



**Auditor of State
Betty Montgomery**

**Mentor Exempted Village School District
Lake County, Ohio**

Report on Accounting Methods

Local Government Services Section

**Mentor Exempted Village School District, Lake County
Report on Accounting Methods**

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Auditor of State Betty Montgomery

CERTIFICATION

On February 4, 2004, the Mentor Exempted Village School District was declared to be in fiscal emergency. Section 3316.10(A), Revised Code, requires that after the declaration of the existence of a fiscal emergency, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports. This report shall indicate whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

Therefore, pursuant to Section 3316.10(A) of the Revised Code, a Financial Accounting Report® is hereby submitted and certified to the Financial Planning and Supervision Commission and the Board of Education of the Mentor Exempted Village School District.

Section 3316.10(A), Revised Code requires that the Board of Education of the Mentor Exempted Village School District comply with the orders of the Financial Planning and Supervision Commission relating to the development of an effective financial accounting and reporting system by promptly bringing its existing system of financial accounting and reporting into compliance with Section 117.43 of the Ohio Revised Code.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 7, 2004

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Purpose

As required by Section 3316.10(A), Revised Code, the Auditor of State "...shall issue a preliminary report with respect to the methods, accuracy, and legality of the accounts, records, files, and reports of the school district. This report shall state whether section 117.43 of the Revised Code and the requirements of the Auditor of State have been complied with..."

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the Mentor Exempted Village School District, and (2) whether the current accounting system is in compliance with Section 117.43 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained by interviewing School District personnel and reviewing pertinent accounting, financial, and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the Mentor Exempted Village School District. We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on specific elements, accounts, or items of the School District's financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Governance Overview

Mentor Exempted Village School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Prior to the School District being declared in a state of fiscal emergency, it was operated under a locally elected five-member Board of Education (the Board) and provided educational services mandated by the State and federal agencies.

On February 4, 2004, the School District was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. Commission membership is as follows:

1. The director of budget and management or a designee;
2. The superintendent of public instruction or a designee;
3. A resident of the School District and owner of a local business appointed by the mayor;
4. A local business person appointed by the Governor; and
5. A parent with a child enrolled in the School District appointed by the state superintendent of public instruction.

The Financial Planning and Supervision Commission, under Ohio Revised Code Sections 3316.06 and 3316.07, are given the authority to assume complete managerial control of the Mentor Exempted Village School District. Under Section 3316.06(A)(2) of the Ohio Revised Code, the Commission is to specify the level of fiscal and management control that the Commission will exercise within the School District during the period of fiscal emergency and shall enumerate respectively, the powers and duties of the Commission and the duties of the school board during that period.

The powers, duties, and functions of the Commission may include:

1. Review or assume responsibility for the development of all tax budgets, tax levies and bond and note resolutions, appropriation measures, and certificates of estimated resources, to ensure they are consistent with the financial recovery plan;
2. Inspect and secure pertinent documents;
3. Review, revise, and approve determinations and certifications affecting the School District made by the county budget commission or the county auditor;
4. Bring civil actions to enforce fiscal emergency provisions;
5. Implement steps necessary to bring accounting records, accounting systems and financial procedures and reports into compliance with the Auditor of State's rules;
6. Assume responsibility for all debt issues;
7. Make and enter into all contracts necessary or incidental to the performance of its duties;
8. Implement cost reductions and revenue increases; and,
9. Develop a financial recovery plan.

The Commission has defined the level of fiscal management and control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06 (A)(2) of the Ohio Revised Code. The complete role of the Commission and the School Board has been addressed in the financial recovery plan adopted on June 22, 2004, and includes the power to approve contracts entered into by the Mentor Exempted Village School District for personal services, purchases in excess of \$10,000, and employment contracts for all positions other than temporary positions.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Governance Overview

(Continued)

The Commission will continue in existence until the Auditor of State, or the Commission itself, determines that:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The School District Board has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "nonadverse".

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of Budget and Management, and the County Budget Commission, the Commission will be terminated. Upon termination of fiscal emergency and the Commission, all responsibility for the management of the School District will revert to the locally elected Board.

Auditor of State Comments

None

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Budgetary Process

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining how much and what type of financial resources shall be raised, and how those financial resources shall be spent. An annually appropriated budget should be adopted for all funds other than agency funds by the governing board and the amounts appropriated for each fund should not exceed the estimated resources available for the year. The budget should present sufficient information to identify the major sources of revenues, the functions, and major objects of expenditures and demonstrate the level of control over expenditures maintained by the governing board. The process should encompass current operation of academic and student programs, capital acquisition, replacement, and maintenance for the various school district buildings, and debt retirement. The adopted budget should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized revenues and unspent balances available for expenditure.

Statutory Requirements

The budgetary process is prescribed in Chapter 5705, Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution.

Tax Budget: Prior to January 15, the Board is required to adopt an annual tax budget for the fiscal year commencing the following July 1. The budget should include proposed expenditures and the means of financing the expenditures for all funds other than agency funds. Public hearings should be publicized and conducted to obtain taxpayers' comments. The primary purpose of this budget document is to demonstrate the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the county budget commission for rate determination.

Estimated Resources: Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the county budget commission and receives the commission's official certificate of estimated resources which includes the estimated beginning unencumbered fund balance and the estimated revenue of each fund. Prior to June 30, the school district must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year; however, any reserve balance account and the principal of any nonexpendable trust fund is excluded. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the school district treasurer.

Appropriations: Upon receipt from the county auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certification stating no new certificate is necessary, the annual appropriation measure must be legally enacted by the Board. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the school district. The appropriations established for each fund must be within the most recent certificate as certified by the county budget commission and the total of expenditures and encumbrances may not exceed the appropriations at the legal level of control. Any revisions that alter appropriations at the legal level of control must be approved by the Board. The Board may pass supplemental appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Budgetary Process

(Continued)

Encumbrances: As part of formal budget control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and/or maintain legal compliance with the adopted appropriations.

Administrative Code Requirements: All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Legal Level of Control: The legal level of control is the level at which spending in excess of budgeted amounts would be in violation of law. This is established by the level at which the Board appropriates. For school districts, Section 117-6-02 of the Ohio Administrative Code sets the minimum legal level of control at the fund level and recommends that a board of education pass appropriations at a more detailed level. The legal level of control is a discretionary decision to be made by the board based on the degree of control the board wishes to maintain over the financial activity of the school district.

Certification of Adequate Revenue: Certification of adequate revenues involves two types of certifications. Certification of routine items under Section 5705.41, Revised Code, is addressed in the Purchasing Process section of this report. Section 5705.412, Revised Code, requires the School District to certify, prior to entering into a qualifying contract, that payment of the obligation will not affect the school district's ability to maintain all personnel and programs for the term of the contract. The certificate is to be attached to the qualifying contract and signed by the treasurer, superintendent, and president of the board of education. If the school district is in a state of fiscal emergency, the certificate shall be signed by a member of the school district's financial planning and supervision commission who is designated by the commission for this purpose. The certificate is to be attached to any qualifying contract and appropriation measure.

A qualifying contract means any agreement for the expenditure of money under which aggregate payments from the funds included in the school district's five-year forecast prepared under Section 5705.391 of the Revised Code will exceed the lesser of five hundred thousand dollars or one per cent of the total revenue to be credited in the current fiscal year to the school district's general fund, as specified in the district's most recent certificate of estimated resources.

A certificate of adequate revenues is also to be attached to each appropriation measure of the current fiscal year. The certification shall not consider the renewal or replacement of an existing levy in the current fiscal year unless the renewal or replacement levy has been approved by the electors and is available for appropriation in the current fiscal year. This certificate is not required to be attached to a temporary appropriation measure if (1) the amount appropriated does not exceed 25 percent of the total amount from all sources available for expenditure from any fund during the preceding fiscal year; (2) the measure will not be in effect on or after the thirtieth day following the earliest date on which the School District may pass an annual appropriation measure; and, (3) an amended official certificate of estimated resources for the current year, if required, has not been certified to the board of education under division (B) of section 5705.36 of the Revised Code.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Budgetary Process

(Continued)

Five-year Financial Forecast: Section 5705.391, Revised Code, requires school districts to include five-year projections of revenues and expenditures in a spending plan. Under Section 3301-92-04 of the Ohio Administrative Code, school districts are to submit the projections to the Department of Education. The projection contains information and is in a format prescribed by the Department of Education and Auditor of State. The projection includes three years of historical revenues and expenditures and a projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. The projection is filed upon the adoption of an annual appropriation measure, but no later than October 31. A school district is required to update its five-year projection between April 1 and May 31 and submit it to the Department of Education. Nothing precludes a school district from filing other updates to its five-year projection at any time in addition to the required filings.

The Ohio Administrative Code links the ability to certify under section 5705.412 of the Revised Code to the five-year forecast. Under Section 3301-92-05(E) of the Ohio Administrative Code, each school district shall maintain sufficient documentation to justify each certification made under section 5705.412 of the Revised Code, and must identify the actual date of certification. Each school district shall maintain a continuing record of the contracts that have been certified. This record includes, but is not limited to, vendor name, contract amount, allocated by year, purchase order number, and date. All information, records and documentation used to estimate available resources or any change made to the five year projection including, but not limited to, the current annual estimate of state funding, property tax calculations, fee schedules and average daily membership calculations shall be retained by the school district and be made available to the auditor of state or the independent public accountant at the time the school district is audited pursuant to Section 117.11 of the Revised Code.

The ability to certify under Section 5705.412 of the Revised Code is based on the current five-year projection. The assumptions underlying the decision to proceed with the obligation or contract to be certified must be the same assumptions supporting the amounts presented in the current five-year projection. If the revenue assumptions or the revenue estimates used to support the ability to certify under Section 5705.412 differ from the current five-year projection, the projection needs to be updated to reflect the new information. If the certificate is associated with a contract or obligation that results in additional costs or changes in the expenditure assumptions in the current five-year projection, the projection must be updated to reflect the new information. If adding the new expenditures created by an obligation or contract cause a fiscal year end deficit in the projection, then the obligation or contract may not be certified. Any change to the five-year projection must be approved by the board of education. Each school district must maintain sufficient documentation to support these changes.

