



**Auditor of State  
Betty Montgomery**

**Huron City School District  
Erie County, Ohio**

**Report on Accounting Methods**

**Local Government Services Section**

**Huron City School District, Erie County  
Report on Accounting Methods**

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**CERTIFICATION**

On May 13, 2004, the Huron City 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 of the School District. 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 Huron City School District.

Section 3316.10(A), Revised Code requires that the Board of Education of the Huron City 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

September 1, 2005

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 Huron City 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 Huron City School District. We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the adequacy of the accounting system. Accordingly, we do not express such an opinion. Had we preformed additional procedures, other matters might have come to our attention that would have been reported to you.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Governance Overview

Huron City 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 May 13, 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 with knowledge and experience in 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, is given the authority to assume complete managerial control of the Huron City 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 29, 2004, and includes the power to approve contracts entered into by the Huron City School District for personal services and employment contracts for all positions other than temporary positions.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 replacement, improvement and maintenance 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 to be 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 fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 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 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.



## Huron City School District – Erie County

### Financial Accounting Report

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#### Budgetary Process

(continued)

Five-year Financial Forecast: Section 5705.391, Revised Code, requires school districts to prepare 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 must contain the information and be in the 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 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 which have been certified. The record includes, but is not limited to, vendor name, contract amount, 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 expenditure created by an obligation or contract causes a fiscal year end deficit in the 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 automatic retrieval of historical data does not relieve the school district of the responsibility for insuring that those numbers are reasonable and accurate.

#### 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. A public hearing is held in January to obtain taxpayer comments. A notice of the public hearing is published in the local newspaper. The Board-adopted budget is filed with the Erie County Budget Commission no later than January 20. The Treasurer prepares the tax budget and presents it to the Board of Education for adoption.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Budgetary Process

(continued)

Prior to April 1, the Board of Education accepts, by resolution, the tax rates as determined by the Erie County Budget Commission and receives the commission's certificate of estimated resources. The resolution may be delayed until a later date if approved by the State Tax Commissioner.

After the close of the fiscal year, the Treasurer submits the fiscal year-end balances to the County Auditor. This certifies fiscal year-end fund balances to the Erie County Budget Commission and requests an amended official certificate of estimated resources that includes the actual unencumbered cash balances from the preceding year.

The Board of Education adopts a temporary appropriation measure, at the fund, function and object level, prior to the start of the new fiscal year. The temporary appropriations measure is limited to 25 percent of the total expenditures of the previous 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. For fiscal year 2004, temporary and final appropriations were approved at fund level. Fiscal year 2004 permanent appropriations and fiscal year 2005 temporary appropriations were approved at the fund, function and object level. The Treasurer does not submit any appropriation measures to the County Auditor.

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 so that they do not exceed estimated resources as anticipated in the new amended certificate. After Board approval of the supplemental appropriation measure, the request for an amended certificate is sent to the Erie County Budget Commission.

Appropriations for all student activities are set at the fund level in the appropriation measure. The Board approves those student activity programs it wishes to be operational each year. The student activity budget forms are prepared by the activity sponsor and approved by the building principal. The form identifies the activity, building, purpose, estimated fund balance at the start of the fiscal year, projected sources of income, major disbursements, and estimated fund balance at the end of the fiscal year.

Each year the Treasurer prepares a five-year forecast including assumptions that is approved by the Board of Education and filed with the State Department of Education by October 31. The forecast is updated and filed again by May 31. The Treasurer keeps the five-year forecast on file in her office with the documentation that was used to prepare the forecast. The School District maintains all contracts that have been certified as required by Section 5705.412, Revised Code, in the Treasurer's office.

#### Auditor of State Comments

1. The School District should update its Policy Manual regarding its budgetary process. The manual should include policies that are designed to comply with Ohio Budgetary Law including the level at which the Board adopts appropriations and the nature of the control, approval and documentation for the initial allocation and subsequent re-allocations of appropriations of the Board of Education. 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. The policy should also require the treasurer to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the monthly report.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Budgetary Process

(Continued)

2. Section 5705.41, R.C. states that no subdivision or taxing unit shall make an expenditure of money unless it has been appropriated. At June 30, 2004, actual expenditures exceeded appropriations in the bond retirement, student managed activities, auxiliary services, management information system, Ohio reads, chapter 2 consolidation federal programs, and reducing class size funds. The Treasurer is responsible for monitoring appropriations and expenditures to ensure that actual expenditures, including encumbrances, do not exceed appropriations. The Treasurer should review appropriations and expenditures and, if appropriations are not sufficient to cover anticipated expenditures, a supplemental appropriations request should be presented to the Board for consideration.
3. 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 Ohio Budgetary Law, if adopted.
4. 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 schedule 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 fiscal year has ended. The Board should terminate this practice.
5. 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).
6. Section 5705.39, Revised Code, requires the Board of Education to certify a copy of the appropriation resolution to the county auditor. No appropriation resolution is effective until the county auditor files with the Board of Education a certificate that total appropriations from each fund do not exceed the official or amended official certificate of estimated resources. The Treasurer does not certify and file any appropriation resolution with the County Auditor.
7. The Board of Education adopts appropriations resolutions based on anticipated amendments to the certificate of estimated resources. Appropriations are limited to the estimated resources as reflected in the certificate in existence when the appropriations are adopted. Appropriations adopted in excess of the certificate of estimated resources do not comply with Section 5705.39, Revised Code. The Treasurer should obtain an amended certificate for increases in estimated revenues before the Board of Education appropriates the increases in estimated revenues.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 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 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 boards of education may adopt rules and regulations prescribing a schedule of fees for materials used in a course of instruction, 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 both internal and external sources in the form of wire transfers, cash, money orders and checks. External sources of revenue include amounts received from the State Department of Education, Erie County and various other State and Federal agencies. Internal sources of revenue include money collected for lunches served in the cafeteria, student activities, athletic events, and miscellaneous receipts collected at the various School District buildings. All employees who handle money are bonded by position through Travelers Casualty and Surety Company of America with the School District paying the cost of the coverage.

For monies receipted in the various School District buildings, a manual pay-in (single sheet of paper) is prepared by various district employees including the athletics director and school building secretaries. After being verified to the bank deposit, the manual pay-in information is used by the Treasurer's office to input into the computer system to generate a system receipt. When monies are received directly by the Treasurer's office, the information is immediately entered directly into the computer system by the Administrative Assistant to the Treasurer and a system receipt is generated. A copy of the receipt is given to the person making the payment. No manual pay-in is completed for monies received directly in the Treasurer's office.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Revenue Activity

(Continued)

Revenues received by wire transfers are State foundation monies, State and local grants, property taxes from Erie County, and Community Alternative Funding System reimbursements from the State. The remittance forms for electronic fund transfers are received either by e-mail or in the mail from the payer.

Monies received from student activities and athletics are received with a manual pay-in which provides information on the deposit amount. The Administrative Assistant to the Treasurer uses the manual pay-in to identify the appropriate fund and receipt code for posting the transactions. The individual who prepares the pay-in enters the fund and receipt code. Each student activity advisor and the athletic director are given a listing of their corresponding account codes for the year.

