



## Auditor of State Betty Montgomery

### MANAGEMENT LETTER

Village of Lodi  
Medina County  
110 Anisworth Street  
PO Box 95  
Lodi, Ohio 44254

To the Village Council:

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the Village of Lodi, Medina County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our reports thereon dated February 21, 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 reports dated February 21, 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.

\* Indicates a comment repeated from the 2003-2002 financial audit.

### NONCOMPLIANCE CITATIONS

- 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.

### NONCOMPLIANCE CITATIONS (Continued)

#### 1. Ohio Rev. Code Section 5705.41(D)\* (Continued)

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 2004 and 2005, 19.2% of the expenditures tested were not certified by the Clerk-Treasurer prior to incurring the obligation. The "then and now" exception above was not utilized for the items found to be in noncompliance. Additionally, during 2004 and 2005, the Village had line item appropriations with more than one blanket certificate outstanding at one particular time. The Village should certify the availability of funds for expenditure, implement the use of Then and Now Certificates as further means to certify funds, and ensure only one blanket certificate at one particular time is outstanding for appropriation line items pursuant to Ohio Rev. Code Section 5705.41(D).

**NONCOMPLIANCE CITATIONS (Continued)**

2. **Ohio Rev. Code Section 149.43** - requires all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time.

The "cost" per copy is intended to mean the actual cost per copy. (i.e. the paper and use of the copy machine). A public office may not charge for employee time in gathering or reviewing the records.

The Village Council established a fee to make copies of \$.50 per page which appears to be in excess of the Village's actual cost per page of producing copies. The Village should revise its cost per page fee to a reasonable actual cost per page.

3. **Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16\*** provides guidelines pertaining to allowable interfund transfers. Generally, before an interfund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. During 2002, the Village Council approved an ordinance granting the Clerk-Treasurer the authority to transfer Kilowatt tax revenue from the General Fund to the Street Maintenance and Repair Fund on an annual basis, until the ordinance is amended or repealed. However, the Village council did not specifically approve the following transfers:

<b>Fiscal</b>	<b>Year</b>	<b>Fund Transferring-Out</b>	<b>Fund Transferring-In</b>	<b>Amount</b>
	2005	101 - General Fund	201 - Street Maintenance and Repair Fund	\$71,342
	2004	101 - General Fund	201 - Street Maintenance and Repair Fund	37,496

In addition, the Village correctly recorded transfers-in, but incorrectly recorded transfers-out as general government expenses. This resulted in an initial overstatement of the Village's expenses and an understatement of transfers-out.

The Village Council should not delegate their authority to the Clerk-Treasurer, and should authorize each interfund transfer. The Village should record interfund cash transfers under separate account codes identified as transfers-in and transfers-out. This will help make the Village's interfund cash transfers easily distinguishable to management, and improve their monitoring of the financial activity of the Village.

4. **Ohio Rev. Code Sections 135.21, 135.351, 5705.10 and 5705.131; 1982 Op. Atty Gen. No. 82-031,\*** state the distribution of interest earned on monies in the treasuries of other subdivisions is generally subject to Ohio Rev. Code Section 135.21 and 5705.10. As a general rule, with the exceptions that require interest earned on money derived from a motor vehicle license or fuel tax must follow the principal and specific other exceptions, all other interest earned must be credited to the general fund of the subdivision.

During 2005 and 2004, the Village allocated interest earnings to its Water, Sewer and Electric Enterprise Funds. These funds are not entitled to interest earnings. Interest revenue should have been allocated to the General Fund, Street Construction Maintenance and Repair Fund, State Highway Fund, Permissive Tax Fund and Motor Vehicle Permissive Tax Funds based on these funds relative fund balances. Based on these funds average relative fund balances calculated during the audit, interest earnings for 2005 and 2004 should be reallocated as follows:

**NONCOMPLIANCE CITATIONS (Continued)**

**4. Ohio Rev. Code Sections 135.21, 135.351, 5705.10 and 5705.131; 1982 Op. Atty Gen. No. 82-031\* (Continued)**

<u>Understatement (Overstatement) of Interest</u>	<u>2005</u>	<u>2004</u>	<u>Total</u>
General Fund	\$17,950	\$4,298	\$22,248
Street Construction Maintenance and Repair Fund	(816)	206	(610)
State Highway Improvement Fund	(435)	88	(347)
Permissive Tax	(561)	93	(468)
Motor Vehicle Permissive Tax	(1,334)	203	(1,131)
Water	(4,892)	(1,089)	(5,981)
Sewer	(875)	(131)	(1,006)
Electric	<u>(9,037)</u>	<u>(3,668)</u>	<u>(12,705)</u>
Total Net Adjustment:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Sections 135.21, 135.351, 5705.10 and 5705.131; 1982 Op. Atty Gen. No. 82-031, Findings for Adjustment for improperly allocating interest are hereby issued against the Street Maintenance and Repair Fund (\$610), State Highway Improvement Fund (\$347), Permissive Tax Fund (\$468), Motor Vehicle Permissive Tax Fund (\$1,131), Water Fund (\$5,981), Sewer Fund (\$1,006), and Electric Fund (12,705) and in favor of the General Fund.

These adjustments were made during the audit.

**5. Village of Lodi Ordinances 2005 25-78 and 2004 25-10** require; Any expenditure in excess of \$200 in 2004 and \$300 in 2005 shall be first brought to the attention of the finance committee chairperson to determine whether or not funds are available for the expenditure. This expenditure requirement applies to all expenditures of the Village of every kind and every nature including wages and benefits, except emergency expenditures. All emergency expenditures shall be submitted to the Clerk-Treasurer prior to the expenditure and the Clerk-Treasurer shall inform the Mayor and chairperson of the committee having oversight of the department requesting the emergency expenditure. All emergency expenditures in excess of \$300 approved by the Mayor and the chairperson of the committee having oversight must be ratified by Council at Council's next regular or special meeting. All requests for expenditures in excess of \$200 in 2004 and \$300 in 2005 shall be submitted to the department heads' respective committee chairperson by 5:00 pm on the Thursday prior to any regular or special meeting of Council. No expense shall be incurred, without appropriations therefore.

During 2004 and 2005, we could not verify whether or not numerous expenditures were approved in accordance with the above policies due to a lack of adequate submission and approval documentation. The Village Council should amend the expenditure section of its annual Rules of Council ordinance to include stipulations for the documentation of expenditure submissions and approvals. At a minimum this documentation should include the signature of the person submitting the request, submission date, signature(s) of the person(s) approving the expenditure, and approval date. Additionally, the Village Council should ensure all emergency expenditures requiring their approval are ratified at the next meeting and that sufficient documentation is maintained to substantiate the ratification. These procedures will help to ensure all Village disbursements are properly authorized for payment.

## RECOMMENDATIONS

### 1. Fire/Rescue Department Time Sheets

During the review of payroll transactions, it was noted that Fire/Rescue Department timesheets were completed by and approved by the Fire/Rescue Department Head without employee acknowledgement of time worked. Failure to have employees acknowledge time worked could result in disagreements and/or errors in the amount employees are compensated.

Employees should complete and sign their payroll timesheets to document time worked. The Department Head should review and approve the time sheets as evidenced by his/her signature. These controls will help ensure employees and supervisors are in agreement with time worked and help ensure employees are properly compensated.

### 2. Disaster Recovery Plan\*

Accounting data files are regularly backed up by the Village as part of its disaster recovery procedures; however, the Village has not prepared a written disaster recovery plan which outlines the duties and responsibilities of personnel in the event of a disaster.

This increases the risk of additional down time during a disaster because written instructions are not available to employees to instruct them as to what actions should be taken to continue operations.

A written disaster recovery plan outlining employee duties, names and phone numbers of companies and individuals who should be contacted, and the procedures to be followed to retrieve data and continue operations should be prepared by the Village.