Responsibility for the preparation of the forecast, the accuracy of the presented figures and the reasonableness of the assumptions on which they are based rests with the school district administration and the board of education. The automated retrieval of historical data does not relieve the school district of the responsibility for insuring that those numbers are reasonable and accurate.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Budgetary Process

(Continued)

School District's Budgetary Process

Prior to January 15, the Board of Education adopts a tax budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing the expenditures for all funds other than agency funds. Public hearings are held to obtain taxpayer comments. A notice of the public hearing is published in the local newspaper. By no later than January 20, the Board-adopted budget is filed with the Lake County Auditor. The Treasurer is responsible for preparing the current year operating budget (tax budget) and for presenting it to the Board for adoption. The Superintendent works with the Treasurer to prepare the annual budget, as well as the annual appropriation resolution.

Prior to April 1, the Board accepts, by resolution, the tax rates as determined by the Lake County Budget Commission and receives the certificate of estimated resources. Prior to July 1, the start of the fiscal year, the treasurer, with Board approval, revises the appropriations so the total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the original certificate of estimated resources.

After the close of the fiscal year, the Treasurer certifies the fiscal year-end fund balances to the Lake County Budget Commission and requests an amended official certificate of estimated resources that includes unencumbered cash balances from the preceding year. The Treasurer also amends the certificate at the beginning of the fiscal year if projected revenues have increased or decreased. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the Treasurer.

The Board of Education adopts a temporary appropriation measure prior to the start of the new fiscal year. The School District operates under the temporary appropriation measure until a permanent appropriation measure is adopted prior to October 1 of the fiscal year. Temporary appropriations for fiscal year 2005 were adopted at the fund, function, and object level for the general fund and at the fund level for all other funds. The Board adopted appropriations for fiscal year 2004 at the fund level for all funds, which was inconsistent with previously adopted appropriations.

The Treasurer reviews estimated revenues and appropriations monthly. A request for an amended certificate is prepared, if needed, and a supplemental appropriation measure is prepared for Board approval. The supplemental appropriation measure adjusts appropriations by fund so that they do not exceed the estimated resources as anticipated in the new amended certificate. After approval of the supplemental appropriation measure, both the request for an amended certificate and the supplemental appropriation measure are sent to the Lake County Budget Commission.

The Treasurer, after approval by the Board of Education, submits the five-year forecast to the State Department of Education by October 31 and May 31. The forecast is approved and adopted by Board resolution prior to it being filed. The School District maintains all contracts that have been certified as required by Section 5705.412, Revised Code, in the Treasurer's office.

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Financial Accounting Report

Budgetary Process

(Continued)

Auditor of State Comments

1. The School District should update its Policy Manual regarding its budgetary process. The manual should include policies that properly reflect all aspects of the budgetary process including the level at which the Board adopts appropriations, the level at which the Treasurer may allocate appropriations, the reports to be used to monitor appropriations and the frequency that monitoring should occur. In addition, the manual needs to be updated to address the five-year forecast requirements and the dates that the forecast is to be submitted to the Ohio Department of Education.
2. During fiscal year 2004, the School District had deficit fund balances contrary to Section 5705.10, Revised Code, expenditures plus encumbrances that exceeded the board adopted appropriations contrary to Section 5705.41(B), Revised Code, and appropriations that exceeded estimated resources contrary to Section 5705.39, Revised Code. The School District did not have any of these conditions at the end of fiscal year.
3. The allocation of Board approved appropriations is at the discretion of the Treasurer. There is no Board policy directing the allocations or requiring controls over this process. The Board should adopt a policy that addresses the allocation of appropriations beyond the amounts approved by the Board and requires the treasurer to establish procedures for the request and approval for changes in those allocations.
4. The legal level of control, the level at which spending in excess of the budgeted amounts is a violation of law, should be established in the first appropriation measure adopted by the Board. Supplemental appropriation measures should be consistent with this level throughout the year. In addition, Supplemental appropriation measures should identify the changes from the previously approved amounts, not just the new amounts.
5. The Board authorized the Treasurer to make transfers, advances and supplemental appropriations as part of the year-end closing and to present those items for ratification at the next regularly scheduled meeting. The legislative body of a local government may not delegate its authority to establish appropriations. The appropriations process is a function of the legislative authority that must be performed by those specific individuals elected to fulfill that responsibility. In addition, there is no authority in statute for the Board to authorize transfers, advances, and supplemental appropriations after the fact. The Board should terminate this practice.
6. The School District transfer money from two State grant funds to the general fund, which is contrary to Sections 5705.14 through 5705.16, Revised Code. The School District should contact the Grant Management Group of the Department of Education to determine the proper disposition of the balances that were in these funds.
7. Supplemental appropriation resolutions are presented to the Board for approval that are equal to or less than an anticipated amended certificate of estimated resources that has not yet been requested and filed with the County Budget Commission. Under Sections 5705.36 and 5705.39, Revised Code, appropriations are limited to the amount certified in the official or amended official certificate of estimated resources, not the amount anticipated to be certified.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Budgetary Process

(Continued)

8. The Board adopts permanent appropriations prior to meeting the statutory criteria for the adoption of permanent appropriations. Section 5705.38, Revised Code, indicates that annual appropriations should be adopted by October 1 provided an amended certificate of estimated resources or a certification that no amended certificate need be issued have been received from the County Auditor (Refer to Auditor of State bulletin 98-012).
9. The Treasurer compares appropriations to estimated resources as part of a monthly review; however, this comparison is not documented. The Treasurer should document the comparison of appropriations to estimated resources. This comparison should be presented to the Board upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent identification and recording of account classification and source of each receipt. Receipts should be promptly recorded, safeguarded, and deposited. The receipt or pay-in-order form should be a consecutively pre-numbered multi-part form. The receipt should bear the name of the entity and reflect the date received, the payer, amount, the purpose, or nature of the receipt, account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payer. All receipts should be deposited and posted in a timely manner. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, deposit of monies, posting of receipts, and reconciliation of bank accounts.

Statutory Requirements

Section 9.38, Revised Code provides that a person who is a public official, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited. If the public office of which the person is a public official is governed by a legislative authority, only the legislative authority may adopt such a policy.

Section 3313.642 (C), Revised Code states that boards of education may adopt rules and regulations prescribing a schedule of fees for materials used in a course of instructions and prescribing a schedule of charges which may be imposed upon pupils for the loss, damage, or destruction of school apparatus, equipment, musical instruments, library material, textbooks, or electronic textbooks required to be furnished without charge, and for damage to school buildings, and may enforce the payment of such fees and charges by withholding the grades and credits of the pupils concerned.

School District's Receipt Process

The School District receives revenue from internal and external sources in the form of wire transfers, cash, money orders, and checks. Revenue received from external sources include checks received in the mail, wire transfers for state foundation monies, grants from various state and local agencies and property taxes from Lake and Geauga counties. Internal sources of revenue include receipts for lunches served in the cafeterias, for student activities, from athletic events and miscellaneous receipts collected at the various School District buildings. All employees who handle money are bonded by position through Fidelity and Deposit Company of Maryland with the School District paying the cost of the coverage.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Revenue Activity

(Continued)

Money is received at each school building and each cafeteria on a daily basis. Checks are endorsed at each school building with the School District and building name. Individuals responsible for the receipts create a daily log of the type of receipts, count the money they receive, prepare a deposit ticket listing individual checks, and seal the money and two copies of the deposit slip in a plastic deposit bag to be picked up by the School District's Courier for deposit to the bank. The School District uses a four-part deposit ticket that has two white slips, a pink, and a yellow slip. The original and yellow copies are included in the deposit bag. The pink copy is kept at the office of origination. The white copy of the deposit slip and a copy of the daily log are picked up by the Courier, initialed, and delivered to the Accounts Receivable Supervisor in the Treasurer's office. Each deposit bag is pre-numbered and can only be used once. The deposit bag has space to record the date, the amount of the deposit, and the name of the individual who prepared the deposit. In addition, each deposit bag includes a tear off receipt that reflects the date and amount of deposit. The tear off receipt is attached to the pink copy of the deposit slip.

The School District uses a Courier to collect deposits from each school building while school is in session. A money run schedule is prepared at the beginning of the school year for the Courier and distributed to each school building. The Courier picks up the sealed deposit bags from each building according to the money run schedule, the white copy of the deposit slip and daily receipts log prepared by building secretaries or department supervisors. The white deposit slips and any receipt reports are dropped off to the Accounts Receivable Supervisor when the Courier picks up the sealed deposit bags prepared in the Treasurer's office by the Account Clerk. The Courier takes the sealed deposit bags to the bank. When all the sealed deposit bags have been counted by the bank, the Courier takes the date stamped, yellow copy of the deposit slips to the Accounts Receivable Supervisor.

During the summer months a Courier is not used. Deposits are prepared and taken to the bank by the Accounts Receivable Supervisor or an Account Clerk. As of June 2004, the Courier position was eliminated. Per the Assistant Treasurer, the School District will transfer these duties to the Buildings and Grounds Department prior to the start of the school year.

