



**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002



**Auditor of State
Betty Montgomery**

VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of North Randall
Cuyahoga County
21937 Miles Road
North Randall, Ohio 44128

To the Village Council:

We have audited the accompanying financial statements of the Village of North Randall, Cuyahoga County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11 (B) and 115.56 mandate the Auditor of State to audit Ohio governments.

We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of North Randall, Cuyahoga County, Ohio, as of December 31, 2003 and December 31, 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As of December 31, 2003, there is doubt about the Village's ability to continue operations. This matter is further discussed in Note 10.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management, Village Council and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is 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

January 10, 2005

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Agency	
Cash Receipts:						
Property Tax and Other Local Taxes	\$231,479	\$97,186	\$0	\$0	\$0	\$328,665
Municipal Income Tax	1,680,425	0	0	0	0	1,680,425
Special Assessments	248	0	0	0	0	248
Intergovernmental Receipts	95,286	81,380	0	81,215	0	257,881
Charges for Services	33,612	6,632	0	0	0	40,244
Fines, Licenses, and Permits	212,129	6,765	0	0	195,882	414,776
Earnings on Investments	2,395	517	0	0	0	2,912
Miscellaneous	0	1,270	0	0	0	1,270
Total Cash Receipts	2,255,574	193,750	0	81,215	195,882	2,726,421
Cash Disbursements:						
Current:						
Security of Persons and Property	1,364,192	227,830	0	0	0	1,592,022
Public Health Services	2,795	0	0	0	0	2,795
Leisure Time Activities	10,443	47,940	0	0	0	58,383
Community Environment	236,072	15,531	0	0	0	251,603
Basic Utility Services	76,626	0	0	0	0	76,626
Transportation	0	21,210	0	0	0	21,210
General Government	809,783	6,865	0	0	0	816,648
Other	0	0	0	0	196,939	196,939
Capital Outlay	24,400	12,951	0	196,710	0	234,061
Debt Service:						
Principal Payments	0	0	0	1,900,000	0	1,900,000
Interest Payments	0	0	39,900	0	0	39,900
Total Cash Disbursements	2,524,311	332,327	39,900	2,096,710	196,939	5,190,187
Total Receipts Over/(Under) Disbursements	(268,737)	(138,577)	(39,900)	(2,015,495)	(1,057)	(2,463,766)
Other Financing Receipts and (Disbursements):						
Sale of Notes	0	0	0	1,900,000	0	1,900,000
Transfers-In	0	148,195	39,900	0	0	188,095
Advances-In	0	307	0	121,216	0	121,523
Transfers-Out	(188,095)	0	0	0	0	(188,095)
Advances-Out	(121,523)	0	0	0	0	(121,523)
Other Financing Sources	111,351	0	0	0	0	111,351
Total Other Financing Receipts/(Disbursements)	(198,267)	148,502	39,900	2,021,216	0	2,011,351
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(467,004)	9,925	0	5,721	(1,057)	(452,415)
Fund Cash Balances, January 1, 2003	468,138	224,161	0	3,873	2,745	698,917
Fund Cash Balances, December 31, 2003	\$1,134	\$234,086	\$0	\$9,594	\$1,688	\$246,502