All system receipts are prepared in the treasurer's office. The system receipts are numbered sequentially by the State software upon posting to the system. All system receipts are filed by receipt number in the Treasurer's office.

All monies received are deposited in the bank using a deposit ticket. All deposit tickets have three color-coded copies, white, pink and yellow. The white and pink copies go to the bank with the deposit. The yellow copy is attached to the pay-in.

The Treasurer takes all deposits received by her office to the bank in a sealed deposit bag. All other building deposits are taken to the bank in sealed, pre-numbered deposit bags by the building secretaries and cafeteria staff. The deposit bags are pre-numbered, single use bags provided by the bank. Each bag has a space to record the date, amount, and name of the individual preparing the deposit. Deposit information is also written on the tear off strip and attached to the yellow copy of the deposit slip.

At least once a week, the Treasurer goes to the bank to pick up the pink copies of the deposit slips. The deposit slips from the bank are date stamped and verified to the amount received in the deposit bag. The bank copy of the pink deposit slip is matched to the yellow copy of the deposit slip that is attached to the manual pay-in sent to the Treasurer's office by the various buildings via inter-office mail. Once the deposit slips from the bank are received, the Treasurer's office enters the receipt information from the manual pay-in into the computer system and prints a system receipt.

Receipt of State Foundation: State foundation monies are received by wire transfer bi-monthly into the School District's STAROhio account from the Ohio Department of Education. The foundation settlement sheets which show the various sources of State aid are accessed and printed from the Ohio Department of Education's web page by the Administrative Assistant and given to the Treasurer to verify that the net amount shown as received on the bank website corresponds to the net amount on the settlement sheet. The Treasurer then accesses them online and prints the settlement sheets off for her records and double checks what has been received to what the settlement sheet states should have been received. Generally, foundation settlements include restricted and unrestricted receipts, tuition payments from other districts, and various State payments to the School District. The Administrative Assistant to the Treasurer then posts the revenue to the system at gross. Memo expenditures are posted for the STRS, SERS, tuition, and other miscellaneous item deductions from the foundation settlement sheets. State foundation monies received are posted using the USAS codes provided on the settlement sheets. The settlement sheets and system receipts are reviewed by the Treasurer for accurate dollar amounts and account codes.

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### Financial Accounting Report

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#### Revenue Activity

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Receipt of Property Taxes: Upon receipt of the electronic funds transfer advice or check and tax settlement sheet from the Erie County Auditor, the Administrative Assistant to the Treasurer prepares a spreadsheet outlining the amounts and accounts for the gross amount of the settlement and the deductions, prepares a receipt and memo expenditures for all of the deductions, and posts the transactions to the system. Advances on property taxes are handled in the same manner. All property tax monies are received by wire transfer into the School District's STAROhio account. The settlement sheets and system receipts are reviewed by the Treasurer to ensure the amounts and account codes are correctly posted.

Receipt of Grant Monies: The School District receives Federal, State, and local revenue in the form of restricted and unrestricted grants. The School District receives federal and state grant monies by wire transfer from the Ohio Department of Education. The Board authorizes the applications for all grants. For most grants, the Treasurer completes a cash request electronically, which is filed monthly until the yearly allotment of monies is received. The requests that are filed electronically also include the awarded amount and the amount that has been drawn down to date. For the lunch/breakfast program, the Food Service supervisor files a CN-7 report which identifies reimbursable amounts due to the School District. Upon receipt of the wire transfer e-mail notification, the Administrative Assistant to the Treasurer posts the transaction to the system and generates a system receipt. When monies are received by check, the Treasurer prepares the deposit slip and takes the deposit to the bank and the Administrative Assistant to the Treasurer posts the transaction to the system and prints a receipt. The system receipts are reviewed by the Treasurer for accuracy of amounts that were requested and correct account codes.

Athletic Event Receipts: The School District requires payment for attendance at several athletic events. Both adults and students work as ticket sellers. Some of the adult sellers are paid for their time. In August, the Athletic Director is given a check for \$1,000 to be used as a change fund. In June, the change fund money is returned to the Treasurer's office. The Athletic Director prepares a Ticket Summary form for use with each game that includes the event, date, and beginning ticket number of each ticket roll 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. For basketball and football games, the head ticket seller counts the money in front of another seller before turning the unsold ticket rolls and money over to the Athletic Director. For all other events, the unsold ticket rolls and money are given directly to the Athletic Director from the seller. The Athletic Director enters the last ticket number sold on a Ticket Summary form. The beginning and ending ticket stubs are attached to the Ticket Summary Form. The Athletic Director then computes the total sales by multiplying the number of tickets sold times the ticket price for students and adults, counts the money, and compares the cash received to the total ticket sales. If there are discrepancies, the Athletic Director talks to the ticket seller immediately. As long as the amount is small and there is a reasonable excuse, nothing is done. If there was a large discrepancy between the amount that should have been collected based on the number of tickets sold and the amount turned in, pay may be docked from the paid adult ticket sellers.

The money, manual pay-in and Ticket Summary form are locked in a safe by the Athletic Director. The money in the safe is usually only held overnight. Usually the next school day, the Athletic Director then remits money and forms to the building secretary. If this is not done the next day, then it is done within three days. The secretary counts the money, prepares the deposit ticket, and takes the money in a sealed, pre-numbered deposit bag to the bank. The yellow copy of the deposit slip, the Ticket Summary Form and manual pay-in are sent to the Administrative Assistant to the Treasurer, who, upon receipt of the pink copy of the deposit slip from the bank, posts the transaction to the system and generates a system receipt. The system receipts are reviewed by the Treasurer for accuracy of amounts and account codes that are posted to the system.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Revenue Activity

(continued)

Student Activity Receipts: Purpose statements and budgets are prepared throughout the school year as needed by the student activity advisors and approved by the Principal and Superintendent. The Board also approves the budget for student activities. The approved purpose statements and budgets are kept on file in the Treasurer's office. The purpose statements include the anticipated receipts and expenditures of the student activity for the school year. Prior to the start of a fundraiser, the advisor prepares an additional, separate Sales Project Potential or Purpose Statement and Budget form to estimate the fundraiser's revenues and expenditures. The form also states the goals, objectives and purpose of the fundraiser. The completed form, which provides detailed information about fundraiser dates, project, and vendor, is completed by the advisor. This form then needs approval by both the school principal and the superintendent. Upon completion of the fundraiser, a Summary of Sales Project Report form must be completed to show the amount of money actually received. The Summary of Sales Project Report is reviewed for completeness and signed by both the school principal and the superintendent. A manual pay-in is completed by the activity advisor. The advisor is responsible for keeping track of the amounts turned in by each student. All advisors remit monies and manual pay-ins to the appropriate building secretary. The building secretary counts the money, compares the total to the manual pay-in, prepares the deposit ticket, and takes the money in a sealed, numbered deposit bag to the bank. The deposit slip and manual pay-in are sent to the Administrative Assistant to the Treasurer who, upon receipt of the duplicate copy of the deposit slip from the bank, posts the transaction and generates a system receipt.