The Accounts Receivable Department records and posts all receipts. A journal entry sheet created in Excel is used to document the transaction information. The journal entry sheet lists the date, a description of the receipt, the initials of the person preparing the sheet, and a debit and credit column for recording the receipts and any related deductions. The journal entry sheet is used to post the transaction into the computer system. The Accounts Receivable Supervisor is responsible for preparing all journal entry sheets to record revenue, print the receipts, and post transactions. The Accounts Receivable Supervisor matches the yellow deposit slips from the bank to the white deposit slips, prepares a journal entry sheet, enters and posts the receipts to the computer system and the computer system prints the receipt information on three-part, pre-numbered receipt form, pre-signed with the Treasurer's signature. The original copy of the receipt is sent to the school building that generated the deposit. The building secretary or department supervisor matches the receipt with the pink copy of the deposit slip and files it. One copy of the receipt is attached to the supporting documents and filed in the vault in the Treasurer's office. The second copy is filed in receipt book in the Treasurer's office.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Revenue Activity

(Continued)

Receipt of State Foundation: State foundation monies are wire transferred bi-monthly to the School District's general checking account from the Ohio Department of Education. The foundation settlement, which identifies the various sources of State aid, is printed from the Ohio Department of Education's web page by the Accounts Receivable Supervisor. Generally, foundation settlements include restricted and unrestricted receipts, tuition payments from other districts, and various other State payments to the School District. The Accounts Receivable Supervisor enters gross receipts and deductions for STRS, SERS, open enrollment, and any other deductions from the settlement sheet into a journal entry sheet. The Accounts Receivable Supervisor posts the transactions and prints the receipt. State foundation receipts are posted using the USAS codes provided on the settlement sheets.

Receipt of Property Taxes: Upon receipt of the remittance notice from the Lake and Geauga County Auditors that a wire transfer has been made to the School District checking account, the Accounts Receivable Supervisor prepares a journal entry sheet for the gross taxes and the deductions by fund, prints a receipt, and files it in the Treasurers' office.

Receipt of Grant Monies: The School District receives Federal, State, and local revenue in the form of restricted and unrestricted grants. These grants are received by check and wire transfer, based on a request prepared by the Grant Supervisor. The grant request lists the name of the grant, the amount requested and the proper account codes. The Grants Supervisor sends a copy of the request to the Accounts Receivable Supervisor who files the pending request until the funds are received. When money is received by wire transfer, the Accounts Receivable Supervisor receives a remittance notice from the grant agency that a direct deposit has been made to the School District account. The Accounts Receivable Supervisor matches the grant requests to the remittance notice. If a remittance is received that the Accounts Receivable Supervisor or the Grant Supervisor cannot identify, the State is contacted for the information necessary to properly code the revenue. Grant monies received by check are entered into a check tracking spreadsheet by an Account Clerk. The checks are listed on a deposit slip, placed in a sealed plastic deposit bag to be picked up by the Courier and taken to the bank for deposit. The Accounts Receivable Supervisor creates a journal entry sheet with the proper account for all grant monies using information provided from the grant requests or remittance notices, posts the transaction into the computer system, prints a receipt, and files it with the supporting documentation in the Treasurer's office.

Athletic Event Receipts: The School District requires payment for attendance at several types of athletic events. The Athletic Director is responsible for the athletic events change fund money in the amount of \$2,000. The change fund is returned to the Treasurer's office prior to the close of the School District's fiscal year. The money is used by the Athletic Director to provide start up cash for each ticket seller working an athletic event. The cashier receives a cash drawer and a ticket accountability form for use with each game. The form includes the date, name of the seller, type of sporting event, and the beginning number of the adult and student ticket rolls being used. Persons buying tickets pay the ticket seller and receive their ticket. The ticket is given to a ticket taker at the entrance to the game, who tears the ticket in two. The ticket seller records the number of tickets sold by category and the amount of cash counted onto the ticket accountability sheet. The change fund is returned to the Athletic Director at the end of each event separate from the ticket proceeds. Ticket sellers record the discrepancies between what was sold and what was collected on the ticket accountability sheet. The Athletic Director discusses the discrepancies with the ticket seller. These discrepancies are then resolved by decreasing or increasing athletic events revenue. The Athletic Director collects the cash from each ticket seller and locks it in the Athletic Department vault until the next school day.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Revenue Activity

(Continued)

The high school activity Account Clerk re-computes the sales and compares the amount collected to the number of tickets sold times the ticket price for student and adult tickets. If the ticket accountability form notes a discrepancy between the value of the tickets sold and the deposit, the deposit bag is opened and recounted. The high school student activity Account Clerk prepares a pay-in form and the deposit ticket. The pay-in form is a three-part, preprinted form that is used as a receipt. A copy of the pay-in form is given to the Athletic Director and via the Courier, a copy of the pay-in form is delivered to the Accounts Receivable Supervisor along with the white copy of the deposit slip. The money and deposit slips are placed in a sealed plastic deposit bag and kept in the vault of the Athletic Director's office until it is picked up by the Courier. The Courier takes the money to the bank to be deposited and returns the yellow bank deposit slip to the Accounts Receivable Supervisor. The Accounts Receivable Supervisor matches the yellow deposit slip to the white deposit slips on file in the Treasurers' office, prepares a journal entry sheet with the proper revenue codes, posts the revenues, prints a receipt, and files it in the Treasurer's office.

Student Activity Receipts: The Board authorizes the budget for student activities at the beginning of each school year. When student organizations have a fundraiser, a sales project potential form is completed and signed by the activity advisor. The activity advisor responsible for the activity fills out the top section of the form that provides the name of the organization, proposed sales project, the name of the company items are being purchased from, quantity, cost per unit, and proposed sales price per unit. This portion of the form requires approval by the Principal and the Treasurer prior to the start of the fund raising project. The School District only participates in sales projects where items sold have been prepaid.

The bottom portion of the form is filled out and signed by the activity advisor, the Principal and the Treasurer when the project is completed. This section details the number of purchases, the number of sales, explanations for unaccounted quantities, other cash discrepancies, and total cash recorded. The completed form and cash are given to the high school activity Account Clerk and to the building Secretary at the elementary and middle school buildings. They verify the information on the form for accuracy and recount the cash. Once the verification is completed a pay-in form and deposit ticket is prepared. The pay-in form and the white copy of the deposit slip are sent to the Accounts Receivable Supervisor in the Treasurers' office via the Courier and a copy of the pay-in form is given to the activity advisor. Two copies of the bank deposit tickets and the money are placed in a sealed plastic deposit bag to be picked up and taken the bank by the Courier. The Courier takes the deposit to the bank and after the deposit is made, returns the yellow copy of the deposit ticket to the Accounts Receivable Supervisor. The Accounts Receivable Supervisor matches the yellow deposit slip to the white deposit slips on file in the Treasurers' office, prepares a journal entry sheet with the proper revenue codes, posts the revenues, prints a receipt and files it in the Treasurer's office.

At the present time, the sales project potential form is recommended by the School District but not enforced. Some forms are being filled out after the project has ended and funds are not being deposited promptly.

Receipt of Cafeteria Monies: The School District collects money for food sales from one high school, three junior high schools, and twelve elementary school lunchrooms. Prior to the start of the school year, letters are mailed to the parent or guardian of each student, regarding the cost of lunch. An application for free and reduced price lunches is included with the letter that also explains the criteria that must be met to be eligible for these types of lunches. Students wishing to receive free or reduced price lunches return the completed form to the Food Service Supervisor who approves or disapproves the applications. The forms are kept on file in the office of the Food Service Supervisor.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Revenue Activity

(Continued)

The high school and the junior high schools cashiers use a cash register. Each day the twelve elementary school cashiers are provided with an adding machine and a cash box, which is similar to the cash drawers used at the high school and junior high schools. Students and employees purchase lunch tickets from the cashiers. The lunch tickets have a letter of the alphabet on them that designates the type of ticket purchased. Students and employees may purchase tickets in advance that are good for 5 or 20 days. Ala carte items are sold in each cafeteria. A price list is posted and items are paid for by each individual as they go through the lunch line. All cashiers close out their cash register or cash box, run a register tape or an adding machine tape, count the drawer to balance and complete a series of daily reports after the cafeterias have been closed for the day. These daily reports detail the number of lunches served, the number and type of lunch tickets, total ala carte items sold and total of the deposit. The information from the daily report is entered on a weekly receipt report form that is sent to the Food Service Supervisor each week. The money is verified by the Cafeteria Manager or the assistant manager and a deposit slip is prepared. The money and two copies of the deposit slip are placed in a sealed plastic deposit bag, picked up by the Courier, and deposited at the bank. The Courier returns the yellow copy of the deposit ticket to the Accounts Receivable Supervisor. The Accounts Receivable Supervisor holds the cafeteria deposit slips until the weekly receipt report, prepared by the Food Service Supervisor, is sent to the Treasurer's office with the white copies of the deposit slips. The Accounts Receivable Supervisor matches the yellow deposit slip to the daily deposits on the weekly receipt report, prepares a journal entry sheet with the proper revenue codes, posts the revenues, and prints a receipt. If the Accounts Receivable Supervisor finds any discrepancies while matching the deposit slips to the weekly reports, the Food Service Supervisor is notified so that the discrepancy can be resolved.

Miscellaneous Receipts Money for lab fees, overdue book fines, damaged equipment, and student ID cards are brought to the Secretary in each building's office. Teachers collect student lab\class fees owed to the School District based on the Board's fees schedule. The Secretary then completes a deposit summary sheet and prepares a bank deposit slip. The money and deposit slips are placed in a sealed plastic deposit bag with the deposit slip to be picked up and taken to the bank by the Courier.

The Accounts Receivable Supervisor prepares and mails invoices for tuition, graphic art charges, employee services, custodial services, transportation, and food catering provided to private groups for special functions. The copies of the invoices are maintained in a folder in the Treasurer's office until the payment is received. The Account Clerk matches the payment to the invoice, enters the check into a check-tracking log, and adds the check to the daily deposit slip. Before the end of the day, money and checks received are placed in a sealed plastic deposit bag with the corresponding deposit slip to be picked up and taken to the bank by the Courier. The Accounts Receivable Supervisor creates a journal entry sheet for all miscellaneous receipts, posts the transaction, prints a receipt, and files it in the Treasurer's office.

NSF Check Policy The School District contracts with E-Collect of Ohio for the collection of NSF checks. When a check is returned for non-sufficient funds, it is sent directly to E-Collect from the bank. E-Collect sends the School District a fax of the front and back of the check. Each check bears a stamp from the building that made the deposit. The Accounts Receivable Supervisor calls the school building that made the deposit to get the correct fund and account code of the receipt and prepares a journal entry sheet to reverse the receipt.