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Agency	
Cash Receipts:						
Property Tax and Other Local Taxes	\$226,064	\$92,851	\$0	\$0	\$0	\$318,915
Municipal Income Tax	1,887,214	0	0	0	0	1,887,214
Special Assessments	8	0	0	0	0	8
Intergovernmental Receipts	71,160	94,711	0	0	0	165,871
Charges for Services	78,695	18,130	0	0	0	96,825
Fines, Licenses, and Permits	283,923	11,405	0	0	262,659	557,987
Earnings on Investments	8,584	608	0	0	0	9,192
Miscellaneous	0	15,087	0	0	0	15,087
Total Cash Receipts	2,555,648	232,792	0	0	262,659	3,051,099
Cash Disbursements:						
Current:						
Security of Persons and Property	1,309,040	188,229	0	0	0	1,497,269
Public Health Services	1,271	0	0	0	0	1,271
Leisure Time Activities	10,179	5,394	0	0	0	15,573
Community Environment	231,108	19,827	0	139,810	0	390,745
Basic Utility Services	50,736	0	0	0	0	50,736
Transportation	0	21,922	0	0	0	21,922
General Government	793,208	6,146	0	0	0	799,354
Other	0	0	0	0	274,654	274,654
Capital Outlay	28,986	25,394	0	0	0	54,380
Debt Service:						
Principal Payment	0	0	0	1,900,000	0	1,900,000
Interest Payments	0	0	54,150	0	0	54,150
Total Cash Disbursements	2,424,528	266,912	54,150	2,039,810	274,654	5,060,054
Total Receipts Over/(Under) Disbursements	131,120	(34,120)	(54,150)	(2,039,810)	(11,995)	(2,008,955)
Other Financing Receipts and (Disbursements):						
Sale of Notes	0	0	0	1,900,000	0	1,900,000
Transfers-In	62,426	97,570	54,150	3,253	41	217,440
Advances-In	0	8,200	0	0	0	8,200
Transfers-Out	(155,014)	(62,426)	0	0	0	(217,440)
Advances-Out	(8,200)	0	0	0	0	(8,200)
Other Financing Sources	9,298	0	0	3,873	0	13,171
Total Other Financing Receipts/(Disbursements)	(91,490)	43,344	54,150	1,907,126	41	1,913,171
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	39,630	9,224	0	(132,684)	(11,954)	(95,784)
Fund Cash Balances, January 1, 2002	428,508	214,937	0	136,557	14,699	794,701
Fund Cash Balances, December 31, 2002	\$468,138	\$224,161	\$0	\$3,873	\$2,745	\$698,917
Reserves for Encumbrances, December 31, 2002	\$171	\$0	\$0	\$0	\$0	\$171

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of North Randall, Cuyahoga County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected Mayor and six-member Council. The Village provides police and fire protection services, road maintenance, general governmental services, and a Mayor's Court.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The Village invested in STAR Ohio (the State Treasurer's investment pool) which is valued at amounts reported by the State Treasurer. The Village also invested in money market mutual funds which are recorded at shares reported by the mutual fund.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Police Levy Fund - This fund receives property tax and state money to provide police protection services.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Fire Levy Fund - This fund receives property tax and state money to provide fire protection services.

COPS Fast Grant Fund - This fund received a federal grant in 2002 to increase police presence and improve cooperative efforts between police and members of the community.

3. Debt Service Fund

This fund is used to accumulate resources for the payment of bonds or note indebtedness. The Village had significant debt service fund:

General Obligation Bond Fund – This fund is used to account for the interest payments on the Urban Renewal Temporary Bond.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

Northfield/Emery Urban Renewal Fund - This fund receives grant monies for road projects.

Grant Construction Fund - This fund received a grant from the State of Ohio for renovations to Miles and Northfield roads.

5. Fiduciary Funds (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

Mayor's Court Agency Fund - This fund is used to account for the activities of the Village Mayor's Court.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object group (salaries and other) level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2003	2002
Demand deposits	\$158,326	\$177,593
Total deposits	158,326	177,593
Victory Money Market Mutual Fund	0	300,100
STAR Ohio	88,176	221,224
Total investments	88,176	521,324
Total deposits and investments	\$246,502	\$698,917

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book entry form.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and December 31, 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,370,372	\$2,366,925	(\$3,447)
Special Revenue	471,582	341,945	(129,637)
Debt Service	54,000	39,900	(14,100)
Capital Projects	227,431	1,981,215	1,753,784
Internal Service	1,000	0	(1,000)
Agency	184,986	195,882	10,896
Total	\$3,309,371	\$4,925,867	\$1,616,496