Receipt of Cafeteria Monies: A food service computer program is used to account for the sale of lunches at the elementary, middle and high school. Each student uses their own scan card when purchasing breakfast or lunch. The individual scan card designates whether the student is to receive a free or reduced priced lunch. Ala carte items are also sold. Lunch items can also be purchased with cash, but scan cards are the primary method of purchasing food by the students.

The food service computer program tracks the amount of money in each student's account and deducts the appropriate amount of any purchase made in the cafeteria from the account. A cafeteria cashier enters what a student purchased into the computer, which generates a total. The scan card, which identifies each student through an identification number, is then swiped by the student and that amount is deducted from that student's total amount available. If any error is made by the cashier when entering the purchase into the computer, the Food Service Director is contacted and corrects the error in the system. Scan cards are set up for each student when they begin at the District. All money received is posted to the appropriate student's account. This money is collected from the students at the various school buildings on a daily basis. Money can be added by the students at any time throughout the school year. Outstanding amounts are billed to the student's home every Friday. Balance statements, showing each student's account balance and monthly activity, are sent out at the beginning of each month. A food service employee collects all money. The process of collecting money from the students varies among the three buildings in the School District.

At Woodlands Elementary School, cafeteria money is collected and placed in a designated box each morning by the teachers in the individual classrooms. The money collected is in an envelope marked with the student's name. A student from each classroom takes the unlocked box to a designated cart in the lunchroom. When the cafeteria cashier arrives, she takes the boxes from the cart and processes the payments on the cafeteria computer.

At McCormick Middle School, cafeteria money is collected in a designated manila envelope each morning by the teachers in the individual classrooms and is placed on the outside of each classroom door. A designated staff member picks up the envelopes and takes them to the office. When the cafeteria cashier arrives, she takes the envelopes from the office and processes the payments on the cafeteria computer.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Revenue Activity

(continued)

At Huron High School, all money is collected directly from the students by the cafeteria cashier at lunch time. The money is then either credited to the students scan card if the student wants to put a lump sum on the scan card or is used to purchase food directly.

At the end of each day, the cashiers print out the computer generated Deposit Reconciliation. This gives the daily totals by category (e.g. paid, free, reduced, extra milk, ala carte, adult receipts and student workers). The school cashiers reconcile their money with the Deposit Reconciliation. Once balanced, the cashier prepares the deposit, puts it in a pre-numbered, sealed deposit bag, records the deposit information on the tear off strip, and takes the deposit to the building secretary. The Food Service Director, or designee, picks up the cafeteria deposits at all buildings and takes them to the bank. A copy of the Deposit Reconciliation and deposit slip are sent to the Administrative Assistant to the Treasurer who, upon receipt of the duplicate copy of the deposit slip from the bank, posts the transaction to the system.

The Food Service Director, or designee, prints the breakfast CN-6 and lunch CN-7 monthly reports from the food service computer program and submits it for reimbursement.

Miscellaneous Receipts: Money for fees, overdue book fines, and damaged equipment is brought to the building secretary. The building secretaries have a spreadsheet indicating how much each student owes. The teachers give the secretary the name and amount that any student owes which is entered into the spreadsheet. The building secretary used this spreadsheet to track who has paid and who still owes money. The building secretary counts the money, prepares the deposit slip, and takes the money in a sealed, pre-numbered deposit bag to the bank. The deposit slip and manual pay-in are sent to the Administrative Assistant to the Treasurer who, upon receipt of the duplicate copy of the deposit slip from the bank, posts the transaction to the system and generates a system receipt. Final grade cards are held until a student has all fees paid.

The Treasurer's office prepares and mails an invoice for use of school facilities, student fees, and other items. Copies of the invoices are maintained online in the USAS/ARF State Software program. The Treasurer's office reviews the outstanding invoices on a monthly basis. When payments are received, the Administrative Assistant to the Treasurer posts the transaction to the system, prints a system receipt, and the Treasurer prepares the deposit slip and takes the deposit to the bank.

#### Auditor of State Comments

1. The School District does not have written procedures for the receipt of money. The Treasurer should document the procedures followed for the receipt and deposit of money and compliance with the related Board policies.
2. A pay-in is a form generally used by the treasurer's office for the receipt of money and for the posting of receipts to the accounting system. Receipts are generally a document used to substantiate the receipt of money. School District building staff issue pay-ins instead of receipts. Manual receipts should be used by building staff. Pay-ins should only be utilized by the treasurer's office to document the receipt of money from the buildings and to post receipts into the system.
3. The Ticket Summary form used to account for the collection of money for extracurricular activities should be signed by the person responsible for preparing the form.



## Huron City School District – Erie County

### Financial Accounting Report

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#### Revenue Activity

(continued)

4. The scan card lunch money is either left on an unsecured cart in the cafeteria or in envelopes on the classroom doors. The money should be in a secured place until it can be picked up or delivered to the cafeteria staff.
5. System receipts should bear the initials or signature of the person that received and posted the transaction rather than the electronic signature of the Treasurer. The Treasurer should review the account coding and documentation of receipts over a specified dollar amount.
6. A policy should be implemented to ensure that discrepancies from ticket sales would be dealt with in a consistent and timely manner.
7. The Treasurer should review the process for the receipt and deposit of money to the bank. The areas that are potential issues are the number of deposit slips/bags prepared by each building, the number of trips to the bank to make deposits, and the security of the cash collections and deposit bags waiting delivery to the bank. Each building should summarize their receipts for the day and make one deposit and one trip to the bank or arrangements should be made for the pickup and delivery of deposits to the bank. The Treasurer should observe how cash collections are secured within each building, if at all, and implement appropriate changes.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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. The purchasing process should be integrated with the budget to ensure compliance with Board adopted appropriations. The process should include selection of the vendor with the best price as well as authorization to proceed with the purchase 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 free from previously encumbered obligations. 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. Payments greater than \$3,000 are to be approved by resolution of the Board of Education.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 school 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 fixed 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 are to 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, 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.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Purchasing Process

(Continued)

Delinquent Personal Property Taxes - Section 5719.042, Revised Code, provides that after the award by a taxing district of any contract let by competitive bid and prior to the time the contract is entered into, the person making a bid shall submit to the district's fiscal officer a statement affirmed under oath that the person with whom the contract is to be made was not charged at the time the bid was submitted with any delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the county treasurer within thirty days of the date it is submitted.

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

For major contracts, the Treasurer prepares and signs a 412 Certificate which certifies that the School District has sufficient revenue to support those contracts. Currently, the School District has 412 Certificates for their Employee Union Contracts. The School District does not have any other major contracts that qualify for this certification.

When goods or services are required, an employee completes a manual purchase requisition form with the vendor name, address, items to be ordered, quantity, description, unit price, and total cost, as well as any required shipping information. The completed purchase requisition is given to the immediate supervisor for approval and assignment of account codes. Once the supervisor approves the requisition, it is sent to the building secretary or Administrative Assistant to the Treasurer to be entered into USAS state software system. When inputting the vendor name into the computer system, the secretary determines if the vendor is new. If the vendor is new, the building secretary indicates this on the requisition and uses the generic "new vendor" number to enter the information. Otherwise, the vendor number assigned is used. Once the secretary has entered the information in the computer, the requisition is printed and signed again by the supervisor. The original hand written document with the required signatures is attached to the printed requisition. The manual and printed requisitions are sent to the Administrative Assistant to the Treasurer.

