



Dave Yost • Auditor of State

**McDonald Local School District
Trumbull County, Ohio**

Report on Accounting Methods

Local Government Services Section

**McDonald Local School District, Trumbull County
Report on Accounting Methods**

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CERTIFICATION

On October 15, 2009, the McDonald Local School District was declared to be in fiscal emergency. Section 3316.10(A), Revised Code, requires that after the declaration of the existence of a fiscal emergency, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports. This report shall indicate whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

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

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

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

August 4, 2011

McDonald Local School District – Trumbull County

Financial Accounting Report

Purpose

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

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the McDonald Local 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.

This report presents in narrative form the major transaction cycles of the School District and certain other key activities that affect the accounting and reporting functions. Each section of the report identifies the key elements necessary for an effective system, the related requirements from the Ohio Revised Code and the Ohio Administrative Code, the School District's process, and the Auditor of State's comments for correction or improvement. Information for this report was obtained by interviewing School District personnel, observing operations, 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 McDonald Local 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 performed additional procedures, other matters might have come to our attention that would have been reported to you.

McDonald Local School District – Trumbull County

Financial Accounting Report

Governance Overview

McDonald Local 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 October 15, 2009, 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 financial matters and whose principal place of professional or business activity is situated within the School District, appointed by the Mayor;
4. A resident of the School District with knowledge and experience in financial matters and whose principal place of professional or business activity is situated within the School District, 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 McDonald Local 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 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. Reviewing or assuming 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. Inspecting and securing pertinent documents;
3. Reviewing, revising and approving determinations and certifications affecting the School District made by the county budget commission or the county fiscal officer;
4. Bringing civil actions to enforce fiscal emergency provisions;
5. Implementing steps necessary to bring accounting records, accounting systems and financial procedures and reports into compliance with the Auditor of State's rules;
6. Assuming responsibility for all debt issues;
7. Making and entering into all contracts necessary or incidental to the performance of its duties;
8. Implementing cost reductions and revenue increases; and,
9. Developing a financial recovery plan.

McDonald Local School District – Trumbull County

Financial Accounting Report

Governance Overview

(continued)

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 has been addressed in the financial recovery plan initially adopted on February 22, 2010 and revised on March 18, 2010, and includes the power to approve contracts entered into by the McDonald Local School District for personal services and employment contracts for all positions other than temporary positions and all purchases in excess of \$5,000.

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 activities of 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 School Board.

McDonald Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and type of financial resources that shall be raised, and how those financial resources shall be spent. Annually, a budget consisting of estimated revenues and expenditures for each fund for the next fiscal year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of revenues and the programs, activities and major objects of expenditures. The budget should encompass current operations and maintenance, capital acquisition and replacement, and debt retirement. The budget, once approved by the governing body, should be the basis for the appropriation measure. The appropriation measure should identify by fund the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations 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 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: By 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 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. Generally, a property tax levy on the November ballot may change the tax rates and property tax estimates, delaying the adoption of the annual appropriations. 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.

McDonald Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

No appropriation measure shall become effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the official estimate or amended official estimate. When the appropriation does not exceed the official estimate, the County Auditor shall give a certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure.

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.

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. 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.

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 percent of the total revenue to be credited in the current fiscal year to the School District's General Fund, as specified in the School 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 under division (B) of section 5705.36 of the Revised Code.

McDonald Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

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

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

The ability to certify under Section 5705.412 of the Revised Code is based on the current five-year projection. The assumptions underlying the decision to proceed with the obligation or contract to be certified must be the same assumptions supporting the amounts presented in the current five-year projection. If the revenue assumptions or the revenue estimates used to support the ability to certify under Section 5705.412 differ from the current five-year projection, the projection needs to be updated to reflect the new information. If the certificate is associated with a contract or obligation that results in additional costs or changes in the expenditure assumptions in the current five-year projection, the projection must be updated to reflect the new information. If adding the new expenditures created by an obligation or contract causes a fiscal year end deficit in the projection, then the obligation or contract may not be certified. Any change to the five-year projection must be approved by the Board. 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. The automatic retrieval of historical data by the School District's accounting system does not relieve the School District of the responsibility for insuring that those numbers are reasonable and accurate.

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.

McDonald Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

School District's Budgetary Process

The School District's formal policies regarding the budgetary process provide that annual appropriations shall be adopted and approved by the Board. The Board adopts as part of its annual appropriation measure a spending plan setting forth a five year projection of revenue and expenditures of the general fund. The School District's policies do not address the level of control at which the Board approves appropriations or the nature of the control, approval and documentation for the allocation of appropriations.

The Trumbull County Budget Commission has waived the requirement that the School District adopt a tax budget. In place of the tax budget, the budget commission requires alternative tax budget information which includes the following schedules: Statement of Fund Activity for the General fund, Bond Retirement fund and any other funds requesting property tax revenue, Statement of Fund Activity by Fund Type and a schedule of Voted and Unvoted Note and Bond Debt. The alternative tax budget information for fiscal year 2011 was adopted by the Board on January 11, 2010. Once the alternative tax budget is adopted, it is filed with the budget commission no later than January 20. The budget commission determines the amount of millage and calculates the estimated revenue by levy.

On March 15, 2010, the Board accepted, by resolution, the tax rates as determined by the budget commission and received the budget commission's certificate of estimated resources for fiscal year 2011.

After the close of the fiscal year, the Treasurer submits to the County Auditor the unencumbered cash balance of each fund and requests an amended certificate of estimated resources that includes the actual unencumbered fund balances from the preceding year. The first certificate of estimated resources for fiscal year 2011 was approved by the budget commission on July 1, 2010. The estimated revenues from the amended certificate are entered into the system when received from the County.

On June 7, 2010, the Board of Education adopted a temporary appropriation measure, at the fund level for all funds, prior to the start of the new fiscal year. The temporary appropriations are set at 25 percent of the prior fiscal year's expenditures. The School District operates under the temporary appropriation measure until a permanent appropriation measure is adopted. A permanent appropriation measure is adopted by October 1. The fiscal year 2011 permanent appropriations were adopted on September 13, 2010. The appropriations are prepared based upon prior years' history and currently known facts. Any supplemental appropriations are presented to the Board in lump sum amounts. The Treasurer compares appropriations to estimated resources to ensure that all budgetary compliance is followed. The Treasurer submits all appropriation measures to the budget commission and at the same time submits a request for an amended certificate of estimated resources for any new or additional estimated revenue available for appropriation. Within two weeks, the Treasurer receives a certificate from the County Auditor certifying that appropriations from each fund do not exceed the official estimate of resources. The Treasurer attaches this certificate to the amended certificate and files both in a binder.

