



**Auditor of State  
Betty Montgomery**

**Massillon City School District  
Stark County, Ohio**

**Termination of Fiscal Watch**

**Local Government Services Division**

Massillon City School District  
Stark County

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**Auditor of State  
Betty Montgomery**

**Termination of Fiscal Watch**

Pursuant to a request to the Auditor of State by the Massillon City School District Board of Education to remove the School District from Fiscal Watch, the Auditor of State has determined that the Massillon City School District has met the conditions set forth in the Auditor of State's "Guidelines for Release from Fiscal Watch." The Massillon City School District's status of Fiscal Watch is hereby terminated as of December 18, 2003.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to Dr. Mark A. Christine, President of the Board of Education of the Massillon City School District; Alfred G. Hennon, Superintendent of the Massillon City School District; Teresa L. Emmerling, Treasurer of the Massillon City School District; Bob Taft, Governor of State of Ohio; Thomas W. Johnson, Director of Budget and Management; and, Dr. Susan Tave Zelman, State Superintendent of Public Instruction.

*Betty Montgomery*

Betty Montgomery  
Auditor of State

December 18, 2003

# Massillon City School District

## Analysis for Termination of Fiscal Watch

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### **Introduction**

On January 6, 1997, the Auditor of State declared the Massillon City School District (the School District) in fiscal watch. Section 3316.041, Revised Code, allows a school district in fiscal watch to restructure its loans obtained under Section 3313.483, Revised Code, for a period not to exceed ten years. Consistent with this legislation, the School District restructured its State Emergency Loans totaling \$5,930,189 on December 5, 1997.

Section 3316.04, Revised Code, specifically states that a school district that has restructured or refinanced a loan under Section 3316.041, Revised Code, shall be declared to be in a state of fiscal emergency if any of the following occurs:

- An operating deficit is certified for the district under Section 3313.483, Revised Code, for any fiscal year prior to the repayment of the restructured or refinanced loan;
- The State Superintendent of Public Instruction determines, in consultation with the Auditor of State, that the school district is not satisfactorily complying with the terms of its financial recovery plan;
- The board of education of the school district fails to submit an updated plan that is acceptable to the State Superintendent of Public Instruction.

On September 20, 1999, the Ohio Department of Education notified the office of the Auditor of State that the School District had failed to submit an updated financial recovery plan that was acceptable to the State Superintendent of Public Instruction. Accordingly, the School District was placed in fiscal emergency on September 30, 1999.

Pursuant to a request dated October 29, 2001, to the Auditor of State by the Massillon City School District Financial Planning and Supervision Commission (the Commission), the Auditor of State determined that the School District no longer met the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, and the School District met the requirements of Section 3316.16, Revised Code, for termination of the Commission. The existence of the Commission and its role in the operation of the School District was terminated as of April 18, 2002. Although the fiscal emergency was ended, Section 3316.041, Revised Code, requires that the School District remain in fiscal watch for the duration of the repayment period of its restructured loans. At the time of the termination of the Commission, an effective financial accounting and reporting system had not been fully implemented. Section 3316.16(E), Revised Code, requires the Auditor of State to monitor the progress of implementation and exercise authority under this section and Chapter 117, Revised Code, to secure full implementation of an effective system within two years.

### **Declaration of Fiscal Watch**

The purpose of this report is to determine whether the conditions for termination of fiscal watch have been satisfied and to disclose the progress the School District has made in implementing an effective financial accounting and reporting system.

Upon termination of fiscal emergency, the School District was placed in fiscal watch because of the outstanding restructured operating loans authorized under Section 3316.041 of the Ohio Revised Code. This statute requires that the School District remain in fiscal watch status for the duration of the repayment period of its restructured loans.

## Massillon City School District

### Analysis for Termination of Fiscal Watch

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#### **Guidelines for Removal from Fiscal Watch**

For a school district declared in fiscal watch because of having issued securities under Sections 3316.041, Revised Code, termination from fiscal watch will occur once the following conditions have occurred:

- A. Termination of its financial planning and supervision commission;
- B. Repayment of the restructured or refinanced debt;
- C. An analysis of the five-year financial forecast by the Department of Education has determined that it is reasonable to expect that the district will avoid a deficit in the current and ensuing fiscal year; and
- D. The Auditor of State receives notification from the Department of Education that an examination of the district's five-year forecast is not necessary; or
- E. The district has prepared a five-year forecast, the forecast indicates that the district will not have a deficit balance for the current and ensuing fiscal years, the Auditor of State has examined the forecast, and the Auditor of State has rendered an unqualified opinion.

#### **Analysis for Termination of Fiscal Watch**

An analysis conducted by the Auditor of State's Office concluded the following:

- A. The Financial Planning and Supervision Commission for the Massillon City School District was terminated on April 18, 2002.
- B. The School District made the final payment on its restructured debt on June 15, 2003.
- C. An analysis of the five-year financial forecast by the Department of Education has determined that it is reasonable to expect that the School District will avoid a deficit in the current and ensuing fiscal year.
- D. The Auditor of State has received notification from the Department of Education that an examination of the Massillon City School District's five-year forecast is not necessary.