The Administrative Assistant to the Treasurer verifies that new vendors have no outstanding, unpaid findings for recovery issued by the Auditor of State. The verification is completed by performing a search on the Auditor of State's web site for unresolved findings for recovery. The search results are printed, reviewed and signed by the Treasurer and attached to the requisition. If the vendor appears in the unresolved findings for recovery database, the requisition is returned to the employee. If the vendor does not appear in the unresolved findings for recovery database, the results are printed and the requisition is approved and initialed by the Treasurer if sufficient appropriations are available, sent to the Superintendent for approval and returned to the Administrative Assistant to the Treasurer for processing. All purchases requisitions are approved by the Superintendent and those over \$25,000 are let by competitive bid, if applicable.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Purchasing Process

(Continued)

The Administrative Assistant to the Treasurer processes a purchase order after the requisition has been approved by the Superintendent and Treasurer. The Treasurer reviews the expenditure account codes and verifies that sufficient appropriations exist. All purchase orders are signed electronically by the Treasurer. The posting of the purchase order automatically books an encumbrance in the accounting system to the designated account. All purchase orders contain a statement above the Superintendent's signature that says, "This order is void unless Treasurer's certificate is signed." The requisition is attached to a copy of the purchase order. Purchase orders are used for all purchases of the School District.

The purchase order is a four-part form and is distributed in the following manner:

1. The white (original) copy of the purchase order is faxed or mailed to the vendor or returned to the building through inter-office mail.
2. The pink copy is kept in the Treasurer's office.
3. The yellow copy is sent to the purchaser, or designee.
4. The goldenrod copy is kept in the Treasurer's office until the purchase order is paid.

Blanket or open purchase orders are prepared from an approved requisition. Per Board resolution, blanket purchase orders are limited to \$10,000 and 90 days or the end of the fiscal year, whichever occurs first. They are used in areas such as food service, transportation, and building maintenance.

"Then and Now" purchase orders are used based on Board policy, which states that all purchase orders greater than \$3,000 require board approval prior to payment. "Then and Now" purchase orders less than \$3,000 are approved by the Treasurer. "Then and Now" purchase orders are used only when a requisition has not been approved. The Treasurer only approves the use of these purchase orders if the purchase is in the normal course of business and appropriations are available. If not, the employees are responsible for the expense.

The Treasurer and/or the Administrative Assistant to the Treasurer reviews the unpaid purchase orders every month and checks with the vendor or requesting building or department on the status. Outstanding purchase orders are checked against the outstanding purchase order listing report to ensure that all purchase orders are still in the system. Also on a monthly basis, outstanding purchase orders are reviewed to see if they can be closed or not. Any unneeded purchase orders are cancelled along with the corresponding encumbrances.

#### Auditor of State Comments

1. The School District should update the Board Policies for purchasing to address the role of the Treasurer and Superintendent, the use of purchase orders, the statutory certifications by the treasurer, the use of quotes from vendors, and the consequences for failure to obtain the treasurers certification.
2. The Treasurer and/or the Administrative Assistant to the Treasurer should indicate that a review of unpaid purchase orders and an inquiry with vendors, buildings or departments has taken place by signing or initialing the Open Purchase Order Listing. Without initialing the report, it cannot be determined if a review has actually taken place.
3. The building secretaries enter information from the manually prepared requisitions and print a purchase requisition after the manual requisition is prepared by an employee and approval by the supervisor. The same information is entered by the Administrative Assistant to the Treasurer in preparing a purchase order. The School District should use the software feature that allows purchase requisitions to be entered and approved on-line and use the same information to generate purchase orders. This will eliminate the duplication of effort in the process.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 a signature of the individual who received the goods and 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 in sufficient time to avoid penalties and receive discounts. Vouchers should be filed numerically or by vendor. No invoices for payments should be processed that were not properly certified unless 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 receipt 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 on appropriations enacted by the board of education. Appropriations from each fund may be used only for the purposes of such fund. Under Section 3313.51, Revised Code, no moneys of a school district shall 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, R.C., states that "...whenever a 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."

## Huron City School District – Erie County

### Financial Accounting Report

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#### Cash Disbursements

(continued)

#### Administrative Code Requirements

Section 117-2-02 (C)(3) of the Ohio Administrative Code states “vouchers 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 Treasurer’s office has the responsibility to ensure that goods and services are received prior to payment. The employee at the building who receives the shipment of goods verifies the contents to the packing slip, if available, attaches the packing slip to the yellow copy of the purchase order, dates and initials, indicates whether the order is complete, and sends the documents to the Administrative Assistant to the Treasurer. If a packing slip is not available, the goods are verified against the purchase order.

The Administrative Assistant to the Treasurer verifies that the packing slip and yellow copy of purchase order have been initialed/signed by the building employee that received the goods. If the order is complete, the purchase order, with attached documentation, is placed in a designated drawer in the Treasurer’s office until the invoice is received. If no purchase order exists, the employee responsible for the order is notified and requested to process a requisition. If the amount is over \$3,000, Board approval is obtained. After the requisition is approved, a “Then and Now” purchase order is created and signed. If it is not approved, the employee is responsible for the purchase.

All invoices are mailed to the Treasurer’s office. The Treasurer or Administrative Assistant to the Treasurer opens all invoices and matches them to the purchase order and packing slip. The items, quantities, and unit price on the purchase order are compared to the invoice. If an invoice is wrong, the Administrative Assistant to the Treasurer investigates why there is a difference and resolves the discrepancies. The invoice, billing slip, and yellow copy of the purchase order are placed in a file for payment. If the order is not complete, payment is held until the order is completed to the satisfaction of the School District. The voucher package (invoice, packing slip, purchase order, requisition, and the Auditor of State’s findings for recovery results) is then put in the file that holds the packet until payment. If the purchase order is partially complete and an invoice is received for the partial shipment, a check is issued for the appropriate, partial amount. The purchase order and attached documentation is placed in a file until the remaining items are received. If the invoice amount significantly exceeds the purchase order amount, the purchase order will be revised to reflect the appropriate amount; however, if the invoice amount exceeds the purchase order by an insignificant amount, the invoice is paid in full and the existing purchase order is marked complete.

The Administrative Assistant to the Treasurer reviews the blanket purchase orders with each payment made to determine whether a new blanket purchase order is necessary. If a new one is deemed necessary, the old purchase order is marked as either COMPLETELY PAID or CANCEL remaining encumbrance, depending on appropriate categorization.