If E-Collect is successful in collecting the funds, an electronic deposit is made and a fax listing the name on the check and the check number is sent to the School District. The Accounts Receivable Supervisor pulls the NSF file to retrieve the check information previously removed, posts the new deposit, and prints a receipt. E-Collect sends the written receipt back to the School District so they have a record of the payment.

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Financial Accounting Report

Revenue Activity

(Continued)

The Courier is also provided with a change fund at the start of the school year. This money is used to replenish the change funds of each building and the Athletic Director's. All change funds are authorized by Board resolution and the resolution identifies the custodian of the funds within each building. The Courier returns the change fund to the Accounts Receivable Supervisor in the Treasurer's office at the end of the school year.

Auditor of State Comments

1. The School District should enforce the use of the sales project potential forms for fundraising projects. The fund raising project should be pre-approved and funds collected should be turned in for the deposit immediately following the completion of the project or more often. Currently, some forms are being filled out after the project has ended and funds are being held by the activity advisor for weeks before given to the student activity Account Clerk or Building Secretary for deposit.
2. The Accounts Receivable Supervisor uses receipt forms that have been signed by the Treasurer prior to being used. The receipt should be signed by the person that issues it.
3. The School District should create a form to be signed by the Courier and the person who is responsible for the deposit until it is picked up. The form should include the number of bags prepared, date and time of pick up. The bags should be locked in a secure place until the Courier arrives. The Courier does not sign anything when the deposit bags are picked up from each building and the bags are left in various places at each building, some of which are unsecured.
4. Due to the elimination of some positions, the School District should update the job descriptions for all positions handling and recording receipts to accurately reflect the duties that are to be performed by each individual.
5. The Treasurer should document the procedures used in the recording of receipts and file it in the Treasurer's office and if there are additional staff changes, evaluate whether there is adequate segregation of duties involved with the receipt process.
6. Each school building and the treasurer's office issue different documents as proof and documentation of receipts. The treasurer's office should issue multi-copy, pre-numbered pay-ins for all receipts. The individual buildings should issue multi-copy, pre-numbered receipts. The receipt books issued should be documented and the un-issued books should be inventoried and adequately safeguarded in the treasurer's office.
7. Applications for free or reduced cost school lunches are returned to, reviewed, and approved by the Food Service Supervisor. The Treasurer or Superintendent should review the application and approval process and the free and reduced cost lunch program guidelines to determine if the approvals of the Food Service Supervisor are sufficient and that there is compliance with the program guidelines.
8. The elementary school cafeteria cashiers use an adding machine and a cash drawer. The Treasurer should evaluate the benefits of using cash registers in the elementary cafeterias.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Purchasing Process

Description of an Effective Method for Purchasing

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and the purchasing process should be integrated with the budget. The process should include selection of the vendor with the best price as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds stating that the amount has been appropriated and is encumbered. Purchase orders should be used for all non-payroll transactions, and should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements

Several State laws govern the purchasing process. The requirements are as follows:

Certification of the Fiscal Officer - Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the portion of the obligation to be performed in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrance. This certificate need be signed only by the subdivision's fiscal officer. Additionally, the subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that do not extend beyond fiscal year end in an amount established by the board of education. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine recurring items or for unanticipated emergencies.

Super Blanket Certification of the Availability of Funds - The super blanket certification permits the fiscal officer to certify any amount from a specific line-item appropriation. The certification is authorized to be outstanding for any period up to the end of the fiscal year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained by the fiscal officer.

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor, or appraiser by or on behalf of the subdivision; fuel oil, gasoline, food items, and utilities; and any purchase exempt from competitive bidding under Ohio Revised Code Section 125.04 and any other specific expenditure that is a recurring and reasonably predictable operating expense.

Then and Now Certification - It is intended that the treasurer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate that both at the time the order was placed (then) and at the current time (now) a sufficient sum was appropriated for the purpose of such a contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Purchasing Process

(Continued)

Major Contracts - Section 5705.412, Revised Code, provides definitions for qualifying contracts and states that no school district shall make any qualifying contract or increase any wage or salary schedule unless there is a signed certificate attached thereto that the school district has sufficient revenue to enable the district to maintain all personnel and programs for a specified number of days. A certificate attached to any qualifying contract shall cover the term of the contract; a certificate attached to a wage or salary schedule shall cover the term of the schedule. The certificate shall be signed by the treasurer, and president of the board of education and the superintendent of the school district, unless the school district is in a state of fiscal emergency, in which case the certificate shall be signed by a member of the district's financial planning and supervision commission.

Obligations that do not have a certificate of adequate revenues as required are considered void and no payments may be made on void obligations.

The following certification requirements also regulate purchases by school districts; however, determination must be made whether the contract is subject to Section 5705.412, Revised Code.

Per Unit Contracts - Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year needs to be certified (1987 Op. Atty. Gen. 87-069).

Contract or Lease Running Beyond the Termination of the Fiscal year Made - Pursuant to Section 5705.44, Revised Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year needs to be certified. The remaining amount is a capital charge required to be provided for in the subsequent fiscal year's appropriations.

Bidding - School District contracts to build, repair, enlarge or demolish any school building in excess of \$25,000, shall follow the competitive bidding requirements in Section 3313.46, Revised Code. Items not requiring competitive bidding include:

1. Educational materials used in teaching;
2. Computer hardware and software used for instructional purposes;
3. Any item that is available and can be acquired only from a single source (this exception requires the board to adopt a resolution by a 2/3 vote that this is the case); and,
4. Energy conservation measures (with certain restrictions provided by statute).

Findings for Recovery Database – Effective January 1, 2004, Ohio law (ORC section 9.24) prohibits any state agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.

The Auditor of State has established a database pursuant to Section 9.24, Revised Code, in order to list all persons who have unresolved findings for recovery, dating back to January 1, 2001. To comply with Section 9.24, Revised Code, the Auditor of State's office recommends that before entering into a public contract as described above, a state agency or political subdivision verify that the person does not appear in this database.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Purchasing Process

(Continued)

Administrative Code Requirements

Section 117-2-02(C)(2) of the Ohio Administrative Code states, "Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by Section 5705.41(D) of the Revised Code. Purchase orders are not effective unless the fiscal officer's certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services are made."

School District's Purchasing Process

The Board has established several policies pertaining to purchasing and competitive bidding. Contracts which exceed \$25,000 are given to the Assistant Superintendent of Business Operations to make the necessary arrangements for public bidding. The Treasurer receives and records the bids. The Treasurer sends the information to the Assistant Superintendent of Business Operations who reviews the information and makes a recommendation to the Superintendent based on the best bid. The Superintendent presents the recommendation to the Board. The Board, by resolution, awards a contract and a 412 certificate is issued. Contracts under \$25,000 are determined by the best quote given from the perspective contractor.

When goods or services are required, the employee making the request prepares a manual requisition request form that contains the vendor name and address, the quantity and description of the items to be ordered and the account to charge. The employee making the request to purchase items uses their own discretion to locate the vendor with the best price. The School District does not keep a list of vendors. If the employee is ordering merchandise from a vendor that the School District has not previously used, the building secretary notifies the Accounts Payable Department. The Accounts Payable Department searches the vendor numbers that are currently in the system and if the vendor is not found a vendor number is assigned. The new vendor number, name, and address are entered into the computer by an Account Clerk in the Accounts Payable Department. The manual requisition request form is given to the building principal or department supervisor who will approve or disapprove the request. Upon approval, the manual requisition request form is sent to the building secretary. The building secretary or the person responsible in the absence of the secretary enters the information from the manual requisition request form into the computer and a pre-numbered purchase order requisition is posted for the Accounts Payable Department to print. The manual requisition request forms are retained in the office of origin for their records.

The Accounts Payable Supervisor and the two Account Clerks print off posted purchase order requisitions each day by 3:30 p.m. and review them to ensure that they are properly coded to a correct account and that the unencumbered balances for each account is sufficient to cover the request. If there is a coding error or appropriations are not available, the purchase order requisition is returned to the employee who made the original request. Purchase order requisitions that are correct are sent to one of five people that the Superintendent has designated to sign and approve. Upon approval by the designated signors, the purchase order requisition is returned to the Accounts Payable Department where the information provided from the purchase order requisition is converted into a sequentially numbered purchase order.

The Accounts Payable Supervisor and the two account clerks are responsible for processing purchase orders. Each person has a group of purchase orders they maintain according to an approval level list created by the Accounts Payable Supervisor. All printed purchase orders are sent to the Treasurer to be signed and verified that the proposed purchase is not subject to bid. Upon approval by the Treasurer, the purchase orders are returned to the Accounts Payable Department Supervisor.

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Financial Accounting Report

Purchasing Process

(Continued)

The purchase order is a pre-numbered, five part form. The Accounts Payable Supervisor sends the purchase orders to the Data Processing Department to be separated by a bursting machine into five parts by color. The purchase orders are then returned to the Accounts Payable Supervisor and distributed as follows:

- 1) White – Original gets mailed or faxed to the vendor by the Accounts Payable Department.
- 2) White – Treasurer's office copy distributed between the Accounts Payable Supervisor and the two account clerks.
- 3) Pink – Returned to the building Secretary at the office of origination until goods are received. Once goods are received and verified the copy is sent back to the Treasurers' office with the packing slip to be matched to the invoice when it is received.
- 4) Yellow – Returned to the building Secretary at the office of origination for their files.
- 5) Blue – Returned to the building Secretary at the office of origination.

The School District purchases goods and services with blanket and super blanket purchase orders as needed. Blanket purchase orders are limited to 90 days and \$5,000. Then and Now certifications are used only when goods have been ordered and the employee requesting the goods is unable to wait for regular purchase order cycle to occur. The employee must have the request approved through the Accounts Payable Department. The Accounts Payable Supervisor records the date, the name of the company, the name of the employee making the request and the fund that will be encumbered for the purchase order.