Appropriations for all student activities are set at the object level in the appropriation measure. At the beginning of the year, the Board approves the Budget and Purpose Forms for those student activity programs it wishes to be operational. The Budget and Purpose Forms are prepared by the activity advisor and approved by the building principal. The form identifies the activity, purpose, planned fundraisers, fund balance at the start of the fiscal year, total estimated revenues, total estimated expenditures and estimated fund balance at the end of the fiscal year.

McDonald Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

All Board approved temporary and permanent appropriations are entered into the computer system after they are passed but before the School District has received the certificate from the County Auditor that appropriations from each fund do not exceed the official estimate of resources. If additional or new appropriations are passed, the amounts are entered into the system by the Treasurer.

The Treasurer compares estimated revenues and appropriations to actual revenues and expenditures on a monthly and cumulative basis; however, this comparison is not documented.

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 filed electronically through the School District's A-site. The forecast is updated and filed again by May 31. The Treasurer keeps the five-year forecast on file in his office with the documentation that was used to prepare the forecast.

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. The policies 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 Treasurer's monthly report to the Board.
2. The Board adopts appropriations and at the same time the Treasurer amends the certificate to support appropriations. Appropriations should be limited to the estimated resources reflected on the amended certificate at the time of adoption. Prior to appropriating the additional or new resources, the Treasurer should request an amended certificate based on reasonable estimates and/or actual receipts.
3. 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 has been received from the county budget commission (Refer to Auditor of State bulletin 98-012). The Board has been approving permanent appropriations prior to receiving an amended certificate or a certification that no amended certificate is needed from the county budget commission. The Treasurer should determine if the statutory requirements have been met in order to adopt permanent appropriations.
4. The Treasurer compares appropriations to estimated resources; however, this comparison is not documented. The Treasurer should document the comparison of appropriations to estimated resources. This comparison should be presented to the Board upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.

McDonald Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

5. The estimated receipts and appropriations in the accounting system do not agree with the most current supporting documents for fiscal year 2010. The Treasurer should enter all estimated receipts and appropriations in the system and compare budgeted amounts in the accounting system to the current estimated receipts certified by the County Budget Commission and the appropriation measures as passed by the Board of Education to ensure that recorded amounts are accurate. The Treasurer should have evidence of the comparison being completed.
6. The School District does not issue 412 certificates for qualifying contracts. 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. 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.
7. The School District presents supplemental appropriations to the Board in lump sum amounts. Supplemental appropriations presented to the Board for approval should identify changes in the appropriation amount rather than presenting the new appropriation as a lump sum.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded and deposited at least daily. A pre-numbered, multi-part receipt form or a system generated receipt form should be issued for any payment received by departments. The receipt should bear the name of the entity and reflect the date received, the payer, the amount, the purpose/nature of the receipt and the signature or name of the person preparing the receipt. Departmental receipts should be summarized and remitted to the fiscal office daily. The fiscal office should issue pay-ins to those departments depositing daily collections to the fiscal office and for any payments received by the fiscal office. The pay-in forms should be a multi-part, pre-numbered form that bears the name of the entity, the date received, the payer, the amount, the purpose/nature of the receipt, the account code and the signature or name of the person preparing the pay-in. Supporting documents should be attached to a copy of the pay-in and filed numerically or by payer. All pay-ins should be recorded in the cash journal and receipts ledger in a timely manner.

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 monies received exceeds one thousand dollars. If the total amount of the public monies received does not exceed one thousand dollars, the person shall deposit the monies 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 monies until such time as the monies are deposited. The policy shall include provisions and procedures to safeguard the public monies 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's primary sources of revenues include property taxes collected and remitted by the county auditor and treasurer, State Foundation program revenues and Federal and State grants both which are remitted to the School District from the Ohio Department of Education. The School District also collects fees for student activities and athletic events at the elementary and high school buildings and charges for school lunches served in their elementary school cafeteria. The Treasurer is individually bonded through Travelers Casualty and Surety Company of America.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(continued)

Building Receipts:

Various employees handle receipts at the two school buildings. Athletic receipts are turned into the Athletic Director. Student activity receipts are turned into the student activity advisor. School fees/fines are turned into the building secretary. The daily receipts are secured in a safe or locked drawer. Once a day, the employee prepares a cash deposit receipt form for each type of receipt and brings the cash deposit receipt forms along with the monies in an envelope to the Treasurer's office.

Athletic Event Receipts: The School District charges an admission fee for football and basketball games. The ticket sellers are usually teachers but sometimes student cheerleaders will sell tickets for the junior high games. The Athletic Director is in charge of the collection for athletic events. A Ticket Report form is used to reconcile the cash received to the tickets sold. Prior to the ticket sales, the Athletic Director will fill out several items on the Ticket Report form including the date, price per adult and student ticket, name of the ticket seller, amount of change in the athletic monies box, and the adult and student ticket starting numbers. When a ticket is sold, a ticket is given to the buyer. The ticket must then be presented at the gate/door to gain entrance to the event. The ticket is given to the ticket taker at the entrance. After all sales are completed, the ticket sellers are responsible for counting the money and completing the Ticket Report form. The ticket seller fills in the adult and student ticket ending numbers, the number of adult and student tickets sold, and total cash received for the tickets. The Ticket Report is signed by the ticket seller. The unsold tickets, the money and the Ticket Report form are given to the Athletic Director during the game's half-time. The Athletic Director recounts the money and compares the total to the amount on the Ticket Report. If any discrepancies occur, the amount of the discrepancy is noted on the form. The unsold tickets are kept in a locked file cabinet in the Athletic Director's office.

The Athletic Director places the money in a locked safe in the high school's main office. The following business day the Athletic Director recounts the money and prepares a cash deposit receipt form. The Athletic Director then brings the money and cash deposit receipt form to the Treasurer's office.

After receiving confirmation of the receipt amount from the Treasurer's office, the Athletic Director prepares a Home Game Financial Report using the Ticket Report. The Home Game Financial Report form lists total receipts and expenditures such as the cost of referees for the event and calculates net receipts. Information found on this form includes the date of the event, type of event, the costs of paying all those working at the event, number of adult and student tickets sold, price of the ticket, and total cash received from tickets. The Home Game Financial Report is signed by the Athletic Director and filed in his office.