Bills are paid once a week, more often if necessary, based on the invoice due date or upon a review and determination by the Treasurer that sufficient cash is available in the funds. To process bills for payment, the Administrative Assistant to the Treasurer flags in the accounting system the purchase orders to be processed for payment and enters the appropriate invoice date. The checks are then printed including the Treasurer’s

## Huron City School District – Erie County

### Financial Accounting Report

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#### Cash Disbursements

(Continued)

electronic signature. After the checks are printed, the Administrative Assistant to the Treasurer verifies the amounts against the invoice to ensure that they match. The Administrative Assistant to the Treasurer is the only person, besides the Treasurer, with a password to print requisitions, purchase orders and budgetary checks with the electronic signature. The Assistant to the Treasurer is the only person, besides the Treasurer, with the password to print off payroll documents and checks with the electronic signature. All blank and voided checks are kept in a locked cabinet in the Treasurer's office. The two part pre-numbered checks are separated by the Treasurer's office and the original is mailed with the remittance documents to the vendor. The second copy, which serves as the voucher, is attached to the supporting documents. The vouchers are filed numerically by check number in the Treasurer's office. The Treasurer runs a Check Register Report on a monthly basis to review the checks that have been paid.

The Treasurer receives blanket approval from the Board at the organizational meeting to pay obligations as they come due.

If a check is voided, the check is marked void and the signature block is removed. The voided checks are filed in numerical order with the cancelled checks. The School District receives all cancelled checks from the bank.

#### 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 Treasurer should compare the electronically signed checks to the voucher before they are mailed. This comparison should be completed for all checks or checks over a predetermined amount (i.e. over \$1,000 or \$5,000).
3. The Treasurer receives blanket approval from the Board at the organizational meeting to pay obligations as they come due. The Board is not legally authorized to grant such approval at the organizational meeting. The Board should comply with Section 3313.18, Revised Code, in granting such authority.



## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 of 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 pay checks, 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 the State Teachers Retirement System (STRS) and Sections 3309.23, 3309.341, 3309.47, and 3309.49, Revised Code, for the 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 employees, and indicates the procedures for paying the employees for leave balances credited to them upon separation from service. However, bargaining agreements may grant more or less leave time and alter separation payments.

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.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Payroll Processing

(continued)

#### School District's Payroll Processing Procedures

The School District's pay period for certified and administrative employees begins on Sunday and ends on Saturday, fourteen days later. Employees are paid on Friday, thirteen days after the pay period beginning date. The pay period for classified employees begins on Monday and ends on Sunday, fourteen days later; they are paid six days later. Payroll is processed for approximately 150 full and part-time employees. All supplemental and extra pays for employees, including longevity and bonuses, are included in their bi-weekly pay. 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.

All checks are kept in a locked cabinet in the Assistant to the Treasurer's office. Access to the cabinet is limited to employees in the Treasurer's office and the cabinet is locked when the administration building is closed. The Treasurer's office possesses the only key to the electronic check signer.

All employment applications are received and kept on file by the Superintendent's Secretary. Recommendations for employment are made to the Board of Education by the Superintendent and are recorded in the minutes by the Treasurer. Once employed, copies of all records, with the exception of the license and transcripts, are kept in individual employee files in the Treasurer's office. The license and transcripts are kept in the Superintendent's office.

Administrators: Administrative contracts are prepared by the Superintendent and Treasurer based upon contract provisions approved by the Board of Education. These contracts establish the annual salary, vacation accrual rate, retirement contributions, annual vacation and personal leave days to be credited, sick leave accrual and job duties and expectations for each employee. In addition, the contracts state that the Board will provide the employee with health, dental, vision and term life insurance in the same manner and to the same extent as other employees. The contracts are reviewed and approved by the Board of Education. Contracts for the Superintendent and Principals 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. The signed contracts are kept on file in the Treasurer's office.

Certified: The teachers' salaries and benefits are governed by a negotiated agreement between the Huron City School District and the Huron Education Association OEA/NEA/NEOEA. The present contract covers the period of August 1, 2002 through July 31, 2005. The contract establishes salary schedules that reflect annual rates of pay based upon years of experience and education. In addition, the contract identifies the annual amount of personal leave to be credited and sick leave accrual amount for certified employees. Certified employees do not earn vacation.

New contracts are prepared for certified teaching staff by the Assistant to the Treasurer. The teachers' contracts are normally mailed in May prior to the end of the school year. Before any contracts are mailed, they are approved by the Board and signed by both the Treasurer and the Board President. The contracts set forth the number of days to be worked by the employee and the annual rate of pay. The contracts become effective September 1 and run through June 30 of the subsequent year.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Payroll Processing

(continued)

Once the contracts have been signed and returned to the Treasurer's office, the Assistant to the Treasurer enters the contract amounts into the payroll system. The payroll system calculates the amount to be paid to each individual over twenty-six pays. The contracts are kept in individual employee files in the Treasurer's office. The Treasurer spot checks the contract amounts entered by the Assistant to the Treasurer to the individual contracts. The only time that contracts are adjusted during the year is when a certified employee's degree status changes.

The Treasurer is responsible for processing supplemental contracts. These contracts are issued at the same time regular certified contracts are issued for regular employees who continue to fill the supplemental position. If a regular employee is filling a supplemental position for the first time, they receive the contract after they are approved by the Board of Education to fill that position. All supplemental contracts with regular employees are paid over twenty-six pays, unless the contract is entered into after the commencement of the regular employee's contract, in which case it will be paid over the remaining number of pays in the school year. Any supplemental contracts granted to someone other than a regular employee are paid in a lump sum after the contracted duties are completed and an evaluation by the building principal or Athletic Director has been submitted.

Classified Employees: The classified employees' salaries and benefits are governed by a contract negotiated between the Huron City School District and the Huron Classified Education Association OEA/NEA. The present contract was originally approved for the time period from July 1, 2001 through June 30, 2004. However, no changes have been made to this contract and its term has been extended through June 30, 2005 per a Memorandum of Understanding. The contract extension was approved at the April 20, 2004 Board meeting. The contract sets forth hourly rates for all classified positions except Board Office classified positions which reflect annual salary amounts. The Board Office classified position rates are established by the Board. The contract sets forth the sick leave accrual amount, and the amount of vacation and personal leave to be credited annually. In addition, the contract defines overtime for each position and the rate of compensation for overtime. Employees are considered full-time if they work thirty or more hours per week. Currently, the School District employs fifty-three classified employees.

New contracts are prepared for classified staff by the Assistant to the Treasurer. Classified employees are given a one-year contract for their first year with the School District. Upon completion of this contract, the School District gives the employee a two-year contract. Finally, after the completion of the two-year contract, the School District will give the employee a continuing contract which is in effect until the School District or employee terminates the employment. After an employee has entered into a continuing contract, only a salary notification letter is mailed to the employee in the following years. The contracts are normally mailed in May prior to the end of the school year. These contracts establish the hourly or annual rate of pay for each employee and the number of hours per day to be worked. The contracts are reviewed and approved by the Board of Education. Contracts for classified staff typically run for twelve months from July 1 to June 30 and are paid over twenty-six pays. The signed contract is kept on file at the Treasurer's office.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Payroll Processing

(continued)

Classified employees are paid at an hourly rate and include the cafeteria workers, educational and library aids, custodians, transportation staff and secretaries. These rates are based upon amounts set forth in the negotiated agreements. A time sheet is completed each pay period by the classified employees. The time sheet is submitted to the employee's immediate supervisor. After the employee's supervisor approves the time sheet, it is forwarded to the Assistant to the Treasurer. The Assistant to the Treasurer reviews the time sheet, verifying mathematical accuracy and leave usage to leave approval. Any discrepancies are resolved with the supervisor and the employee prior to processing.