### 3. Cell Phone Policy

The Village provides government-owned cell phones to certain employees; however Village Council has not formally approved a policy governing the use of these cell phones.

Village Council should establish a policy governing the use of government-owned cell phones that at a minimum addresses the following:

- Cell phones should only be issued to those employees who have demonstrated a need;
- A detailed log of cell phone usage should be maintained by the employee and submitted to the Clerk-Treasurer for review on a monthly basis;
- The Clerk-Treasurer (or designee with appropriate authority) should reconcile the employee phone log to the billing statement;
- The Department head should review and approve the billing statement indicating that all phone calls were for government business;
- The policy should either prohibit personal use of government-owned cell phones or if personal use is allowed, a portion of the bill should be reported as a taxable fringe benefit the employees W-2.

## RECOMMENDATIONS (Continued)

### 4. Ambulance Billing Service User Control Considerations

The Village has contracted its ambulance billing services to Life Force Management, Inc., a third-party administrator. Life Force Management, Inc., provided the Village with a Report on Controls Placed in Operation and Tests of Operating Effectiveness (SAS-70 Report). Included in this report are certain “user control considerations” which must be implemented by the Village to help ensure the third-party administrator has completely and accurately processed transactions on behalf of the Village. These “user control considerations” included, but were not limited to, the following:

- Controls to ensure the ambulance run information is initially submitted to Life Force is timely, appropriately authorized, complete and accurate;
- Controls to ensure the proper approval is obtained prior to writing-off uncollectible patient accounts

There was no evidence billing sheets for EMS runs were reviewed by Council prior to writing off uncollectible accounts. Failure to address the “user control considerations” specified in the SAS-70 report could result in errors and omissions in ambulance run billings resulting in the possibly loss of revenue to the Village.

The Rescue Chief (or designated employee with appropriate authority) should review ambulance run sheets as submitted by Life Force, and compare these to the Village’s run log for accuracy. The run sheets should be signed by the reviewer evidencing the review. After review, the run sheets should be submitted to the Clerk-Treasurer in a timely fashion so they may be reconciled to the revenue collected from the third-party administrator. Additionally, the decision to write off uncollectible accounts and/or submission of these accounts to a collection agency should be made via Council resolution.

### 5. Budget Summary Reports

The Village *Revenue Budget Summary Report* did not always agree to the Amended Certificate of Estimated Resources as approved by the County Auditor. In addition, appropriations included in the Village’s *Combined MTD/YTD Expense Report* did not always agree to the appropriation resolutions authorized by Council.

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund. Additionally, Ohio Rev. Code 5705.41(B) requires no money be expended unless it has been appropriated.

Failure to include correct revenue estimates and appropriations in Village budgetary reports makes it difficult for management to monitor its compliance with the aforementioned Ohio Revised Code requirements.

The Village should ensure monthly budget reports reconcile with the Amended Certificate of Estimated Resources, and appropriations reconcile to Council approved appropriation ordinances. This will help ensure Council is provided with accurate information regarding the Village’s budget and help them monitor their financial position.

## RECOMMENDATIONS (Continued)

### 6. Reconciliation of Payroll Clearing Account\*

A separate checking account is used to account for Village payroll transactions. The sole purpose of this account is for the clearing of payroll checks, and should reconcile to a \$0 balance. (i.e. outstanding checks plus other reconciling items should equal the bank balance each month).

At December 31, 2005 and 2004, this account was not reconciled by \$6,923 and \$578, respectively. A portion of this un-reconciled variance was due in part, to unpaid employee pension withholdings being excluded as a reconciling item. After inclusion of these withholdings, there were still unreconciled differences of \$514 and \$530 at December 31, 2005 and 2004, respectively.

Failure to properly reconcile the payroll account could result in errors and omissions not detected in a timely fashion. The Village should perform a monthly reconciliation of the payroll account and a copy of this reconciliation should be included in a reporting package and provided to Council for their review on a monthly basis.