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,814,321	\$2,712,406	\$101,915
Special Revenue	405,745	332,327	73,418
Debt Service	39,900	39,900	0
Capital Projects	166,750	2,096,710	(1,929,960)
Internal Service	1,000	0	1,000
Agency	176,550	196,939	(20,389)
Total	\$3,604,266	\$5,378,282	(\$1,774,016)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,342,618	\$2,627,372	\$284,754
Special Revenue	332,124	330,362	(1,762)
Debt Service	54,150	54,150	0
Capital Projects	8,537	1,907,126	1,898,589
Expendable Trust	187,000	0	(187,000)
Agency	0	262,700	262,700
Total	\$2,924,429	\$5,181,710	\$2,257,281

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,659,872	\$2,579,713	\$80,159
Special Revenue	532,858	329,338	203,520
Debt Service	54,150	54,150	0
Capital Projects	701,810	2,039,810	(1,338,000)
Expendable Trust	187,000	0	187,000
Agency	0	274,654	(274,654)
Total	<u>\$4,135,690</u>	<u>\$5,277,665</u>	<u>(\$1,141,975)</u>

During 2003, the Village budgeted for an Internal Service Fund and in 2002, the Village budgeted for an Expendable Trust Fund. Neither of these funds had financial activity in 2003 or 2002.

The negative variances in the Capital Projects Fund and Agency Fund Budgeted vs. Actual Budgetary Basis Expenditures in 2003 and 2002 were caused by adjustments made by the auditors to the financial statements for Issue II.

Contrary to Ohio law, the Village did not encumber expenditures prior to the receipt of goods or services, the Village's budgetary expenditures exceeded appropriation authority at the fund, function and object group level (legal level) of control for various line items during 2003 and 2002 and at December 31, 2003 and December 31, 2002, and the Village did not provide proper authorization for transfers and advances during 2003 and 2002.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 2.5 percent on gross salaries, wages and other personal service compensation earned by residents of the Village and on the earnings of non-residents working within the Village. The tax also applies to the net income of businesses operating within the Village.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT

In 2002, the Village issued a short term Urban Renewal Temporary Bond (URTB) for \$1.9 million to retire a 2001 URTB of the same amount. In 2003, the Village issued a short term URTB for \$1.9 million with an interest rate of 2.8% to retire the 2002 issuance. The 2003 URTB will mature in 2004.

7. RETIREMENT SYSTEMS

The Village's full-time law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Village has paid all contributions required through December 31, 2003.

Effective August 3, 1992, any new part-time Village fire fighters are no longer covered by Public Employees Retirement System and must contribute to social security. The Village's liability is 6.2 percent of wages paid.

8. RISK MANAGEMENT

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A- VII or better rated carriers, except for a 5% portion the Plan retains. With policies effective September 1, 2003 and after, The Plan pays the lesser of 5% or \$25,000 for casualty losses up to the coverage limit and the lesser of 5% or \$50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

8. RISK MANAGEMENT (Continued)

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2003</u>	<u>2002</u>
Assets	\$5,402,167	\$5,584,592
Liabilities	<u>(1,871,123)</u>	<u>(2,441,793)</u>
Members' Equity	<u>\$3,531,044</u>	<u>\$3,142,799</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. CONTINGENT LIABILITIES

The Village is defendant in several lawsuits. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition. The Village settled a lawsuit in 2004 which resulted in a payment of \$17,000, which represented the Village's part of their insurance deductible. This sum of money is immaterial to the financial statements.

10. GOING CONCERN

As of December 31, 2003 the Village has a General Fund balance of \$1,133. Based on the Village's past financial activity the Village will be unable to meet ordinary expenditures in the General Fund in the future. The Village is aware of the situation and is making attempts to reduce expenditures in the General Fund.

11. SUBSEQUENT EVENTS

The Village sold a piece of land during 2004 for approximately \$380,000. This amount was applied to the \$1.9 million note which was re-issued in October 2004 for \$1.52 million.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of North Randall
Cuyahoga County
21937 Miles Road
North Randall, Ohio 44128

We have audited the financial statements of the Village of North Randall, Cuyahoga County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated January 10, 2005, wherein we commented on the Village's ability to continue operations and we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, and implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 to 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the Village's management in a separate letter dated January 10, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-004 to 2003-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Village's management in a separate letter dated January 10, 2005.