Student Activity Receipts: At the beginning of each year, the Treasurer's office sends a fundraiser packet to all student activity advisors. The packet includes a Budget and Purpose Statement, a Sales Project Potential Form and a Student Activity Annual Financial Form.

Each September, the Board approves the Budget and Purpose Statements for all student activities that it wishes to be operational. The Budget and Purpose Statement lists the planned fundraisers and the anticipated revenue and expenditures for each student activity.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(continued)

The student activity advisors must submit a Sales Project Potential Form for each fundraiser which details the proposed project, quantity of goods to be ordered and projected sales of the fundraiser. The top portion of this form must first be signed and approved by the student activity advisor and the building principal. The form is then submitted to the Treasurer's office for signature approval by the Treasurer and Superintendent. Upon the collection of all four signature approvals, the fundraiser may commence.

The student activity advisors prepare a cash deposit receipt form and turn in any money received to the Treasurer's office within 24 hours.

Once the fundraiser is completed and all monies have been deposited, the student activity advisor fills out the bottom portion of the Sales Project Potential Form which details the amount of total sales, the cost of goods sold, any goods not sold, and the amount deposited with the Treasurer. The student activity advisor must sign the bottom portion of the Sales Project Potential Form and submit it to the building principal. After the building principal signs the bottom portion, the form is sent to the Treasurer's office where it is signed by the Treasurer and Superintendent and filed.

The School District holds various fundraisers. In all fundraisers, except for candy sales, goods are only ordered after customer orders and money have been collected. In a candy sale fundraiser, the student activity advisor pays for and picks up the boxes of candy from Sam's Club. The student activity advisor only buys as many boxes as he or she knows can be sold. If more candy is needed as the fundraiser continues, the student activity advisor will return to the store and purchase additional boxes. If any candy is left over, it is sold at a discounted price until the remainder is sold. The student activity advisor marks down the number of candy bars sold at the discounted price on the bottom of the Sales Project Potential Form.

Each quarter, the Treasurer sends a REVLED, BUDLED and FINSUM report generated from the accounting system to the student activity advisors. The REVLED report shows the detailed receipt transactions for the student activity's account. The BUDLED shows the detailed expenditure transactions for the student activity's account. The FINSUM provides a summary of the student activity's receipts, expenditures and current fund balance. The student activity advisors use these reports to reconcile their total recorded deposits and expenditures to the amounts posted to the system. If there is a discrepancy, the student activity advisor notifies the Treasurer's office.

At the end of each school year, the student activity advisor completes a Student Activity Annual Financial Form which lists the activity's beginning fund balance, annual receipts and expenditures and the ending fund balance. The student activity advisor signs the Student Activity Annual Financial Form and submits it to the building principal. After the building principal signs it, the form is sent to the Treasurer's office where it is signed by the Treasurer and Superintendent and filed.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(continued)

Receipts from Student Fees and Fines: The School District charges student fees by using the student information system which is accessed through the School District's A-site. During scheduling, prior to the beginning of the school year, the building secretary in the elementary school and the EMIS Coordinator use the student rosters to enter any new elementary students into the student information system. The elementary student's name, grade level and homeroom teacher along with other information is entered into the system. The high school principal and guidance counselor enter the new junior high and high school students into the student information system. The student's name, grade level, homeroom teacher, courses and other information is entered into the system. Students enrolled from the previous year are automatically carried forward to the new school year. The master fee schedules are entered into the system which automatically adds the appropriate fees to each student based on the information entered for the student.

In the elementary school, students are charged a flat fee based on their grade level. At the beginning of the school year, a letter is sent to each student's home listing the grade level fees for the school year. The students may turn in their fee money to their teacher who turns it into the building secretary. In some cases, the student's parents will come in and pay the fee directly to the building secretary.

Junior high and high school students are charged fees based on the classes taken. The student handbook lists the various class fees. At the beginning of the school year, the junior high and high school students receive a fees envelope identifying the fees associated with each course. The student writes their name on the front of the envelope, checks off the fees they are paying, seals their monies in the envelope, and gives the envelope to the building secretary. In some cases, the students will give the fee envelopes to their teachers and the teachers will then turn the monies into the building secretary.

Upon receiving the fee money, the building secretary enters the amount received into the student information system which updates the student's outstanding fees balance. Receipts can be printed upon request. Each day, the building secretary recounts the money, prepares a cash deposit receipt form and turns them into the Treasurer's office. Prior to the end of the school year, the building secretary sends a letter to the student's home requesting payment of the unpaid fees. A hold is placed on the student's report card until the outstanding fees have been paid.

Outstanding book fines and other fines are tracked by the teachers and librarians. A letter is sent to the student's home requesting payment of the fine. If the fine money is not received prior to the end of the school year, the student's report card is held until payment is received.

Cafeteria Receipts:

Only the elementary school, which includes kindergarten through sixth grade, provides lunch to the students. The high school building, attended by junior high and high school students, does not have a cafeteria.

About one-third of the School District's elementary students qualify for free or reduced lunches. The elementary school principal updates and provides a list to teachers of those students who qualify for free or reduced lunches. For those students that must pay for all or a portion of the cost of lunch, they pay with cash daily. Students do not have the option to prepay for lunch.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(continued)

The elementary students give cafeteria monies to their teacher. The teacher counts the money and fills out a Lunch Count Form requesting daily lunch tickets for purchased lunches and free and reduced lunches. The teacher places the cafeteria monies and the Lunch Count Form in a zipper bag and has a student bring it to the Head Cook in the cafeteria. The Head Cook recounts the money and verifies that the amount received is correct for the lunch tickets ordered. The Head Cook puts the ordered lunch tickets in the zipper bag and gives this to the student to bring back to his or her teacher. The teacher passes out the lunch tickets to the students.

The Head Cook and student workers collect the tickets as the students go through the lunch line. After student lunch ends, all the tickets are given to the Head Cook who completes the Daily Lunchroom Summary and calculates the total daily receipts. The Head Cook then counts all cafeteria monies and verifies that it matches total receipts on the Daily Lunchroom Summary. The Head Cook also fills in the daily lunch information on a Lunchroom Worksheet, used to generate monthly totals. The Head Cook uses the monthly Lunchroom Worksheet to complete Site Claim Form reports on the computer and submit them to the Ohio Department of Education for Federal and State meal subsidies.