Auditor of State Comments

1. The School District should update the Board Policies for purchasing to address the involvement of the Treasurer and Superintendent, the use of purchase orders including blanket and super blanket purchase orders, the statutory certifications by the treasurer including "Then and Now" certifications, and the use of quotes from vendors.
2. The School District should document the procedures to be followed by School District personnel in the purchase of goods and services.
3. The Treasurer should create a list of approved vendors. Approved vendors should be those that meet certain criteria and have provided all information required such as an IRS form W-9.
4. The School District should amend its 412 certificate attached to qualifying contract to cover the term of the contract rather than the current fiscal year and a number of day in the succeeding fiscal year.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Disbursements

Description of an Effective Method for Accounts Payable and Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the School District. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips, a comparison of the prices on the invoice to the purchase order, and the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount and accounts codes, and should include a copy of the purchase order, invoice, and receiving report or a signed billing slip. A check should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data) and a properly executed certification by the Treasurer. All checks should be promptly signed by the Treasurer, posted in the appropriate accounting records, and mailed to the vendor. Vouchers should be filed numerically or by vendor. No invoices should be processed for payment unless there was prior certified or the Treasurer is able to execute a then and now certificate. Sufficient safeguards should be in place to ensure that one individual does not have total control over the ordering of goods, processing of invoices for payment, issuance of checks and the reconciliation of bank accounts.

Statutory Requirements

State law places the following requirements on the disbursement of funds:

Restrictions - Money is drawn from the school district treasury only for appropriations enacted by the board of education. Appropriations from each fund may be used only for the purposes of such fund. Under Section 3315.51, Revised Code, moneys of a school district shall not be paid out except on a check signed by the Treasurer. The Treasurer shall preserve all vouchers for payment for a period of ten years (Section 3313.29, Revised Code) unless copied or reproduced according to the procedure prescribed in Section 9.01 of the Ohio Revised Code.

No Certification - If no certificate of available funds was furnished as required, upon receipt by the Board of a certificate of the Treasurer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the board may authorize the drawing of a warrant in payment of amounts due upon such contract, but such resolution shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than three thousand dollars, the Treasurer may authorize it to be paid without such affirmation of the board if such expenditure is otherwise valid.

Section 3313.18, Revised Code, states that "...the board of a city, exempted village, or local school district or governing board of an educational service center by a majority vote of its members has adopted an annual appropriation resolution, then such board may, by general resolution, dispense with the adoption of resolutions authorizing the purchase or sale of property, except real estate, the employment, appointment, or confirmation of officers and employees, except as otherwise provided by law, the payment of debts or claims, the salaries for superintendents, teachers or other employees, if provision therefore is made in such annual appropriation resolution, or approving warrants for the payment of any claim from school funds, if the expenditure for which such warrant is issued, is provided for in such annual appropriation resolution."

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Disbursements

(Continued)

Administrative Code Requirements

Section 117-2-02 (C)(3) of the Ohio Administrative Code states Avouchers may be used as a written order authorizing the drawing of a check in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information.

School District's Cash Disbursement Process

The Accounts Payable Department has the responsibility to ensure that goods and services are received prior to payment. Goods are delivered to the office that originated the order. When goods are received the building Secretary pulls the purchase order, verifies the goods received to the packing slip, initials and dates the purchase order and notes whether the merchandise has been received in full. The purchase order and packing slip are then sent to the Accounts Payable Department in the Treasurer's office to be filed until an invoice for payment is received.

The Accounts Payable Department processes checks for payment every Friday. Nearly all invoices are received in the Treasurer's office by mail, but occasionally, an invoice arrives by the School District Courier from one of the school building secretaries. As invoices are received, the Accounts Payable Supervisor and the two Account Clerks match the invoices to the purchase orders, packing slips and any other supporting documentation on file and re-computes the extensions and totals. Once the invoice has been matched to the purchase order, each individual initials and dates the group they have matched to be approved by the Treasurer for payment. Invoices for payment are gathered and sorted by vendor number. The invoice information and amount is entered into the computer system and an Excel spreadsheet, totaled and the invoice is stamped paid. Then, the Account Clerk prints a series of computer generated check batch reports and the Excel spreadsheet. The total on the Excel spreadsheet is verified to the computer system reports. The Account Clerk uses these reports to verify cash balances at the fund level and to ensure that cash is available for the checks that are going to be issued. The information from these reports identifies check number, vendor, invoice date, amount, fund, and total of the checks to be processed. Once the verification is completed, the Account Clerk takes pre-numbered checks and loads them into the check-printing machine and prints the checks. A separate machine is used to sign the checks. Checks in the amount of \$10,000 and above are manually signed by Treasurer and are removed before the checks are put into the signature machine. The signature plate and the pre-numbered checks are kept in a locked safe in the Treasurers' office. Access to the safe is limited to employees in the Treasurer's office and is locked when the administration building is closed.

Occasionally, invoices are mailed to the School District for payments that are more than or less than the original purchase order amount. These discrepancies are usually due to shipping costs not included on the purchase order or discounts promised but not given by the vendor. These invoices are given to the Accounts Payable Supervisor to research and determine why the amounts differ. If an error was made by the vendor, the Accounts Payable Supervisor contacts the vendor to resolve the discrepancy. If the discrepancy results from an error made by the School District, the Accounts Payable Supervisor creates a purchase change order. The Accounts Payable Supervisor will review appropriations to see if there are sufficient funds to change the purchase order only when the payment amount has increased. The Accounts Payable Supervisor records the changes to the original purchase order in the computer. A purchase order with the increased amount is printed.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Disbursements

(Continued)

The purchase order change is then given to the Treasurer. The Treasurer reviews the changes to the existing purchase order and gives his approval for the change by signing off on the purchase order change requisition. These requisitions are filed in the Treasurers office separate from the original purchase order.

A check pay report is printed after checks have been processed. The system automatically posts the transactions to the various expenditure accounts, and decreases the encumbered amount by the amount of the invoice. The check pay report lists the check number, expenditure account, date issued, vendor, fund, and a brief description. The checks are taken to the Treasurer to review and sign any check that requires a manual signature. After the Treasurer has reviewed all checks, they are given to an Account Clerk in the Accounts Receivable Department to separate the copies. The School District uses three part checks containing a white original and a yellow and green copy. The original (white) and the remittance advice is placed in an envelope and sent to the mailroom to be mailed. The yellow copy is attached to the supporting documents, which become the voucher package and are filed in binders in the Treasurers' office by check number in groups of fifty. The green copy is sent back to the school that originated the purchase order for record of payment. The Account Clerk runs a cash balance report by fund to finalize the check run process and use as an audit trail.

The School District uses a positive pay service through Bank One. Information from the check runs are imported to the bank web site by a batch summary report prepared by the Account Clerk. This information is used by the bank to check for altered checks and to create a check clearing report used by the School District for the monthly bank statement reconciliation.

Under certain circumstances, a manual check is written and posted the same day. Checks are voided when a printing error occurs, if payment must be stopped or to align checks during the printing cycle. A voided check has void manually written on the check and the account numbers punched out. The voided checks are filed numerically in a vault in the Treasurers' office.

The Account Clerk maintains a check log that reflects the date and check numbers for each batch printed and any voided checks. In addition, the Account Clerk has created a control sheet that is used for each batch of checks issued. The control sheet lists a series of reports to be printed for each check run, any voided check numbers, the beginning and ending check numbers, and the next check number that will be used. The log is signed by the Account Clerk after the checks have been prepared and filed in the Treasurer's office. Once final payment is made the purchase order is closed.

Auditor of State Comments

1. The School District should document the procedures for cash disbursements including the staff positions and their functions. The document should also include procedures for invoices that exceed the purchase order/fiscal officer certification of funds and the use of "Then and Now" certifications. The document should be kept on file in the Treasurers' office.

2. The School District allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the Treasurer should request, by resolution, Board approval of an advance from the general fund. The resolution should state when the advance will be repaid and the source of revenue.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Disbursements

(Continued)

3. The Board of Education has a policy that requires the Board to approve disbursements. We found no evidence of the Board approval. The Board of Education should enforce its policy or revise it. If the Board wishes to grant approval to the Treasurer it should review Section 3313.18, Revised Code, which under certain circumstances allows a board, by resolution, to dispense with the adoption of resolutions approving warrants for the payment of any claim from school funds and other items.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and Federal and State taxes should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain current contracts, information about the benefits that the employee has selected, withholding forms and any other information required by Federal and/or State laws. Safeguards should be in place to ensure that the same individual does not hire personnel, authorize pay rates, process payroll, generate and distribute paychecks, and reconcile the bank accounts.

Statutory Requirements: The following State statutes apply:

Section 5747.06, Revised Code, requires collection of Ohio income tax by employers.

Sections 3307.01, 3307.381, 3307.51, 3307.53, and 3307.56, Revised Code, for State Teachers Retirement (STRS) and Sections 3309.23, 3309.341, 3309.47, and 3309.49, Revised Code, for School Employees Retirement System (SERS), require school districts to enroll most of their employees in the appropriate retirement system, withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate retirement system the amounts withheld, matched with an appropriate percentage for employer contributions.

Section 3319.141, Revised Code, for certified school employees and Section 3319.084, Revised Code, for classified employees, provide for minimum vacation and sick leave to be granted to affected employees, and indicates the procedures for paying the employees for leave balances credited to them upon separation from service. However, bargaining agreements may allow more or less time to be granted.

The following additional code sections provide authority for appointment and compensation of officials and employees of a school district: Section 3311.19 and 3313.12, Revised Code, for school board member compensation and mileage; Section 3313.24, Revised Code, for compensation of school treasurers; Section 3319.01, Revised Code, for appointment and duties of the superintendent (including compensation); Section 3319.02, Revised Code, for appointment, evaluation, renewal, and vacation leave of other school administrators; Section 3319.08, Revised Code, for teacher employment and reemployment contracts; Section 3319.10, Revised Code, for employment and status of substitute teachers; and Section 3319.081, Revised Code, for contracts for non-teaching classified employees.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Payroll Processing

(Continued)

School District's Payroll Process

The School District's pay period begins on Monday and ends on Sunday, fourteen days later. Payroll is processed on a biweekly basis for approximately 1500 full and part time employees, including substitutes. Certified employees have a choice of being paid over twenty-one or twenty-six bi-weekly pay periods. All employees are paid twelve days after the pay period end date. Employees receive an earnings statement with each pay that indicates gross and net earnings, withholdings (year-to-date and for the pay period) and leave usage during the pay period and leave balances as of the end of the pay period.