Overtime earned is paid in the pay period in which it was earned for hourly employees. Overtime must be approved by the employee's supervisor and the Superintendent prior to being worked. This approval is only verbal. The approved overtime is included on the employee's time sheet that is sent to the Assistant to the Treasurer for review and processing. Any discrepancies are resolved with the supervisor and the employee prior to processing.

Leave: Vacation is credited to each employee monthly while personal leave is credited annually as indicated in the respective certified and classified negotiated agreements or in each administrator's contract. Although established by negotiated agreements or in administrators' contracts, all employees currently receive the same amount of sick leave which is accrued monthly. Vacation, personal, and sick leave usage is posted in the payroll system by the Assistant to the Treasurer according to the amount of time on leave forms. The system updates the balances automatically. Certified staff does not earn vacation.

Employee leave forms must be completed for an employee to use vacation, professional, sick or personal leave. Other forms of leave available to employees are jury duty, bereavement leave, and assault leave. The type of leave desired, the hours to be used and the date is completed on leave the form which is submitted to the employee's immediate supervisor. The supervisor, department head or principal approves leave requests prior to the employee taking the leave, or if the leave is unplanned, the supervisor or principal will approve the leave upon the employee's return. All leave forms are also forwarded to the Superintendent for approval. One copy of the form is kept by the Superintendent, one copy is sent to the employee's supervisor, one copy is sent to the Assistant to the Treasurer for processing, and the last copy is sent to the employee.

Each building secretary maintains time sheets for substitute teachers. The building secretary compares the time on the approved teacher leave forms to the time on the substitute time sheets. They are then forwarded to the building principal. As they are compared and verified again, the building principal or supervisor keeps a copy and then forwards a copy of the approved leave forms and time sheets to the Treasurer's office for processing.

Starting in fiscal year 2005, substitutes are contracted through Renhill Staffing Service. The staffing service sends the substitute sign-in sheets weekly to the Treasurer's office. The Assistant to the Treasurer compares the leave forms to the substitute teacher time sheets. For any employees that have not submitted a leave form, the Assistant to the Treasurer will contact either the employee or the employee's supervisor and request that the approved form be submitted prior to payroll processing. Both the supervisor and the Superintendent must approve the leave. The leave request form is then submitted to the Assistant to the Treasurer. The amount and type of leave used is entered into the payroll system, which automatically deducts the usage from the employee's leave balance.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Payroll Processing

(continued)

The Assistant to the Treasurer is responsible for keeping vacation, sick, personal and other leave records for both certified and classified employees. A benefit balance report is run each pay listing the outstanding balances for all leave types by employee. The balances can also be viewed on the computer by the Assistant to the Treasurer. The approved leave sheets are kept and used to verify balances in the event that an employee questions leave information as reflected on their earnings statements.

Any leave without pay request must be pre-approved by the Superintendent, who prepares a letter authorizing the leave and sends a copy to the Treasurer's office. Any long-term leave requests must also be approved by the Board. The Assistant to the Treasurer prepares an estimate of the amount to be adjusted on the employee's original contract in relationship to the amount of the leave requested. The estimate is sent to the employee. The estimate is then entered into the payroll system. The system subtracts the amount of leave without pay from the regular contract pay in the pay period or periods in which the leave is taken.

Salaries are paid according to the negotiated agreements between the Board of Education and classified and certified employees bargaining unit. The certified schedule is based on degree achieved and years of experience. The Superintendent verifies degree and experience and determines placement on the salary schedule according to the terms of the contract. The classified schedule is based on years of experience.

Other Employees: Substitute teachers and classified substitutes, other than bus substitutes, are employed by Renhill Staffing Services. All substitutes sign in and out on a weekly sign-in sheet which is kept in the building secretary's office. The weekly sign-in sheet is reviewed as to the number of teachers that were off and the number of substitute teachers should have been used and approved by the building principal or building secretary, faxed to Renhill Staffing Services, and sent to the Administrative Assistant to the Treasurer every Monday. The Administrative Assistant to the Treasurer compares the sign-in sheet to the employee leave forms for accuracy of number of substitutes used to number of teachers who took leave. Bus subs are hired by the Board.

Two of the board members are paid at a rate of \$125 per meeting, and the remaining three board members are paid \$80 per meeting and no more than sixteen meetings per year. The Treasurer's office prepares a check for each board member based upon the roll call noted in the minutes.

Withholdings: Payroll, tax and retirement forms are given to new employees to be completed, signed, and returned to the Assistant to the Treasurer, who enters the information into the computer. If employees need to change their payroll tax, retirement, or annuity information, they can obtain the appropriate forms from the Assistant to the Treasurer, who then enters the changes into the payroll system. Withholding and various deduction forms are maintained in the Treasurer's office.

Access to the payroll system is username and password protected. The Treasurer has given authority to NOECA, the School District's A-site, to grant access and supply an initial password. The user is required to change the initial password and will be prompted by NOECA to change it every three months. The Treasurer, the Assistant to the Treasurer and the Administrative Assistant to the Treasurer are the only ones with access, all of which have full access. However, with every payroll, a payroll audit report is generated which details any and every change that was made in the payroll system during that time. This report is reviewed each payroll by the Treasurer to ensure that all changes made in the payroll system were made correctly.

Payroll deductions for STRS and SERS are processed through the payroll system, completed and filed timely. The Board share of retirement is paid by deductions from the State Foundation settlements. Therefore, the Administrative Assistant to the Treasurer posts a memo check for the Board share and mails the employee share to STRS.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Payroll Processing

(continued)

The monthly STRS program generates two reports, an employees' share report and a Board share report. The Board share report lists the days paid for employees whose portion of STRS is picked up by the Board. The reports are used to reconcile the monthly payments with amounts deducted from employees. An annual report is prepared by the Assistant to the Treasurer and the yearly amounts paid are reviewed by the Treasurer for accuracy and signed. It is then filed with STRS in a timely manner.

The employer share of STRS is withheld semimonthly from the School District's state foundation. An annual report is prepared by the Assistant to the Treasurer, which is reviewed and signed by the Treasurer and filed with STRS when required.

SERS employee contributions are paid monthly. A monthly report is generated that identifies the amounts of the contributions paid. The monthly check is mailed to SERS along with the cover sheet detailing the payment information. The data center electronically forwards a listing of employees, the days worked, and earnings to SERS.

Other Employee Benefits: The School District offers medical, prescription, vision, dental and life insurance to all full time employees. Medical and prescription benefits are provided through Medical Mutual, vision benefits are provided through Vision Service Plan, dental benefits are provided through Coresource, and life insurance benefits are provided through Kanawha Insurance Company. The School District pays 100 percent of the monthly premiums for the administrators and administration staff of the Board of Education. The School District also pays the majority of the monthly premiums for certified and classified. Certified staff is required to pay \$5 per month for single coverage or \$10 per month for family coverage, while classified staff is required to pay \$2 per month for single coverage or \$4 per month for family coverage. The Administrative Assistant to the Treasurer maintains a spreadsheet identifying the type of coverage and premium amount for each employee, which is used to determine the amount of payroll deductions for the various types of insurance.