The Head Cook will then prepare a two part deposit ticket. The Head Cook places the cafeteria monies, deposit ticket and a copy of the Daily Lunchroom Summary in a green zipper bag and brings it to the Treasurer's office. The Head Cook waits while the Treasurer, Treasurer's Aide or Central Office Assistant recounts the money. The Head Cook keeps a tablet where she writes the deposit date, amount of the deposit and her signature. After the Treasurer, Treasurer's Aide or Central Office Assistant have counted the money and matched it to the amount on the deposit ticket, the Head Cook has them sign the tablet verifying the amount of the deposit.

Treasurer's Office:

The daily building receipts along with the cash deposit receipt forms are turned into the Treasurer's office. The Treasurer's Aide recounts the monies and records the receipts in a receipt log. The Treasurer's Aide then prepares a two part pay-in order for each cash deposit receipt form. The pay-in order includes the date, receipt number, dollar amount of the receipt and a description of the receipt. The white copy of the pay-in order is given to the employee for their records and the yellow copy is kept in the pay-in book. The corresponding cash deposit receipt form is taped to the back of the yellow copy kept in the pay-in book.

The daily cafeteria receipts along with the Daily Lunchroom Summary and deposit ticket are turned into the Treasurer's office.

The Treasurer's office receives State foundation, property taxes, property tax allocations and most Federal, State by wire transfer to the School District's general checking account. The Treasurer reviews the online daily activity report of the general checking account for wire transfers that have been received. The Treasurer identifies the proper account codes and records the gross receipts to the proper revenue account. Any deductions, such as administrative fees, are booked as memo expenditures. The Treasurer verifies the gross amounts booked for receipts net of expenditures to the amount wire-transferred to the general checking account.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(continued)

The Treasurer's office directly receives payments for rentals and the sale of capital assets. Typically, these payments are received through the mail or by individuals coming into the Treasurer's office. The Treasurer's Aide opens all mail received by the Treasurer's office, unless addressed to a specific person, and distributes it. The Treasurer's Aide removes the receipts, recounts the monies and prepares a pay-in order for each receipt. The receipts along with the pay-in orders are given to the Treasurer who keeps them in an envelope on his desk.

Each afternoon, the Treasurer fills out a deposit ticket for all receipts, except cafeteria receipts. The deposit ticket for cafeteria receipts is filled out by the Head Cook. The Treasurer then takes all daily deposits along with the two deposit tickets to the bank. The Treasurer waits for the deposit to be counted and the amount validated by the bank. The white copy of the deposit ticket goes to the bank and the yellow copy is stapled to the bank receipt and filed in the Treasurer's office

After the deposit has been made, the Treasurer determines the appropriate account codes and posts the receipts to the system. The Treasurer prints out a system receipt for each type of receipt and files it in a binder.

Receipt of State Foundation: State Foundation monies are wire-transferred bi-monthly to the School District's general checking account from the Ohio Department of Education. The foundation settlement sheets which identify the various sources of State aid are printed from the Ohio Department of Education's web page by the Treasurer. The amount of the wire transfer is compared by the Treasurer to the net amount listed on the foundation settlement sheet. Generally, foundation settlements include restricted and unrestricted receipts and tuition payments from other school districts. The Ohio Department of Education also deducts from each settlement pension contributions and tuition payments due to other school districts and community schools. The Treasurer uses the foundation settlement sheet to determine the proper account codes and posts the receipts and foundation deductions to the system. The foundation deductions are posted as memo expenditures within the system. The Treasurer prints out the system receipt and files it in a binder.

Receipt of Property Taxes: The Treasurer identifies the proper account codes for gross property tax receipts and deductions using information from the tax settlement sheet. The Treasurer verifies that the net property tax receipts on the tax settlement sheet match the amount on the wire transferred from the County. The Treasurer then posts the gross property tax receipts and deductions into the accounting system and prints out a system receipt.

Receipt of Property Tax Allocations: Homestead and rollbacks are wire-transferred twice a year to the School District's general checking account. The Treasurer identifies the account codes for gross receipts and deductions using information from the tax settlement sheet. The homestead and rollback amount found on the tax settlement minus the amount deducted for administrative fees is compared to the amount wire-transferred to the bank. The Treasurer then posts the transaction into the accounting system and prints out a system receipt.

Other property tax allocations, including utility deregulation and tangible personal property loss reimbursement are received by wire transfer with state foundation payments. The Treasurer identifies the proper account codes for gross receipts and deductions using information from the tax settlement sheet. The Treasurer verifies that the net property tax allocations on the tax settlement sheet match the amount wire transferred through foundation.

McDonald Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(continued)

Receipt of Grant Monies: The School District participates in various Federal and State grant programs. The Board authorizes the applications for all grants at the beginning of each fiscal year. The Treasurer enters the budget for each grant into the Ohio Department of Education's (ODE) website under the Comprehensive Continuous Improvement Planning (CCIP) System. The CCIP System is a unified grants application and verification system provided by the Ohio Department of Education. A few times a month, the Treasurer reviews the FINSUM report, which is a summary of all fund activity and ending balances. When cash is needed from a particular grant the Treasurer completes an on-line CCIP Project Cash Request.

The Treasurer checks the ODE website at least once a week to view the CCIP grant monies that were wire-transferred to the School District's bank account. The ODE website has a "Details" button that can be clicked for each payment that provides detailed receipt information for that specific ODE payment. By reviewing the detailed information, the Treasurer can identify the grant proceeds. The Treasurer determines the proper account codes and posts the grant monies to the system. The amount wire-transferred per the Ohio Department of Education's website is also matched to the bank statement by the Treasurer.

Local grant monies are received in check form by the Treasurer's office.

Rental Receipts: The School District rents their school facilities to various community groups. An individual from the community group completes a rental form with the building secretary. The rental form includes the name of the community group, the date and hours of the event, the building to be rented, the rental fee, the name, address and telephone number of the applicant and the building principal's signature. The rental form is then forwarded to the Treasurer's office. The community groups are required to pay the rental fee in advance and bring a check to the Treasurer's office. If the individual requests a receipt, the Treasurer's Aide will give them the white copy of the pay-in order. The check is given to the Treasurer who matches it to the corresponding rental form.

Receipts from Sale of Capital Assets: Monies from the sale of capital assets are usually received by the Treasurer's Aide, typically in a check form. The Treasurer's Aide records the check in the receipt log and prepares a two part pay-in order.