#### **Conclusion**

Having satisfied the conditions for the termination of fiscal watch, the fiscal watch of the Massillon City School District is terminated.

#### **Initial Monitoring Requirement**

On April 18, 2002, the fiscal emergency at Massillon City School District ended and the activity of the Financial Planning and Supervision Commission was terminated. When the emergency was terminated, the School District had not fully implemented an effective financial accounting and reporting system. Section 3316.16(E), Revised Code, requires that the Auditor of State monitor the progress of the School District in implementing an effective financial accounting and reporting system with the goal of securing full implementation within two years.

The Fiscal Emergency Termination Report identified several significant accounting system deficiencies dealing with the budgetary process, revenue activity, cash disbursements, debt administration, fixed assets, cash management, and investing and financial reporting. Over the past several months, the Local Government Services Section of the Auditor of State's Office has reviewed new accounting policies and procedures adopted by the Board of Education, interviewed the Treasurer and other School District personnel regarding accounting and reporting issues, and performed monthly comparisons of appropriations to available resources.

## Massillon City School District

### Analysis for Termination of Fiscal Watch

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We have also reviewed the audit reports for 2001 and 2002, including their related compliance and management letters. A summary of our review of the School District's progress in resolving the outstanding deficiencies follows:

#### *Budgetary Process*

- The estimated resources posted on the accounting system were not in agreement with the current amended certificate for all funds.

The School District is keeping the estimated revenues in the accounting system for all funds in agreement with the most recent amended certificate of estimated resources.

- The School District had not completed an on-line filing system which included budgetary documents.

The School District has contracted with Guardian Records Systems for a Guardian filing System. Guardian comes to the School District on a quarterly basis, picks up the hard copy of District records, scans them into computer files, and then makes them available to the School District online for the current and two preceding years. The files are also available to the School District on computer disks.

- The School District was not completing the required certification under Section 5705.412, Revised Code.

The Treasurer is completing the required certification under Section 5705.412, Revised Code, for all qualifying contracts and appropriation measures.

#### *Revenue Activity*

- Employees in the Treasurer's office were not cross-trained to enter receipts into the computer.

The Treasurer's office has now four people who can enter receipts. Backup individuals are designated on the job descriptions of the employees in the Treasurer's Office. The cross training of personnel in the Treasurer's Office is on going.

#### *Cash Disbursements*

- The School District did not have written policies and procedures for paying invoices within thirty days of the invoice date and written procedures and a job description for the Accounts Payable Clerk.

The School District has developed a written policy for paying invoices within thirty days of the invoice date and has prepared written procedures and a job description for the Accounts Payable Clerk position.

## Massillon City School District

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#### *Debt Administration*

- All School District's debt was not reflected in the Cash Basis Annual Financial Report filed with the Department of Education.

The School District has properly reflected debt on Statements J, K, L, and M of the Cash Basis Annual Financial Report filed with the Department of Education.

#### *Fixed Assets*

- The School District did not have a written policy for fixed assets and supplies inventory. It also did not have an inventory and appraisal of all fixed assets.

The School District has developed written policies and procedures for fixed assets and supplies inventory which includes written definitions of donated assets, salvage values, and private property. The School District had an inventory and appraisal of all fixed assets completed and has transferred the data into the State software system used by the School District. The School District is keeping the fixed asset system information updated.

#### *Cash Management and Investing*

- The School District did not have a written interest allocation policy and the petty cash and change fund policies needed to be updated to identify those offices and departments allowed to have petty cash and change funds.

The School District has established a written interest allocation policy and has revised the petty cash and change fund policies to include the offices, departments, or buildings that have petty cash and/or change funds. The policy also addresses how petty cash is to be expended and replenished.

#### *Financial Reporting*

- The School District did not have a comprehensive accounting policies and procedures manual covering all aspects and functions of the Treasurer's office.

The School District has established adequate accounting policies and procedures covering the functions of the Treasurer's office and other offices and departments of the School District.

#### *Management Letter*

The Board receives a management letter at the conclusion of each annual audit. The letter that accompanied the 2002 audit included several issues and recommendations which have already been addressed in this letter. In addition, management has resolved four additional issues by taking the following actions:

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- At June 30, 2003, all funds had positive cash balances due to the School District aggressively monitoring fund activity to ensure compliance with Ohio Budgetary Law;
- The School District has excluded the principle of the non-expendable trust fund from the amended certificate of estimated resources;
- The School District filed the required five-year forecasts with the Department of Education by the filing deadlines during fiscal year 2003; and,
- The School District has obtained signed investment polices from the financial institutions it has been doing business with during fiscal year 2003.

#### **Conclusion**

The Massillon City School District has made satisfactory progress in implementing a sound accounting and reporting system and the monitoring requirement of the Auditor of State under Section 3316.16(E), Revised Code, is concluded.





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Betty Montgomery**

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**MASSILLON CITY SCHOOL DISTRICT**

**STARK 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  
DECEMBER 18, 2003**