The School District uses Pentamation software to process payroll. Payroll checks and the signature stamp are kept in the safe. Access to the safe is limited to employees in the Treasurer's office and it is locked when the administration building is closed. A separate checking account is used for the payment of net earnings to employees and the payment of employee withholdings.

The Personnel Department prepares all employment contracts and salary notifications. These documents are processed and printed by the Data Processing Department. The printed documents are returned to the Personnel Department to ensure that the contract information is correct. All contract renewals are approved at the April Board meeting. New employee contracts are approved by the Board throughout the year. The Personnel Department prepares a reappointment book for the Board to use to approve contracts. The reappointment book lists all employees and their annual contract amount or hourly rate for the next school year, and is presented by duration and type of contract. Each Board member receives a copy of the book. After approval by Board resolution, the contracts are signed by the Treasurer and stamped with the Board President's signature. The majority of the contracts are forwarded by interoffice mail to the employee to be signed. The employee signs the contract and returns it to the Personnel Department. The Personnel Department creates a hire sheet for each employee that provides all the information needed for payroll and forwards the sheet to the Payroll Department to be entered into the computer system. Each contract is placed in the employee's personal file located in the Payroll Department.

Administrators: Administrative contracts establish the annual rate of pay, vacation accrual, retirement contributions, personal leave days, sick leave and job duties, and expectations for each employee. The contract also states that the Board will provide the employee with health, dental, vision, and life insurance in the same manner and to the same extent as other employees. The contracts are reviewed and approved by the Board. Contracts for Superintendents and Administrators typically run from August 1 through July 31 of the subsequent year. The Treasurer's contract runs from January 1 through December 31. Contracts are paid over twenty-six pays and kept in the Personnel Department.

Certified Employees: Teachers' salaries and benefits are governed by a negotiated agreement between the Mentor Exempted Village School District and the Mentor Teachers Association OEA/NEA. The current contract covers the period of August 22, 2002 to August 22, 2005. On February 27, 2004, the Board and the Mentor Teachers Association completed negotiations to make changes to the current contract due to the School District being placed in fiscal emergency. The contract has detailed information pertaining to compensation, fringe benefits, absences, and leave accruals. Certified employees do not earn overtime or vacation hours.

The annual salary notifications are sent through interoffice mail in early June. The salary notification identifies the annual salary of the employee and the number days to be worked.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Payroll Processing

(Continued)

The payroll system calculates the amount to be paid over twenty-six pay periods from the contract information that has been entered by the Payroll Department. The contracts are kept in individual employee files in the Personal Department. Certified contracts are adjusted when an employee has a change in degree. These upgrades are done twice a year and after presentation of college transcripts.

Certified employees earn longevity stipends after their twentieth and twenty-fifth years of teaching experience. These payments are paid in the first paycheck following the completion of the school year in which the criteria are met.

Vacancies for supplemental positions are posted at all schools. The supplemental contracts are paid over twenty-one or twenty-six pay periods. These contracts are issued at the same time as regular certified contracts and are approved by the Board. Certified employees can also earn extra pay for jobs such as tutoring.

Classified Employees: The classified employee's salaries and benefits are governed by a negotiated agreement between the Mentor Exempted Village School District and the Mentor Classified Employees OEA/NEA. The current contract covers the period of September 1, 2002 to September 1, 2005. On January 29, 2004, the Board and the Mentor Classified Employees completed negotiations to make changes to the current contract due to the school being placed in fiscal emergency. The contract has detailed information pertaining to payroll deductions, overtime, fringe benefits, absences, and leave accruals.

The annual salary notifications are sent through interoffice mail in early June. The annual salary notification identifies the new salary for the next contract period.

Classified employees are paid at an hourly rate as provided in the negotiated agreements. The food service, educational assistants and transportation employees are paid over twenty-one bi-weekly pay periods. Classroom assistants and office aides have the option of being paid over twenty-one or twenty-six bi-weekly pays. All other classified employees are paid over twenty-six bi-weekly pay periods. Hourly employees are required to submit a time card/time sheet for each pay period. Time cards/time sheets indicate hours worked, days/hours absent and the type of hours worked (regular or overtime). Time cards/time sheets must be signed by the Department Supervisor. The Payroll Supervisor or one of the two payroll clerks verify the time cards/time sheets for math accuracy and leave usage to leave approval. Any discrepancies are resolved between the Payroll Supervisor and the Department Supervisor prior to payroll processing.

Overtime earned is paid in the pay period in which it was earned for hourly employees. An employee receiving overtime pay must complete an over time sheet and document the reason for the overtime. Overtime must be reviewed and approved by the Department Supervisor before being submitted to the Payroll Department for payment. Any discrepancies are resolved by the Department Supervisor.

Leave: Vacation and personal leave is credited to each employee annually as indicated in the respective certified and classified negotiated agreements or in each administrator's contract. All employee leave usage is posted in the payroll system by the Payroll Supervisor or the two payroll Account Clerks based on the information submitted on the leave forms. The system updates the balances automatically.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Payroll Processing

(Continued)

Employees must complete a leave form to receive compensation for vacation, professional, sick, or personal leave. Other forms of leave available to employees are jury duty, bereavement leave, and assault leave. In most cases a leave request is submitted and approved by the department Supervisor or building Principal prior to the date requested. Employees report all leave absences to the Personnel Department. The Personnel Department enters the information into a database and a daily report is forwarded to the Payroll Department. The report lists the employee name, date of absence, time period of absence and the name of the substitute employee if needed. If a leave form has not already been completed, when the employee returns from their absence, the leave form is completed and given to the building Secretary. The building Secretary forwards the form to the employee's Supervisor for a signature, then the signed form is returned to the building secretary. The building Secretaries are required to submit a weekly absence recap sheet to the Payroll Department with the absence forms attached for verification. The manually kept leave forms are used to document usage in the event that an employee questions leave information as reflected on their earnings statement. If an employee takes time off and has no leave available, leave may be advanced under certain circumstances; otherwise, the employee's next pay will be reduced by the hours taken.

Other Employees: Substitute teachers are paid \$76 a day and are used as needed. A list of substitute teachers is approved each year by the Board. Substitute teachers complete a daily time sheet. The time sheet is sent to the building Secretary to be sent to the appropriate department Supervisor or building Principal for approval. The Payroll Supervisor reviews the time sheets for accuracy by comparing them to the attendance reports and leave forms. Discrepancies are resolved by the Payroll Department and the employee's Supervisor before payroll is processed.

The School District uses Performance Contracts to compensate employees hired for special short-term projects. These contracts comply with the same procedures as certified employees and substitute teachers. The contract is sent to the Board for approval from the Assistant Superintendent of Personnel. The contract details the type of activity, the length of the project and the fund it will be paid from. Upon approval of the contract by the Board, it is submitted to the Payroll Department. The Payroll Department creates a hire sheet and sends the information to the Payroll department. The employee is paid according to the contract terms.

Athletic events workers turn in time sheets signed by the Athletic Director to the Athletic Activity Account Clerk after each event worked. These payments are made in the next pay period immediately following the event.

All extra pay, substitute, and sporting event pay sheets and performance contracts are given to the Accounts Receivable Supervisor before payroll is processed for proper account coding.

Board members are paid \$80 per each monthly meeting. There is no maximum amount that a Board member can earn in a year. The Payroll Department prepares checks for each Board member based upon an attendance sheet prepared by the Treasurer's secretary, which is supported by the Board minutes.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Payroll Processing

(Continued)

Payroll Deductions: Payroll, tax, and retirement forms are distributed to each new employee to be completed and returned to the Personnel Department. The Personnel Department enters the employee's demographic and contract information into the computer and forwards an updated hire sheet to the Payroll Department. The Payroll Department creates the employee's payroll file and the appropriate retirement system is notified of each new hire that is required to become a member. Board members may elect to be a member of SERS. Should an employee need to make any deduction changes they can obtain forms at any building of the School District. Completed forms are forwarded to the Payroll Department by inter-office mail and the changes are entered into the system by an Account Clerk.

Payroll deductions for STRS, SERS, and Medicare are processed through the payroll system. After each pay period, STRS reports are run and the total days worked are verified to the report. STRS requires remittance of funds and reporting within five days after every pay date. The School District remittance information is sent via the Internet. The Board's pick-up and the employee share are directly debited from a general checking account specifically for payroll deductions.

The employer share of STRS and SERS are withheld semimonthly from the School District's State foundation settlements. The Data Processing Department electronically files the required pension system information with the proper retirement system monthly. The Payroll Supervisor prepares an annual report, which is filed with STRS when required. SERS is processed at the end of each month and the report is due by the fifteenth of the following month. SERS information is compiled on a diskette and mailed.

Payroll Processing: The Payroll Department begins organizing payroll documents on Monday following the pay period end date. All documents must be in the Payroll Department by Wednesday afternoon. On Monday of the pay week, the payroll is loaded and processing entries for the various electronic fund transfers are made. The system calculates the payroll and the deductions. A payroll edit report, a payroll check register, and a payroll direct deposit report are run for verification of entries by the Payroll Supervisor. When all of the entries are verified the final payroll reports are generated. These reports include the payroll summary report, the fund and function to be charge summary report, and a benefit charge summary report. The direct deposit amounts are phoned into the bank and then filed electronically by the Data Processing Department. The direct deposit must be filed by Wednesday of the payroll week.