Auditor of State Comments

1. The School District does not have written procedures for the receipt and recording of revenues. Documented procedures for the receipt and recording of revenues should be prepared and shared with the respective buildings/departments involved in the receipt and processing of revenues. The procedures should be periodically reviewed and updated as necessary.

McDonald Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded. The 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.

McDonald Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(continued)

Major Contracts: Section 5705.412, Revised Code, provides definitions for qualifying contracts and states that no school district shall make any qualifying contract or increase any wage or salary schedule unless there is a signed certificate attached thereto that the school district has sufficient revenue to enable the school district to both pay the contract and 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).

McDonald Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(continued)

Section 9.231(A)(1), Revised Code, provides that a governmental entity shall not disburse money totaling twenty-five thousand dollars or more to any person for the provision of services for the primary benefit of individuals or the public and not for the primary benefit of a governmental entity or the employees of a governmental entity, unless the contracting authority of the governmental entity first enters into a written contract with the person that is signed by the person or by an officer or agent of the person authorized to legally bind the person and that embodies all of the requirements and conditions set forth in Sections 9.23 to 9.236 of the Revised Code. If the disbursement of money occurs over the course of a governmental entity's fiscal year, rather than in a lump sum, the contracting authority of the governmental entity shall enter into the written contract with the person at the point during the governmental entity's fiscal year that at least seventy-five thousand dollars has been disbursed by the governmental entity to the person. Thereafter, the contracting authority of the governmental entity shall enter into the written contract with the person at the beginning of the governmental entity's fiscal year, if, during the immediately preceding fiscal year, the governmental entity disbursed to that person an aggregate amount totaling at least seventy-five thousand dollars.

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.

Terrorist Activity: Section 2909.33(C), Revised Code, provides that prior to entering into a contract to conduct business or receive funding, any person, company, affiliated group, or organization, and any person who holds, owns, or otherwise has a controlling interest in a company, affiliated group, or organization that conducts any business with or receives funding in an aggregate amount greater than one hundred thousand dollars annually from the State, any instrumentality of the State, and any political subdivision of the State, excluding the amount of any personal benefit, shall certify that it does not provide material assistance to any organization on the United States department of state terrorist exclusion list. The certification shall be made by completing the declaration of material assistance/nonassistance described in division (A) of this section.

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. The proposed contract cannot be entered into if there are unpaid taxes.

McDonald Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(continued)

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

Financial Planning and Supervision Commission - Under Section 3316 Revised Code, the Commission assumes the power to approve personal service, employment and collective bargaining contracts, approve all contracts above \$5,000, and have all purchase orders reviewed by the fiscal monitor.

Campaign Financing (HB 694) - Section 3517.13 of the Revised Code states any bid or unbid contract, purchase order, or collective bargaining agreement with a value of more than \$10,000 requires the vendor to certify to the contracting authority that the vendor has not made a contribution to the contracting authority in an amount that exceeds the limits provided by law.

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

When goods or services are needed at a school building, a manual requisition form is completed. This form includes the originator, vendor, date of request, type and quantity of items requested, price, shipping costs and expenditure code. The manual requisition form is submitted to the building principal who approves the requisition by signing it. The requisition is forwarded to the Treasurer’s Aide who assigns the appropriate expenditure code and forwards it to the Treasurer.

An active vendor list is maintained electronically by the Treasurer’s office. The Treasurer and the Treasurer’s Aide add new vendors to the system when necessary. For new vendors, the employee fills out the name and address of the vendor on the manual requisition form. When receiving the manual requisition for a new vendor, the Treasurer’s Aide assigns the vendor a vendor number and enters the new vendor’s information into the computer system. An IRS Form W-9, requesting the vendor’s taxpayer identification number, is completed by the vendor and returned to the Treasurer’s office. The School District does not perform a search of the Auditor of State’s web site to verify that new vendors have no outstanding, unpaid findings for recovery. The School District also does not perform a search of the United States Department of State’s terrorist exclusion list website.

McDonald Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(continued)

Information from the signed requisitions is entered into the system by the Treasurer's Aide to create purchase orders. The system automatically assigns purchase order numbers. The posting of the purchase order automatically records an encumbrance in the system. The purchase orders are printed out by the Treasurer's Aide. The purchase order is first signed and dated by the Treasurer and Superintendent. Next, the purchase order must be signed by the Secretary of the Fiscal Oversight Commission who visits the School District once a week. If the purchase order is over \$5,000 it must be presented at a Commission meeting and approved by the Commission before being signed by the Secretary of the Fiscal Oversight Commission. All service and construction contracts must also be approved by the Board through resolution. Purchase orders are used for all purchases and contracts of the School District.

General office supplies such as copy paper are ordered centrally through the central office. Custodial supplies are ordered through the custodial department.

The computer system will not allow a purchase order for an amount which exceeds appropriations. An error message such as "amount to be paid is greater than remaining amount" is displayed. The Treasurer's Aide takes the purchase order to the Treasurer who reviews the budget and appropriations to determine whether the fund has sufficient cash. If there is cash available in the fund, the Treasurer will initial the purchase order and make a transfer between the various appropriation accounts to cover the deficiency in the accounts.

The School District currently uses a five-part carbon paper purchase order form that is distributed by the Treasurer's Aide in the following manner:

1. The white (original) copy of the purchase order is filed in the Treasurer's office.
2. The pink copy of the purchase order is either mailed, faxed or hand delivered to the vendor.
3. The green copy of the purchase order is shredded.
4. The yellow copy of the purchase order is kept numerically in binders in the Treasurer's office.
5. The blue copy of the purchase order is sent to the employee that originated the requisition for their records.

Once the stock of five-part purchase order forms is used up, the School District plans to create and use a three-part purchase order. The original copy will be filed in the Treasurer's office. Of the two remaining copies, one copy of the purchase order will be either mailed, faxed or hand delivered to the vendor to order the goods and the other copy will be sent to the building where the requisition originated.

The School District purchases goods and services with blanket purchase orders as needed. For the School District, blanket purchase orders are used in areas such as food service, utilities, custodial supplies and transportation. The Treasurer issues blanket certificates under the old statutory restriction of 90 days or \$5,000. Expenditures made against blanket purchase orders are tracked by the Treasurer's Aide who handwrites the expenditure amounts on the purchase order. The Treasurer's Aide subtracts the expenditures charged from the total amount and writes in the new amount remaining on the blanket purchase order.