This report is intended solely for the information and use of management, Village Council, and is 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

January 10, 2005

VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2003-001

Noncompliance Citation

Encumbrance of Funds

Ohio Revised Code Section 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 (\$1,000 prior to April 7, 2003) 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

Sixty-four percent (43 out of 67) of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDING NUMBER 2003-001 (Continued)

Noncompliance Citation (Continued)

Encumbrance of Funds (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 Clerk-Treasurer 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.

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.

FINDING NUMBER 2003-002

Noncompliance Citations

Expenditures Plus Encumbrances Exceeded Appropriations

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. Therefore, to be in compliance, total disbursements, plus encumbrances outstanding may not exceed total appropriations at the legal level of control for all funds. The following line items had expenditures or expenditures plus encumbrances that exceeded appropriations.

	<u>Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
<u>October 31, 2002</u>			
General Fund			
Community Environment - Personal	\$96,000	\$106,940	(\$10,940)
Special Revenue Funds			
Fire Levy - Personal	0	12,690	(12,690)
Tax Review Board - Personal	0	1,225	(1,225)
<u>December 31, 2002</u>			
Special Revenue Funds			
Fire Levy - Personal	0	31,429	(31,429)
Tax Review Board - Personal	0	1,225	(1,225)

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDING NUMBER 2003-002 (Continued)

Expenditures Plus Encumbrances Exceeded Appropriations (Continued)

	<u>Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
<u>September 30, 2003</u>			
General Fund			
Advances Out - Other	\$15,000	\$121,216	(\$106,216)
Transfers Out - Other	75,000	117,823	(42,823)
Special Revenue Funds			
<i>Police Pension</i> - Other	65,500	87,278	(21,778)
<i>Police Levy</i> - Personal	0	19,465	(19,465)
<i>Fire Levy</i> - Personal	0	29,939	(29,939)
<i>Tax Review Board</i> - Personal	0	150	(150)
<i>Juvenile Diversion</i> - Personal	0	1,367	(1,367)
Capital Project Fund			
<i>Grant Construction</i> - Other	150,000	166,710	(16,710)
Agency Fund			
<i>Mayor's Court Fund</i> - Other	115,000	139,015	(24,015)
<u>December 31, 2003</u>			
General Fund			
Basic Utilities - Other	64,370	76,626	(12,256)
Leisure Time Activities - Other	7,400	10,443	(3,043)
Transfers Out	0	188,095	(188,095)
Special Revenue			
<i>Police Pension</i> - Other	0	120,217	(120,217)
<i>Computer Fund</i> - Other	0	5,246	(5,246)
<i>Police Levy</i> - Personal	0	19,465	(19,465)
<i>Fire Levy</i> - Personal	0	82,440	(82,440)
<i>Tax Review Board</i> - Personal	0	150	(150)
<i>Other Special Revenue</i> - Personal	0	1,619	(1,619)
Capital Projects Fund			
<i>Grant Construction</i> - Other	166,750	196,710	(29,960)

We recommend the Village verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to ensure compliance with the above requirements.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDING NUMBER 2003-003

Noncompliance Citations

Authorization of Transfers

Ohio Revised Code Section 5705.14 indicates that before an interfund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. See also 1989 Op. Atty. Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). Auditor of State Bulletin 1997-003 sets forth guidelines for advancing funds. This bulletin requires all advances to be approved by a formal resolution of Council prior to their occurrence.

During our testing of nine and thirteen transfers in 2003 and 2002 respectively, we noted one transfer totaling \$39,900 in 2003 and seven transfers totaling \$31,047 in 2002 were not approved by Council and seven transfers totaling \$148,163 in 2003 were made prior to obtaining Council approval. We also noted two out of three advances totaling \$121,376 in 2003 were not approved by Council.