### 7. Reconciliation of Utility Deposit Account\*

During 2005 and 2004, a monthly reconciliation of the Utility Deposit checking account to the Utility Deposit Fund balance was not performed. This resulted in the failure of the Village to detect a variance of \$1,868 and \$1,707, between the Utility Deposit checking account and the Utility Deposit Fund at December 31, 2005 and 2004, respectively. There is no indication of what customer deposits comprised these amounts and it appears these differences occurred prior to the period under audit.

The Village should review the Utility Deposits Fund and determine what customer accounts comprise the variance as of December 31, 2005. If the Village is unable to determine what customer deposits comprise this amount, then the Village should follow the statutory disbursement procedures for unclaimed monies. Monthly bank to book reconciliations for the Utility Deposit account should be performed to ensure the bank balance agrees to the fund balance. This will allow the Village to monitor the activity in these accounts and detect errors or irregularities in a timely manner.

### 8. Misclassification of Receipts and Disbursements\*

Various errors noted in the ledgers required adjustments to the financial statements and are as follows:

- Homestead and rollback settlements were not properly allocated to appropriate funds in accordance with County Auditor's settlement sheets.
- Miscellaneous refunds and reimbursements were recorded as revenue rather than expenditure reductions.
- Revenue generated from special property tax assessments were recorded as miscellaneous revenue instead of special assessments revenue.
- Loan proceeds were recorded as miscellaneous revenue.

## RECOMMENDATIONS (Continued)

### 8. Misclassification of Receipts and Disbursements\* (Continued)

- The American Municipal Power-Ohio (AMP-Ohio) note was renewed in each fiscal year, and new note proceeds were paid directly to the holder of the old notes. The Village failed to record the principal payment on the old note and the proceeds of the renewed note each year. Though the Village did not receive or disburse cash as a result of these transactions, they represent financial activity and should be budgeted and recorded as memo transactions on the Village's records.
- Rent revenue was recorded as miscellaneous revenue.
- Revenue reductions were recorded as expenses.

To improve Village's financial reporting and help ensure consistency and accuracy of Village reports, the Clerk-Treasurer should consult the Village handbook to determine how and where receipts and disbursements should be posted and their treatment. Additionally, the Clerk-Treasurer should record all increases in debt principal, debt renewals, principal payments, and interest payments to the appropriate accounts to properly report all debt activity on the financial statements. This will promote the usefulness of the financial reports for fiscal planning and monitoring.

### 9. Carrying Value of Investments

The Village invests in certain US government agency securities, and when these types of investments are initially purchased, accrued interest owed to the previous owner of the securities is added to the purchase price. When the first interest coupon payment is received, any accrued interest paid when the investment was initially purchased should be deducted from the carrying value of the investment and interest revenue to reflect the true purchase price of the investment and interest earnings for the period. The purchase price of these investments may also vary from their stated (par) value due to the interest rate at the time of purchase. If the security's stated interest rate is greater than the market rate of interest, the security will be sold at a premium, or a price higher than its par value. Conversely, if the security's stated interest rate is lower than the market interest rate, it will be sold at a discount, or at a price lower than its par value. Premiums and discounts should be amortized over the life of the security so that upon maturity, the carrying value equals its par (redemption) value.

There are several acceptable methods for calculating amortization. One method is to adjust the carrying value of the investments to "market values" each month resulting in both the amortization of premiums or discounts reflecting gains or losses from market interest rate changes.

When new securities are purchased, the Village should reduce the value of its investments for accrued interest paid to the prior owner upon receipt of the first interest coupon payment. From that point, the Village should adjust the value of the securities to their "market values" at the end of each month by posting either a gain or loss to interest revenue as the difference between the securities current and previous month's market values. Accounting for the securities in such a manner, will result in the amortization of "premiums" or "discounts" over time and for any gains or loss resulting from market rate fluctuations.

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

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

**Betty Montgomery**  
Auditor of State

February 21, 2006