In emergency situations, "Then and Now" purchase orders are prepared for purchases without prior approval. In past history, the School District has seldom issued "Then and Now" purchase orders. "Then and Now" purchase orders must be approved by Board resolution if greater than \$3,000. If they are \$3,000 or less, the Treasurer has the authority to approve such purchase orders. However, the Treasurer only approves the use of "Then and Now" purchase orders if the purchase was necessary and appropriations are available. If not, the amount is not approved and the employee who initiated the purchase is responsible for the payment.

McDonald Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(continued)

Periodically throughout the year and prior to the end of the fiscal year, the Treasurer prints out an outstanding purchase order list. The Treasurer reviews the open purchase orders to determine whether a purchase order should be closed or whether invoices still exist against the purchase order. At fiscal year end, if invoices still exist against an existing purchase order, that purchase order will be carried over to the following fiscal year. Any unneeded purchase orders are cancelled along with the corresponding encumbrances.

Contracts which exceed \$25,000 are given to the Treasurer to make the necessary arrangements for public bidding. The Board authorizes the School District to advertise for bids. Interested vendors notify the Treasurer's office and they are sent a bid packet. Bids are received by a set date at a bid opening and a list of vendors and bid amounts is created. The Treasurer and the Superintendent review and discuss the information. The Superintendent makes a recommendation to the Board. For all construction contracts, the School District's construction management firm, URS Corporation reviews the bids and discusses the information with the Superintendent and they both make a recommendation to the Board. The Board, by resolution, awards the contract. The Treasurer does not prepare a 412 Certificate for major contracts. When feasible, purchases or contracts under \$25,000 that are purchased through the Treasurer's office are based on price quotations submitted by at least three vendors.

The Treasurer sends the vendor awarded the bid a notification that they have been awarded the contract. The bids of the unsuccessful bidders are returned along with a letter notifying them of the successful bidder. The contract is sent to the Treasurer for review and signature and the Superintendent for final review and signature.

Auditor of State Comments

1. The School District does not perform a search of the Auditor of State's Findings for Recovery website. The School District should perform a search of the Auditor of State's Findings for Recovery website and keep a printed copy of the results of the search on file as proof of verification of vendors.
2. The School District does not perform a search of the United States Department of State's terrorist exclusion list website. The School District should perform a search of the United States Department of State's terrorist exclusion list website and keep a printed copy of the results of the search on file as proof of verification of vendors.
3. Section 5705.41(D)(3), Revised Code, allows the fiscal officer to certify expenditures in an amount not in excess of an amount established by resolution adopted by a majority of the members of the board of education. This type of certification, referred to as a blanket certification (blanket purchase orders), has not been authorized by the board of education. The Treasurer continues to issue blanket certificates under the old statutory restriction of 90 days and \$5,000. The board of education should adopt a resolution that identifies the maximum dollar amount for blanket certifications/purchase orders.
4. The School District does not issue 412 certificates for qualifying contracts. 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. 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.

McDonald Local School District – Trumbull County

Financial Accounting Report

Cash Disbursements

Description of an Effective Method for Accounts Payable and Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the school district. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips, a comparison of the prices on the invoice to the purchase order, and the signature of the individual who 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 monies 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, Revised Code, states that “...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.”

McDonald Local School District – Trumbull County

Financial Accounting Report

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 employee who initiated the purchase requisition form and the Treasurer’s Aide are responsible to ensure that goods and services are received prior to payment. The majority of invoices are received directly by the Treasurer’s Aide; however, some invoices will arrive at the school buildings. If the Treasurer’s Aide receives the invoice, it is sent to the building where the requisition originated. The employee at the building who receives the shipment of goods verifies the contents to the packing slip and the invoice. If not all goods are received or incorrect items are received, the employee will contact the Treasurer’s Aide. Either the Treasurer’s Aide or the employee will resolve the issue with the vendor. Once the goods or services have been verified as received, the invoice is signed and dated by the employee and sent along with the packing slip to the Treasurer’s office.

Upon receiving the signed invoice, the Treasurer’s Aide matches it to the purchase order. The Treasurer’s Aide compares the items, quantities, and unit price on the purchase order to the invoice. If an invoice is wrong, the Treasurer’s Aide investigates why there is a difference and contacts the vendor to notify the vendor of the error. The error is then resolved accordingly.

If the invoice amount exceeds the purchase order, the Treasurer’s Aide will call the vendor to determine why the amount on the invoice is higher. The price difference is usually due to shipping costs that were not included in the purchase order. If the discrepancy resulted from an error by the School District, the Treasurer will verify that sufficient funds were available at the time to cover the higher price. The Treasurer then writes the new total on the purchase order and initials it for approval.

The packing slip, invoice, manual requisition form and white copy of the purchase order waiting to be paid are paper clipped together and filed alphabetically in a separate vendor file known as the “open purchase order file” in the Treasurer’s office.

Once an invoice has been approved for payment, the Treasurer’s Aide enters the data that creates a voucher into the School District’s computer system by entering the vendor, account code, invoice number, purchase order number, and amount of the invoice which creates a check in the system. The Treasurer’s Aide then prints out an outstanding invoices report and compares the individual invoices and the totals to the amounts on the report.

In the majority of instances, payment is not made on an order until all goods have been received. Once the remainder of the order is received, the signed invoice is sent to the Treasurer’s Aide.

McDonald Local School District – Trumbull County

Financial Accounting Report

Cash Disbursements

(continued)

In rare instances, a partial payment will be made if all the goods are not received at the same time. This occurs if a particular vendor contacts the Treasurer's office insisting to receive partial payment for the goods that were delivered. In this case, the Treasurer's Aide sends the invoice for the partial order to the building employee to verify that they have received the items on the invoice. The building employee signs off that they received the goods and sends the invoice back to the Treasurer's Aide. The Treasurer's Aide writes the amount of the partial payment on the white copy of the purchase order.

Prior to printing checks, the Treasurer's Aide runs an invoice list report which is given to the Treasurer to review. The Treasurer verifies that sufficient funds are available to pay the invoices and approves the printing of checks.

The Treasurer's Aide maintains a check log to track the check numbers used. The Treasurer's Aide must enter the starting check number before checks can be run. The check log is used to ensure that a check number is not reused or skipped.

