omissions and could lead to financial statement errors.

The Village should ensure its Mayor's Court open items listing only includes current active cases and the balance of open items can be reconciled to the Mayor's Court cash balance each month.

Noncompliance Findings – (Continued)

9. Public Record Availability

Ohio Rev. Code § 149.43(B)(1) indicates upon request and subject to division (B)(8) of this section, all public records responsive to the request shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. **Ohio Rev. Code § 149.43(B)(2)** indicates to facilitate broader access to public records, a public office or the person responsible for public records shall organize and maintain public records in a manner that they can be made available for inspection or copying in accordance with division (B) of this section.

Our testing noted the following:

- In 2016 the Village purchased tree removal services for \$9,600 but could not locate the original invoice or purchase order for this disbursement. The Village was able to subsequently obtain a copy of the invoice.
- In 2016 the Village paid \$150 in annual membership dues for the police department, but could locate an invoice or purchase order for this disbursement.

Failure to maintain readily available supporting documentation for all transactions hinders management's ability to ensure the Village's funds are being deposited into the proper fund and account and or expended for proper public purposes. This may also lead to financial statement and other accounting errors.

The Village should implement policies and procedures to ensure all public records are properly maintained and are readily available for public inspection.

Recommendation

Check Sequence

To help ensure the completeness of transactions, and to facilitate management review of expenditures and the completion of bank reconciliations, check data posted in the UAN accounting system, including check date, check number, amount, and vendor, should agree with the same data on the physical check written.

We noted two instances in 2016 where the check number on the printed physical check did not agree to the check number recorded in UAN. Failure to ensure checks are printed in proper sequence makes it difficult for management to review disbursements and to complete monthly bank reconciliations. This could also lead to unauthorized expenditures and improper financial reporting.

The Village should ensure all physical checks are printed in proper sequence and agree with the data recorded in the accounting system.

* A similar comment was included in the Village's prior financial statement audit's Schedule of Findings.

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

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio

March 4, 2019