Payroll deductions for medical, prescription and life insurance benefits are processed through the payroll system and then used as part of the payment. The Administrative Assistant to the Treasurer is responsible for the preparation of the documentation for the payments of medical, prescription and life insurance benefits.

All payroll deduction reports, insurance invoices, and the spreadsheet are maintained by the Assistant to the Treasurer. The Treasurer is responsible for the payment of the insurance premiums when due subsequent to verifying invoices to the spreadsheet. Any discrepancies between the amounts billed for insurance coverage when compared to the spreadsheet are brought to the Treasurer's attention so the matter can be resolved.

Payroll Processing: All payroll information must be received by the Monday following the end of the pay period. Once all payroll information is entered into the system by the Assistant to the Treasurer on Monday and Tuesday, a bi-weekly report called an INICAL is run. The INICAL lists the total regular employee bi-weekly payroll prior to exceptions (overtime, extra hours, miscellaneous pays, etc.)

The next payroll report generated is a distribution proof listing called PAYSUM which details the gross payroll by individual employee. The Assistant to the Treasurer enters all exceptions and re-runs PAYSUM. The first PAYSUM plus all exceptions should balance to the second PAYSUM. If necessary, errors are corrected and PAYSUM is run again and reviewed for balancing and accuracy. The Assistant to the Treasurer then generates the PAYRPT which lists deductions, gross pay, net pay, and pay account distribution. The Assistant to the Treasurer reviews the report for proper posting to the respective appropriation accounts.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Payroll Processing

(Continued)

The Assistant to the Treasurer prints the payroll checks and direct deposits data using the CHKPRT program. Direct deposits are submitted electronically to the bank by 12:00 p.m. on Wednesday of the pay week. Money is swept from a checking account into the payroll account electronically as checks are presented for payment.

Checks are signed at the time of printing with a dual check signer and printer. Only the Treasurer and the Assistant to the Treasurer have the password to use the electronic check signer for payroll checks.

Most of the School District's employees are paid through direct deposit. Those employees with direct deposit receive e-mail notification regarding their pay. The rest of the regular employees receive their payroll checks through interoffice mail sent to the building secretaries who distribute them in the employees' mailboxes. During the summer, all paychecks are mailed.

Payroll checks and direct deposits are posted to the payroll system by running the CHKUPD program. Appropriate deduction checks are printed and posted to the system by running the DEDRPT and PAYDED. These items automatically post to the appropriation/expense ledger when posted to the payroll ledger.

The AUTOPOST program automatically posts the payroll information to all of the appropriate accounts and files within the payroll system and the budgetary system. The Treasurer reviews the payroll distribution sheet to determine if the amounts paid are reasonable and then signs it.

The prior month must be closed before the first payroll of a new month can be posted. There can be a delay in posting payroll data due to the timing of the previous month's close-out.

If a check is lost, the employee must wait twelve days before the Treasurer's office will issue a stop payment. At that time, the payroll check is voided and a new check is issued. The check is marked as a "void" in the check register. This information is used for processing the bank reconciliation.

Internal Revenue Service W-2 forms are processed after the last payroll for the calendar year. W-2 forms are mailed to all employees by the end of January. All W-2 information is submitted electronically to the IRS through the School Districts A-site, Northern Ohio Educational Computer Association.

#### Auditor of State Comments

1. The procedures used to process payroll should be documented and on file in the Treasurer's office. The procedures should address the duties, processes, segregation of duties involving the payroll process, and include lost check procedures.
2. Overtime is currently being pre-approved verbally. Written approval of overtime should be obtained prior to the overtime being worked.
3. The School District should amend its 412 certificate attached to the classified bargaining unit contract to include the actual dates of the contract's term.
4. All staff involved with the processing of payroll has full access to the payroll system. Staff access should be limited to the functions they perform.

# Huron City School District – Erie County

## Financial Accounting Report

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### Debt Administration

#### Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before debt is issued, a resolution authorizing the issuance of debt should be passed by the board of education. 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 appropriate 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 being issued.

#### School District's Debt

The amount of the School District's outstanding debt at June 30, 2004 was \$6,857,441 and consists of the following:

	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2004</u>
<u>General Obligation Bonds:</u>		
1999 Library Improvement Bond - Serial Bonds	3.85 to 5.35%	\$3,875,000
1999 Library Improvement Bond - Capital Appreciation	4.9 to 5%	39,999
Total General Obligation Bonds		<u>3,914,999</u>
<u>Notes:</u>		
1998 Energy Conservation Improvement Notes	5.10%	70,000
2003 Tax Anticipation Notes	2.25 to 2.75%	610,000
Total Notes		<u>680,000</u>
<u>Capital Leases:</u>		
2001 Elementary School Addition		2,090,595
2003 Copier Equipment Lease		171,847
Total Capital Leases		<u>2,262,442</u>
Total Obligations		<u><u>\$6,857,441</u></u>

All debt documents and amortization schedules are kept on file in the Treasurer's office.



## Huron City School District – Erie County

### Financial Accounting Report

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#### Debt Administration

(continued)

General obligation bonds are paid from property taxes received in the debt service fund. In 1999, the School District issued bonds for improvements and construction of facilities and equipment at the Huron Public Library. The bonds are included as School District debt because the School District serves as the taxing authority for the library and is required to issue tax related debt. The principal and interest will be paid from the library bond retirement debt service fund.

Energy conservation notes were issued in fiscal year 1998 for \$490,000. The principal is paid from the general fund.

On June 17, 2003, the School District issued notes in the amount of \$610,000 in anticipation of the collection of tax revenues from the levy approved in November 2002, which collection started in 2004. The note resolution was certified to the Erie County Auditor. The note was issued due to cash flow problems. The principal will be repaid from general fund tax revenue allocated to the debt service fund.

#### Auditor of State Comments

1. The debt schedules in the 4502 (Statements J and L) do not reflect the correct balances. Interest is incorrectly being included in Statement L when only principal should be shown. The ending balances should tie to the outstanding principal balance at fiscal year end.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 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.

##### Statutory 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

In accordance with Board policy, the School District performs a complete inventory of all School District owned equipment every five years. The policy defines equipment as a unit of furniture or furnishings, an instrument, a machine, an apparatus or articles which retain shape and appearance with use, is nonexpendable and does not lose its identity when incorporated into a more complex unit. The School District had a complete update of capital assets completed by Valuation Engineers, Inc. in 2003. The policy further requires the School District to maintain a capital asset accounting system. The capital asset accounting system is to provide sufficient information to permit the preparation of year-end financial statements in accordance with generally accepted accounting principals, determine adequate insurance coverage and provide control and accountability.

Equipment is inventoried by building, floor and room name or number. Leased equipment that the School District will eventually own is also inventoried. Movable equipment is inventoried by building, floor and room name. Any item that has a model number or serial number has that number noted in the description for full identification. All items assigned to a building are the building administrator's responsibility. All equipment purchased with a cost of \$1,000 or more and with an estimated useful life of five years or more is tagged upon receipt and made part of the equipment inventory. Buildings and the additions to buildings are identified by location or name and are described in detail (e.g. size, number of floors, square footage, type of construction, etc.) with the value shown for all individual structures.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Capital Assets and Supplies Inventory

(continued)

Audio-visual and computer equipment is inventoried by the audio-visual director and the technology coordinator with sublisting of location. Each component is identified with an inventory tag. An accurate official record of textbooks is kept by the Curriculum Director; records of computer software is kept by the Technology Technician; and record of library books is kept by the Media Specialist.