Checks are normally printed twice a month, once in the middle of the month and once at the end of the month. The blank check stock paper is kept in a cabinet next to the printer in the Treasurer's office. The check stock paper is completely blank and does not contain the school name, account number, check number or any other information. All this information is printed on the check through the check printing process. The Treasurer's Aide uses a computer program called create-a-check to generate, electronically sign and print the checks. The check printing program is user name and password protected. The Treasurer, the Treasurer's Aide and the Central Office Assistant have security access for printing budgetary checks. The Treasurer's Aide compares the printed checks to the vouchers to ensure that the checks are payable to the same vendor and the amount agrees to the invoice. The Treasurer's Aide then mails the check along with the remittance form and removes the voucher packet from the "open purchase order file" and attaches a copy of the check to the front of it.

All checks have two copies and are distributed in the following manner:

1. The original copy of the check is sent to the vendor along with the remittance form for payment.
2. The white copy of the check is attached to the voucher packet and filed in the Treasurer's Office.

The voucher packet includes the white copy of the check, the invoice, the white copy of the purchase order, the requisition form, and any packing slips. All voucher packets are kept in a filing cabinet in the Treasurer's office and are filed numerically by check number.

The School District writes manual checks on rare occasions. The manual checks are printed using the check software program. Manual checks are used for payments that need to go out right away. Manual checks are also used if information regarding the proper accounts to charge is not available at the time checks are being processed.

Debt payments are all made by budgetary checks processed by the Treasurer's Aide.

If a check is voided, the Treasurer's Aide handwrites "VOID" on the check and tears off of the signature portion of the check. The voided checks are filed separately in numerical order in the Treasurer's office. The Treasurer's Aide will also mark that a check was voided on the voucher packet.

McDonald Local School District – Trumbull County

Financial Accounting Report

Cash Disbursements

(continued)

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 when only partial orders are received and when an invoice exceeds the purchase order/fiscal officer certification of funds. The document should be kept on file in the Treasurers' office.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and Federal and State taxes should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. The Personnel office 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 3317.12, Revised Code, for nonteaching school employees and Section 3317.14, Revised Code, for teachers, require school districts participating in the school foundation program to annually adopt a salary schedule for nonteaching school employees and a salary schedule for teachers.

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

Section 3319.12, Revised Code, requires each board of education to give notice annually, not later than the first day of July, to each teacher who holds a contract valid for the succeeding school year, of the salary to be paid during that year. The salary shall not be lower than the salary paid during the preceding school year unless such reduction is part of a uniform plan affecting the entire district.

Section 4117.03(A)(1), Revised Code, gives public employees the right to form, join, assist, or participate in, or refrain from forming, joining, assisting, or participating in, except as otherwise provided in Chapter 4117 of the Revised Code, any employee organization of their own choosing. The classified employees of the McDonald Local School District are represented by the Ohio Association of Public School Employees Local Union #662.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(continued)

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; and Section 3319.08, Revised Code, for teacher employment and reemployment contracts; Section 3319.10, Revised Code, for employment and status of substitute teachers.

School District's Payroll Processing Procedures

All full and part-time employees are compensated bi-weekly. There are 55 full-time and 13 part-time employees within the School District. The School District's pay period for all employees begins on Sunday and ends on Saturday, fourteen days later. Employees are paid on Friday, six days after the pay period ending date. All employees are paid in accordance with bargaining contracts.

In addition to their bi-weekly pay, employees may receive additional amounts along with their regular compensation for supplemental contracts, extra pays, or stipends. Employees receiving an actual check, as well as those with direct deposit, receive a pay stub which includes an earnings statement portion that indicates gross and net earnings, withholdings (year-to-date and for the pay period), leave usage during the pay period, and leave balances as of the end of the pay period. For those employees with direct deposit, the bottom portion of the pay stub is a direct deposit notification.

All certified and non-certified employment applications, which consist of a cover letter and resume, are received and kept on file by the Treasurer's office. Recommendations for employment are made to the Board of Education by the Superintendent and are recorded in the minutes by the Treasurer. Copies of all employee records, transcripts, licenses and evaluations, as well as tax and benefit information are kept in a personnel file in the Treasurer's office.

The School District's employees can be categorized under one of four payroll groups: administrators, certified, classified and other employees. Each of these payroll groups are further described in the following paragraphs.

Administrators: Administrators include the Superintendent, Principals, employees in the Treasurer's office and department supervisors. Individual administrative contracts are prepared by the Central Office Assistant in the Treasurer's office based upon contract provisions approved by the Board of Education. The contract provisions establish the annual rate of pay, annual vacation days to be credited, and job duties and expectations for each employee. In addition, the contract provisions state that the Board will provide the employee with a \$50,000 term life insurance policy and all other benefits at least equal to those provided for certified staff. The contracts are reviewed and approved by the Board of Education. Contracts typically run from August through July. The signed contracts are kept on file in the Treasurer's office. The Treasurer manually enters the contract amounts into the payroll system from the administrators' individual contracts and salary notices.

Certified: Teachers' salaries and benefits are governed by a negotiated agreement between the McDonald Local School District and the McDonald Education Association. The present negotiated agreement covers the period September 1, 2010 through August 31, 2013. The negotiated agreement establishes salary schedules reflecting annual rates of pay based upon years of experience and education.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(continued)

Individual teacher contracts are prepared by the Central Office Assistant. The employee receives two copies of the contract, one copy is to be signed by the employee and returned to the Treasurer's office and the other copy is for the employee's records. The contracts are approved by the Board and signed by both the Treasurer and the Board President. The contracts are kept on file with the Treasurer's office. The teachers' contracts are normally mailed in April prior to the end of the school year. After an employee has entered into a continuing contract, only a salary notification letter is mailed to the employee in the following years.

In June, the Treasurer uses the certified salary schedules to prepare an excel spreadsheet listing each employee and their contract amounts. The Treasurer merges the employee contract information from the excel spreadsheet into a word document to create the salary notices. After being signed by the Treasurer, the salary notices are mailed out in June to all employees, except those on limited contracts. If employees disagree with the contract amount on the salary notice, they can contact the Treasurer's office to resolve the issue.

From the certified individual contracts and salary notices, the Treasurer manually enters the contract amounts into the payroll system. The payroll system calculates the amount to be paid to each employee over twenty-six pays.