We recommend Council approve all transfers and advances by resolution of Council prior to their occurrence to ensure compliance with the Ohio Revised Code. In addition, approval of individual transfers and advances is a good accounting practice and provides an audit trail to support the amounts transferred.

FINDING NUMBER 2003-004

Reportable Condition

Timely Posting of Receipts

Receipts are to be posted in a timely manner, once physically received or upon receipt of notification of the direct deposit. During the fiscal years 2003 and 2002 we tested 428 receipts. Of these receipts, 202 receipts were not posted within one week after they were physically received or notification of the receipt was received. These receipts included property taxes, income taxes, intergovernmental revenues, charges for services revenues, and fines, forfeitures, and permits revenues. We did note the Village properly deposited all receipts within three days in accordance with Ohio Revised Code 9.38.

We recommend that the Village record all of their receipts in a timely manner to ensure that their records properly reflect their revenues and cash balance.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDING NUMBER 2003-005

Reportable Condition

Mayor's Court

During the audit period we noted the following:

- The Court has not developed written procedures and instructions to prevent misunderstandings, errors, and other situations that can result in inaccurate and/or untimely records.
- The Village did not record bail bond activity in the general ledger.
- The general ledger revenues in 2003 for the Mayor's Court did not agree to actual revenue activity or the Mayor's Court monthly reports because December 2002 revenue was not posted until 2003 and December 2003 revenue was not posted in December 2003.
- The Clerk of Courts performed bank reconciliations during the year, but did not maintain the bank statements. While they did not maintain the physical bank statements we were able to reconcile the bank statements via a reconciliation summary performed by the Clerk of Courts.
- The Court keeps all bail bond payments in a safe until they are either forfeited or returned.

As a result, we recorded several adjustments to the Village's financial statements.

Based on these facts, we recommend:

- The Mayor and/or Clerk of Courts should develop written procedures for all Court activities. The procedures should be in sufficient detail as to provide employees with instructions on performing all Court activities.
- The Village should record activity related to bail bonds in the general ledger.
- The Village should record financial activity when it physically occurs, in accordance with the cash basis of accounting.
- The Village should maintain bank reconciliations and all documentation supporting the reconciliation.
- The Village should deposit all bail bond payments into a separate bank account as soon as they are received to be in compliance with the Ohio Revised Code.

FINDING NUMBER 2003-006

Reportable Condition

Proper Posting of Receipts

The Village utilizes the Uniform Accounting Network (UAN) as their financial reporting software. UAN has set forth a fund structure that indicates where different types of receipts are to be posted.

The Village's financial statements for 2003 and 2002 required many adjustments and reclassifications. These adjustments were due to the Village posting revenue receipts to either the wrong fund, the wrong revenue code, or not posting financial activity. We also noted revenue receipts that were misposted, but were not material to the financial statements and therefore not adjusted to the financial statements. These mispostings caused the auditing process to become very cumbersome. This finding has been a management letter comment in the past two audits, which encompassed fiscal years 1998 to 2001, and has not been corrected by the Village.

We recommend the Village post all revenue receipts to the ledgers in accordance with guidelines set forth by UAN.

**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; Explain
2001-001	ORC 5705.41(B) – The Village had five line items with expenditures plus encumbrances in excess of appropriations at 12/31/00.	No	Repeated as finding 2003-002.
2001-002	ORC 2335.25 – The Mayor’s Court did not maintain a cash journal.	Yes	
2001-003	ORC 1905.21 – The Mayor’s Court did not maintain a docket. The Mayor’s Court did not have policies and procedures, could not locate 20% of case files requested, did not maintain bank reconciliations, and did not account for Mayor’s Court activity in the general ledger.	No	The Mayor’s Court did maintain a docket and could locate files selected for testing. The Mayor’s Court did not develop policies and procedures, did not maintain bank reconciliations, and financial activity was not recorded in a timely manner in the ledgers. Repeated as finding 2003-005



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**VILLAGE OF NORTH RANDALL
CUYAHOGA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 1, 2005**