Payroll checks and direct deposit notifications are printed by the Data Processing Department and returned to the Payroll Department. If a check is issued in error it is stamped voided and a new check reissued. The Payroll Department hand stamps any checks which will not be direct deposited with a rubber stamp of the Treasurer's signature, places the checks or the direct deposit notifications in the envelopes and sorts them by building for distribution on Friday. The payroll envelopes are placed in locked bags that are picked up and delivered to each school building secretary by the school Courier. Each building Secretary has a key for the bag delivered to their office. Unless otherwise notified, all employees pick up their payroll envelopes from the building in which they work. Payroll envelopes for the substitute teachers are mailed to their homes. If an employee notifies the Payroll Department that they will be absent on payday, they may pick up their pay envelope from the Payroll Department on Thursday afternoon. If no arrangements have been made the payroll envelope is held in locked cabinet at the respective building. The locked bags are returned to the Payroll Department by the school Courier.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Payroll Processing

(Continued)

The Payroll Department prepares the employee insurance deductions checks and the medical and life insurance reports. The reports and the checks are sent to the Accounts Receivable Supervisor. The Accounts Receivable Supervisor verifies all the information to the reports that have been run and prepares and sends a wire transfer for the amount due to the Superintendent of the Lake County Educational Service Center, the fiscal agent for the Lake County Schools Insurance Consortium.

Fiscal and calendar year payroll reports are processed after the last payroll for quarterly and year-end periods. W-2's are processed and distributed to the employees by interoffice mail or regular mail on or before the January 31. All required calendar year reports are forwarded to the respective agencies by Internet or mail on a CD Rom disc.

Auditor of State Comments

1. The procedures used to process payroll should be documented and on file in the Treasurers' office. The procedures should specifically address the duties, processes, and segregation of duties involving the payroll process.
2. The Payroll Department uses a rubber stamp of the Treasurer's signature for paychecks. Section 9.11, Revised Code does not authorize the use of a rubber stamp with the Treasurer's signature.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before any debt is issued, a resolution authorizing the issuance of debt should be passed by the School Board. The statute authorizing the issuance should be identified in the resolution as well as the purpose of the debt, the principal amount, the maturity, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of the Board of Education and the Treasurer. Debt proceeds should be received into a separate fund when appropriated and used only for the purpose specified in the authorizing resolution. Money to be used for debt payment may be received in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

Statutory Requirements

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. Specific statutes relating to school districts are found in Title 33 of the Ohio Revised Code. The statutory requirements vary depending on the nature of the debt issued.

School District's Debt

The School District's outstanding debt at June 30, 2004 was \$33,632,115 and consists of the following:

	Interest Rate	Principal Outstanding 6/30/2004
<u>General Obligation Bonds</u>		
1993 School Improvement Refunding Bonds	2.30 to 5.37%	\$8,165,000
2001 School Improvement Refunding Bonds	2.20 to 4.50	3,804,993
Total General Obligation Bonds		<u>11,969,993</u>
<u>Notes</u>		
2003 Energy Conservation Note	1.29	\$250,000
2004 Energy Conservation Note	2.4	1,160,000
2003 Tax Anticipation Note	3.5	<u>2,480,000</u>
Total Notes		<u>3,890,000</u>
<u>Loan</u>		
2004 State Solvency Loan	0	<u>17,000,000</u>
<u>Capital Leases</u>		
Various		<u>772,122</u>
Total Obligations		<u><u>\$33,632,115</u></u>

The funds for payment of principal and interest on all of the notes are provided by property taxes. These funds are accounted for and paid from the debt service fund. All debt documents and amortization schedules are kept on file in the Treasurer's office.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Debt Administration

(Continued)

During fiscal year 2004, the School District received a Solvency Assistance Fund Advance from the State. The solvency assistance fund advances money to school districts that are in fiscal emergency or that meet one or more of nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance is repaid over two years from State foundation revenues.

The School District has \$11,969,993 in School Improvement Refunding bonds. These bonds are retired with property taxes revenues recorded in the debt service fund.

On June 26, 2003, the School District issued \$5,000,000 in revenue anticipation notes and on November 26, 2003, the School District issued \$10,000,000 in tax anticipation notes. Both notes were issued due to cash flow problems and were retired prior to June 30, 2004.

Auditor of State Comments

1. The School District issued notes, under Section 135.10(H), Revised Code, within the last 10 days of fiscal year 2003 in anticipation of fiscal year 2004 revenue. This section allows for the notes to be issued within 10 days of the new fiscal year provided that:
 - a) None of the proceeds received by the school district from the sale of the securities shall be considered available for appropriation prior to the first day of the fiscal year for which the revenues are anticipated; and,
 - b) None of the proceeds received by the school district from the sale of the securities shall be expended prior to the first day of the fiscal year for which the revenues are anticipated.

The School District recorded to and expended from the general fund the debt proceeds prior to the start of the fiscal year 2004.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

Capital assets of the School District should be adequately safeguarded against loss or theft. The School District should have a policy that defines capital assets, capitalization thresholds, useful lives, method of depreciation, assets assigned to the program it is used in, tracking of capital and non-capital assets, and determination of salvage value. An inventory should be maintained including a description of each item, its cost, serial and/or model numbers, date of purchase, location, useful life, salvage value, the annual depreciation amount, fund and account purchased from, tag number, whether the item is leased, current year depreciation and the accumulated depreciation. The inventory should be updated throughout the year for purchases and disposals. Verification of the listed assets should be performed periodically. The disposal of an asset should be properly authorized and reported to the Treasurer so that any proceeds from the disposal can be properly recorded, the asset can be removed from the capital asset listing, and insurance coverage can be discontinued.

Consumable materials and supplies lose their original shape or appearance with use. Examples include office supplies, gasoline, cafeteria supplies, and food, and donated commodities. A physical inventory of materials and supplies should be performed periodically to insure that items purchased are on hand or have been used. In addition, a physical inventory of all material items should be conducted for reporting in the School District's financial statements.

Administrative Code Requirements

Section 117-2-02 (D)(4)(c) of the Ohio Administrative Code requires that the school district maintain Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location and tag number.

School District's Method of Accounting for Capital Assets:

The Board of Education has adopted formal policies regarding capital assets. These policies require the maintenance of a capital asset accounting system, capitalization of capital assets valued at \$5,000. The last physical inventory was performed by the Industrial Appraisal Company in May 2001.

All capital assets are purchased from a 600 or 700 expenditure object codes. The capital asset is delivered to the custodian of the school building that ordered the asset and is tagged with a barcode tag by the building custodian. The barcodes are supplied by the Accounts Payable Department. When computers are ordered and delivered to the school where they will be used, they are tagged by the building custodian. If the computers are delivered to the Technology Department, they are tagged by the Technology Department Supervisor and sent to the school where they will be used. Prior to the purchase order being sent to the Treasurer's office for payment, the barcode number, a description of the item, the model number, the serial number and the location of the item are written on the blue copy of the purchase order by the person receiving the capital asset.

The blue copy of purchase orders with 600 or 700 object expenditure codes are set aside. In June of each year, an account clerk manually reviews the purchase orders that have been accumulated to identify the items that meet the capitalization threshold. The account clerk enters the information into a capital asset data sheet provided by the Industrial Appraisal Company and creates a list of additions.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Capital Assets and Supplies Inventory

(Continued)

Each building custodian uses a Tagging/Transfer Equipment Form to track disposals and transfers of capital assets. These forms are sent to the Building and Grounds Supervisor each year, and then forwarded to the Accounts Payable Department in the Treasurers' office. The account clerk enters this information into a computer data sheet provided by Industrial Appraisal Company to create a list of deletions. When all the information is put into the computer data sheets, the account clerk prints a master list of yearly additions and deletions and sends the information to Industrial Appraisal. Industrial Appraisal updates the information for the School District and sends the School District a new report to reflect all information required to report capital assets for the school fiscal year.

The Music Department maintains an inventory of all musical instruments. Parents and students sign a contract upon receipt of the instruments. A fee is collected from the students to offset the costs of maintenance and repair of the instruments.

A master list of textbooks and audiovisual equipment is provided at the end of the fiscal year by the Media Department.

Currently, the Technology Department of the School District is evaluating new software that includes an inventory management system.

School District's Method of Accounting for Supplies:

The School District has a Board adopted policy that requires a physical inventory of supplies be performed by the food service department, the transportation department, and the warehouse at the end of the school year. The Assistant Treasurer sends a memorandum out to each department requesting the consumable inventory form be completed and returned to the Treasurer's office. Inventories are physically counted by each department.

The building Food Service Managers complete monthly inventory reports and submit them to the Food Service Supervisor. The inventory is maintained by the Food Service Supervisor using an excel spreadsheet. The Food Service Supervisor uses the spreadsheet information to complete the State Child Nutrition reports online which are submitted to the State Department of Education.

Bus and Transportation supply inventories are maintained by the Fleet Maintenance Supervisor. All janitorial and all maintenance supplies are maintained and distributed from the buildings and grounds warehouse.

Auditor of State Comments

1. The Board approved an increase in the capitalization threshold by resolution; however, the policy manual does not reflect the change. The capital asset policies should also address such items as useful lives, depreciation method currently being used, valuing donated assets, assigning salvage values, and defining private property (items belonging to staff and students) brought on school grounds.

2. The School District policy states that the Superintendent is to develop administrative guidelines for purchasing, transfer, and disposal of fixed assets. They should also address the procedures for tracking all capital assets. The guidelines have not been completed.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Capital Assets and Supplies Inventory

(Continued)

3. The School District's policy for consumable inventory should include an annual year-end physical inventory. The procedures for performing the inventory should be developed, documented, and maintained in the treasurer's office.
4. According to the School District policy, the Superintendent should be ensuring that inventories are systematically and accurately recorded, that property records are being properly updated and adjusted annually, that a spot check of capital assets is done annually to determine loss, mislocation or depreciation, and that any major loss be reported to the Board. The School District does not follow the Board policy.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Management and Investing

Description of an Effective Method of Cash Management

Cash received by a school district should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Reconciliations should be completed for all accounts on a monthly basis. The books should be closed at the end of the last business day of the month and processing of transactions for the new month should commence the following business day. The reconciliations should be completed immediately upon receipt of the bank statement. Reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items such as unrecorded deposits and bank charges should be posted upon completion of the bank reconciliation.