All capital assets, when purchased, are coded with an object code of 600 or 700. The capitalized assets are flagged by the system and the Treasurer inputs the remaining data. In April each fiscal year, the Treasurer generates a report of all capital assets purchased during the current fiscal year. The report is sent to the department heads who verify each item by the inventory tag number affixed upon delivery from the vendor and prior to distribution to buildings. The Treasurer verifies that each capital asset in the system has an inventory number and all relevant information (i.e. purchase order number, coding and location).

Any employee during the year who disposes of any capital asset removes the inventory tag, attaches it to the Inventory Transfer or Disposal Form, fills in the appropriate information, and returns the completed form to the Treasurer's Office. The Treasurer enters the information in the system and files the supporting documentation in the Inventory file.

#### School District's Methods for Assets for Supplies

The School District's inventory policy states that a physical inventory of supplies shall be taken at the building level at the close of school, or not later than the second Friday in June of each year. This updated listing will then be submitted to the Business Manager's office so that an inventory listing can be made.

The building food service supervisors complete inventory reports and provide them to the food service supervisor. The inventory list 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.

#### Auditor of State Comments

1. The capital assets policy should be expanded to address valuing donated assets, assigning salvage values and addressing private property (items belonging to staff and students).
2. The Board approved an increase in the capitalization threshold by resolution. The policy should be updated to include the new capitalization threshold.
3. The School District's consumable inventory procedures should be updated to include the items to be inventoried, method to be used, and the individuals responsible for verifying the count. The procedures should include a standard form for counting fiscal year-end inventory. The procedures should include the addition of a review process that the School District should begin to insure that amounts purchased are reasonable.
4. According to the School District's policy, a physical inventory is to be taken in June. This is not being done.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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, and 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 transfer of cash among the various bank accounts, investing, and reconciling the treasury with the accounting records. The School District maintains a checking account, a payroll checking account and one STAROhio investment account.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Cash Management and Investing

(continued)

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

#### Bank and Account Description

Citizens Banking Company	This general checking account is used for the general operations of the School District.
Citizens Banking Company	This account is used for the accumulation and distribution of funds for payroll of the School District.
STAROhio	This is used as an investment account of the School District.

STAROhio receives wire transfers for the Huron School District. The Citizens Banking Company checking account receives daily deposits from the School District. Transfers are made, when necessary, from the STAROhio account into the Citizens Banking Company general checking account. Checks are written against this account for the daily operation of the School District.

The Treasurer's office reconciles the bank accounts each month. The Administrative Assistant to the Treasurer reconciles the checking and payroll accounts. The Treasurer reviews amounts and signs each reconciliation. Any discrepancies are noted on the monthly cash reconciliations. The cancelled checks are placed in a box in numeric order for storage. Any discrepancies are noted on the bank statement and the monthly receipt report are corrected and posted upon completion of the reconciliation process.

The Huron City School Board of Education authorizes the Treasurer to make investments with available monies from the funds of the School District in securities authorized by State Law. Earnings on an investment may become a part of the fund from which the investment was made, unless otherwise specified by law. The only investment the School District holds is the STAROhio account and the funds that receive the interest by resolution, are the following:

001	General Fund	006	Food Service
007-9001	Memorial Scholarship	007-9002	Phillip Stewart Scholarship
007-9006	Addison and Ozelma Scholarship	007-9007	Hoffman Memorial Scholarship
007-9010	Carver Memorial	007-9011	Leidheiser Scholarship
007-9013	Karyn Lodgett-Camella Scholarship	401-9045	Auxiliary Services-Montessori
401-9405	Auxiliary Services-St. Peters		

The Treasurer's office maintains a petty cash fund. The Board authorizes establishment of cash funds in the care of custodians as stated in their annual Petty Cash resolution.

**Huron City School District – Erie County**

**Financial Accounting Report**

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**Cash Management and Investing**

(continued)

**Auditor of State Comments**

1. The investment policy needs to be updated to address interest allocation. The resolution that addresses the interest allocation could not be located.
2. The investment policy should be signed by the Board and the Treasurer.
3. The investment policy should be filed with the Auditor of State's office.
4. The monthly reconciliations should include a fund balance report to document that the total cash balance of all funds agrees with the reconciled amount of cash and investments.
5. The School District needs a policy on how change funds are to be used.
6. Board policy indicates that the Board authorizes establishment of cash funds in the care of custodians as stated in their annual Petty Cash resolution. There is no such resolution.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 therefrom, 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 Form 4502, Annual Financial Report, for the Ohio Department of Education. The report is generated by the school district's computer 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 Method of Financial Reporting

The School District uses software provided by the Northern Ohio Educational Computer Association (NOECA) which allows for multiple standard and customized month and year-to-date reports. The School District prepares month and year-to-date reports, places them in binders and stores them in file cabinets in the Treasurer's office. Throughout the year, various payroll reports are kept on file in the Treasurer's office. The 4502, the cash basis annual financial report, is completed by the Treasurer, printed, and sent to the Independent Public Accountant to use in preparing the annual financial report in accordance with GAAP. The 4502 is usually completed during the month of July and is submitted to the State electronically through the School District's A-site, NOECA.

The Treasurer's office provide Board members with Treasurer's report, the Superintendent's report, the agenda for the Board meeting, monthly minutes that need approval, monthly SM-2 report, Financial Summary report and exhibit copies. Other financial reports are given according to a request of the Board members.

## Huron City School District – Erie County

### Financial Accounting Report

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#### Financial Reporting

(continued)

The School District prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The unaudited financial statements are filed with the Auditor of State, Local Government Services Section within 150 days of the end of the fiscal year end or, if unable to meet the deadline, an extension is requested. As soon as the financial audit is released by the Auditor of State, the audit is distributed to all Board members.

#### 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 Policy Manual should be updated to include the duties of the Treasurer for preparing and filing GAAP basis financial statements within 150 days after the fiscal year end.
3. The School District publishes Statement “S” from the 4502 once completed. Statute requires that a notice be provided to the newspaper which states that the financial report (prepared in accordance with GAAP) 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 the report with the Auditor of State. (See AOS Bulletin 2001-012)



## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 is to 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 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 121.22, Revised Code, requires the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section. Further, the Ohio Supreme Court has held that the minutes must be "full and accurate," which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached.

##### Auditor of State Comments

1. The minutes should be signed immediately following the meeting at which they are approved. Both the President of the Board of Education and the Treasurer should sign the minutes. The Board minutes are not always signed by the Treasurer and President of the Board when approved at each meeting.

## Huron City School District – Erie County

### Financial Accounting Report

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#### 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 the accounting and financial reporting of the Huron City 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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**HURON CITY SCHOOL DISTRICT  
ERIE 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  
SEPTEMBER 1, 2005**