Statutory Requirements: Interim cash should be invested according to Section 135.14 of the Revised Code. The deposits of public money should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes. Cash management and investment activities of a school district are additionally governed by Sections 135.01 to 135.22, 3313.31, and 3315.01 of the Ohio Revised Code.

Section 135.14(O)(1), Revised Code, states, “Except as otherwise provided in divisions (O)(2) and (3) of this section, no Treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the Treasurer or governing board.

The policy shall require that all entities conducting investment business with the Treasurer or governing board shall sign the investment policy of that subdivision.”

Section 135.14(O)(2), Revised Code, states, “if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Treasurer or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits pursuant to division (B)(3) of this section, no-load money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section.”

Section 135.14(O)(3), Revised Code, states, “Divisions (O)(1) and (2) of this section do not apply to a Treasurer or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the Treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the Treasurer or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code.”

Section 135.22, Revised Code, requires the treasurer to attend annual training programs of continuing education for treasurers provided by the treasurer of State.

The School District's Methods of Cash Management and Investing:

The School District's treasury activities are the responsibility of the Treasurer. These activities include the acquisition and sale of investments and the transfer of cash assets among the various bank accounts. The School District maintains several checking accounts and investments to control cash.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Management and Investing

(Continued)

The Treasurers' Office is responsible for reconciling all accounts. These accounts are as follows:

Bank and Account Number

Bank One Account #1	This checking account is used for the general operation of the School District.
Bank One Account #2	This checking account is used for payroll distribution.
Bank One Account #3	This checking account is used for payroll deductions checks and bond payment clearing.
Bank One Account #4	This is a high balance savings account to hold tax receipts until note payments are due of the School District.
Bank One Account #5	This is a high balance savings account for surplus monies of all funds until needed by the School District.

The Bank One general operations account serves as the central checking account and receives all wire transfers and deposits of the School District. Monthly transfers are made from the general operations account for payroll and payroll deductions. Periodically, transfers are made from the general operations account for investments. Checks are written against the general account for the daily operations of the School District.

The School District uses Bank One's Onenet internet product to monitor checks that are clearing the bank. Bank One provides the School District with monthly check reconciliations in disk format. The disks are kept in the vault in the Treasurers' office. The Accounts Receivable Supervisor and the Payroll Supervisor use the reports from the disks to clear cancelled checks from the payroll and accounts payable system. This report allows the Supervisors to verify the checks for errors in the amounts shown at the bank or posted at the School District. The Accounts Receivable Supervisor prepares the monthly bank reconciliation for all accounts except payroll. The Payroll Supervisor prepares the monthly bank reconciliation for the payroll account. Any adjustments needed to reconcile the bank statement to the books are reviewed by the Treasurer and made in the computer system by the Accounts Receivable Supervisor or the Payroll Supervisor.

The Board has adopted a policy authorizing petty cash funds and change funds. These monies appear on the monthly bank reconciliations as reconciling items. When the reconciliations are completed, they are reviewed and signed off on by the Treasurer. The reconciliations are filed in the Treasurers' office.

The Accounts Receivable Supervisor reviews the account coding and verifies the receipt postings to the bank statements as part of the monthly bank reconciliation process. Any discrepancies found during the review are noted on the bank statement and adjustments are made during the reconciliation process. Payroll transfers are verified to the transfers listed on the bank statements and interest is posted in the following month to the general fund, the permanent improvement fund, special trust fund and auxiliary funds.

General operations and payroll checks that are not used for any reason have void written on them by the account clerk printing the check. These checks are then given to the Account Receivable Supervisor for review. The voided checks are filed in numeric order in the safe located in the Treasurers' office.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Cash Management and Investing

(Continued)

The investment policy addresses authorized investments and liquidity. The purpose of the investments is to maximize the returns on the School District's excess cash balances consistent with the safety of those monies and with the desired liquidity of the investments. The Board has given the Treasurer authority to make investments of available monies from the funds of the School District in securities authorized by State Law. The Treasurer may invest up to a maximum of twenty-five percent of the School District's interim funds. Investments must mature within five years, unless they are matched to a specific obligation or debt of the School District.

The Policy requires the Treasurer to report to the Board monthly with details of each investment showing the face amount, yield, purchase date, maturity date, and current market value if available.

The Treasurer, acting in accord with the law, may withdraw funds from approved public depositories or sell negotiable instruments prior to maturity. The School District does not have a signed investment policy on file with the Auditor of State's office.

Auditor of State Comments

1. The investment policy needs to be updated to address interest allocation.
2. The investment policy should be signed by the Board and the Treasurer and kept on file in the Treasurer's office.
3. The investment policy should be filed with the Auditor of State Clerk of the Bureau.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Financial Reporting

Description of Effective Method of Financial Reporting

The Treasurer should periodically provide the board with reports setting forth year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the school district. In addition, information concerning estimated and actual receipts, appropriations and disbursements plus encumbrances should be presented for the Board's review. On an annual basis, the Treasurer should prepare and publish within 150 days of fiscal year end financial statements prepared in accordance with generally accepted accounting principles (GAAP).

Statutory Requirements

Section 117.38, Revised Code, requires an annual financial report to be certified by the Treasurer and filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year. At the time the report is filed with the Auditor of State, the fiscal officer should publish notice in a newspaper published within the school district. The notice should state that the financial report has been completed and is available for public inspection at the office of the treasurer.

Section 3313.29, Revised Code, requires the treasurer to render a statement to the board and to the superintendent of the school district, monthly, or more often if required, showing the revenues and receipts from whatever sources derived, the various appropriations made by the board, the expenditures and disbursements there from, the purposes thereof, the balances remaining in each appropriation, and the assets and liabilities of the school district. At the end of the fiscal year, such statement shall be a complete exhibit of the financial affairs of the school district which may be published and distributed with the approval of the board.

Administrative Code Requirements

By July 31 of every year, the treasurer shall complete a Form 4502 Annual Financial Report, for the Ohio Department of Education. The report is generated by the accounting system and is transmitted to the Department of Education. School districts are required by Section 117-2-03(B) of the Ohio Administrative Code to prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP).

The School District's Financial Reporting Process

The School District prepares an annual financial report in accordance with generally accepted accounting principles (GAAP). The School District did not file their 2003 annual financial report within 150 days of fiscal year end as required by the State Auditors' office; however, prior year reports have been filed in a timely manner. The School District publishes their audited financial statements in the local paper each year and supplies each Board member with a copy of the report.

The School District uses Pentamation Software Support and Maintenance Services. The software provides the School District with the ability to generate and print multiple standard and customized month-and year-to-date reports. The School District prepares month-and year-to-date reports to use as an audit trail, places them in binders, and stores them in file cabinets in the Treasurers' office. Throughout the year, various payroll reports are printed and filed in the Treasurers' office.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Financial Reporting

(Continued)

The School District accounts for its daily operations on a cash basis for accounting. The unaudited, Cash Basis Annual Financial Report (4502) is completed by July 31, each year. Information to format the report is electronically submitted to Lake Geauga Computer Association (LGCA) by the Data Processing Department of the School District. Upon receipt of the information, LGCA formats the Cash Basis Annual Financial Report (4502) and electronically submits the information to the State Department of Education.

The Treasurer provides the Superintendent and the Board with a monthly financial report that includes receipts, expenditures, appropriations, investments, and cash balances for all funds. The Treasurer also includes a Financial Briefs report that provides written detail and graphs for the financial statements in the monthly financial report.

Auditor of State Comments

1. The Treasurer should provide a monthly bank reconciliation with the month end reports to the Superintendent, the Board and the Financial Planning and Supervision Commission. The reconciliation should demonstrate that all bank balances equal fund cash balances and identify the nature of any adjustments.
2. The unaudited general purpose financial statements for the fiscal year ended June 30, 2003 were not filed until July of 2004.
3. The Policy Manual regarding the duties of the Treasurer for preparing and publishing financial statements should be updated to state that the School District must file GAAP basis financial statements within 150 days after the fiscal year end.
4. The School District publishes the financial statements of their annual report after each yearly audit. Statute only requires that a notice be provided to the newspaper, which states that the financial report has been completed by the office and is available for public inspection in the office of the fiscal officer. The notice is to be made upon filing of the report with the Auditor of State.

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The School District's minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale behind the Board's decisions. Minutes of proceedings should be approved at the subsequent meeting. A resolution should be limited to one subject, which should be clearly expressed in its title. Proposed legislation should be drafted and available for all members to read and vote upon. In the adoption or passage of a bylaw or resolution, the yeas and nays should be entered into the minutes and the bylaw or resolution should be signed by the presiding officer and the treasurer. All Board minutes and resolutions should be maintained as a permanent record of the Board.

Statutory Requirements

Section 3313.26, Revised Code, requires the Treasurer of the board of education to record the proceedings of each meeting in a book to be provided by the board for that purpose, which shall be a public record. The record of proceedings for each meeting of the board shall be read at its next succeeding meeting, corrected, and approved, which approval shall be noted in the proceedings. After such approval, the president shall sign the record and the Treasurer shall attest to it.

By resolution, a board of education may waive the reading of the record of any of its proceedings, provided that such record has been distributed to the members of the board of education at least two days prior to the date of the next succeeding meeting and that copies of such record are made available to the public and news media. Such regulation shall be in full force and effect until such time as amended or rescinded by said board of education.

Section 122.22, Revised Code, requires the minutes to provide a full and accurate disclosure of the proceedings of Board meetings, except for legally conducted executive session discussions.

Auditor of State Comments

None

Mentor Exempted Village School District - Lake County

Financial Accounting Report

Conclusion

The methods described and included in this report are based on our inquiries and discussions with School District personnel and the related procedures documented from the School District's Policy Manual, resolutions, Ohio Administrative Code and the Ohio Revised Code.

It is our opinion that the current methods of accounting and financial reporting of the Mentor Exempted Village School District are not completely in compliance with Chapter 117 of the Ohio Revised Code and the requirements of the Auditor of State as disclosed throughout this report.



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**MENTOR EXEMPTED VILLAGE SCHOOL DISTRICT
LAKE 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
OCTOBER 7, 2004**