For any change that results in a pay schedule adjustment, the teacher is required to contact the Treasurer's office so contract changes can be processed. The Treasurer's office requires the teacher to provide a copy of their transcript to support the change prior to the first pay of the new contract year. After receiving support for the change, the treasurer will update the employee's contract amount in the payroll system. The payroll system calculates the amount to be paid to each individual over twenty-six pays.

Classified: Salaries and benefits for custodians, bus drivers, and cafeteria workers, secretaries, library aides, paraprofessional aides and playground aides are governed by a contract negotiated between the McDonald Local School District and the Ohio Association of Public School Employees Local Union #662. The present contract covers the period from September 1, 2010 through August 31, 2013. The contract establishes the hourly rates for classified positions. Employees are considered full time if they work twenty-five or more hours per week.

Individual classified contracts are prepared by the Central Office Assistant. As per negotiated agreement, classified employees are given a limited one-year contract in the first year of employment. Following the first year of employment, classified employees are given a two-year limited contract. Following the third year of employment, classified employees are given 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 procedures for preparing and mailing out the salary notices as well as entering the contract amounts into the payroll system are the same as those described for certified.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(continued)

Timesheets are prepared each pay period for all OAPSE and hourly employees. Only the timesheets for hourly employees such as playground aides are used to enter hours worked into the payroll system. The timesheets for all remaining OAPSE employees are prepared only to verify and maintain a record that the employees actually worked their regular hours. Each OAPSE and/or hourly employee fills out and signs an individual timesheet. Each timesheet includes the employee's name, position and the hours worked each day in a two week pay period. The timesheet is then submitted to the employee's supervisor. The employee's supervisor reviews the timesheet and signs it. The supervisor forwards the timesheets to the Central Office Assistant in the Treasurer's office.

Overtime: Overtime earned by classified employees is paid in the pay period following the pay period in which it was earned. Overtime is paid at a rate of one and a half times the employee's regular rate. Overtime is recorded on an individual employee overtime report. All overtime has to be approved by the employee's supervisor each pay period. The Central Office Assistant verifies the mathematical accuracy of the overtime reports and enters the overtime amount for each employee into the payroll system.

Bus drivers use the extra bus trips form to record extra bus trips not part of their regular route. This form includes the bus driver's name, trip destination, date of trip, trip mileage and trip hours. The form is signed by the advisor or coach in charge of the trip and forwarded to the Central Office Assistant in the Treasurer's office. The Central Office Assistant calculates the extra trip pay and enters it into the payroll system. Any extra time worked over 40 hours for the week is paid at time and a half.

Other Employees: Board members are paid at a maximum rate of \$125 per meeting. The Central Office Assistant calculates and enters payroll for the board members based on the number of meetings attended. The Board Members are paid twice a year, once in July (for meetings in January through July) and once in December (for meetings in August through December).

Supplemental: The Central Office Assistant in the Treasurer's office is responsible for preparing supplemental contracts. These contracts are issued as the Treasurer's office receives the assignments for each supplemental position. The Board of Education approves the supplemental contracts before they are mailed to employees. All supplemental contracts for partial year programs are paid in one lump-sum payment after the contracted duties are completed. Supplemental contracts for full year programs such as those for the Athletic Director, Yearbook Advisor, Varsity Cheerleading Coach and the Junior High Cheerleading Coach are paid in two lump sum payments, one in January and one in June.

Substitutes: The building secretaries call substitute teachers when needed. The building secretaries also complete and sign a weekly absence/substitute report which is submitted to the Treasurer's office every Thursday or Friday. The Central Office Assistant receives the absence/substitute reports, calculates the substitutes' pay and enters this information into the payroll system.

Withholdings: Payroll, tax and retirement forms are given to new employees to be completed, signed, and returned to the Treasurer's office. The Central Office Assistant enters this information into the computer. The Central Office Assistant creates the employee record and notifies the appropriate retirement system of each new hire that is required to become a member.

The School District provides various benefits to employees. Benefits received by employees include vacation, sick and personal leave, retirement, health insurance and severance.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(continued)

Leave: Vacation and personal leave is credited annually as indicated in the respective negotiated agreement or in each administrator's contract. Certified employees do not receive vacation. All full-time employees receive 15 sick days for each calendar year. Vacation, personal, and sick leave usage is posted in the payroll system by the Central Office Assistant every pay according to the amount of time recorded on the pink employee absence reports. The system updates the balances automatically.

Vacation, personal or professional leave is approved by the employee's immediate supervisor in advance. The supervisor forwards the leave request forms to the Central Office Assistant.

Sick leave is not required to be requested in advance. Certified employees contact the building principal and classified employees contact the department supervisor to report off sick.

After returning from any form of leave, the employee must fill out and sign a pink employee absence report. The pink employee absence report includes the employee's name, building, dates of absence and total days absent. The pink employee absence report is signed by the building principal or department supervisor and the Superintendent. The Central Office Assistant matches the pink employee absence report to the leave request forms and enters the leave usage into the payroll system.

STRS/SERS: Payroll deductions for STRS and SERS are processed through the payroll system and filed bi-weekly. The Board share of retirement is deducted from the State Foundation based on an annual estimate submitted by the Treasurer. The Treasurer's office books the Board's share as a memo expenditure and mails the employee share to STRS.

Bi-weekly, the Secretary to the Treasurer completes the STRS Employer Cash Receipt Remittance Form and mails it to STRS along with payment of the employee share for that pay period. SERS employee contributions are paid monthly. Each month, the Secretary to the Treasurer completes the SERS Cash Deposit Report and mails it to SERS along with payment.

Other Employee Benefits: The School District participates in the Trumbull County Schools Employee Insurance Benefits Consortium to provide medical, prescription, vision and dental benefits to all full-time employees. Monthly charges per person for single and family participation in the program are recommended by the Consortium and approved by the Board of Education. Medical, prescription and vision coverage is administered through Medical Mutual of Ohio. Dental coverage is administered through Oasis Trust. All full-time staff hired in July 2008 and prior to are required to pay 5 percent of the monthly medical and prescription premium. All full-time staff hired after July 2008 are required to pay 10 percent of the monthly medical and prescription premium. The School District pays 100 percent of the vision and dental premium for full-time employees. Part-time employees are eligible to receive medical, prescription and dental coverage if they pay 50 percent of the premium. The School District pays 100 percent of the vision premium for part-time employees. Life insurance benefits are provided through Fort Dearborn Life. The Board provides each full-time and part-time employee with term life insurance of \$50,000.

Payroll Deductions: Payroll deductions for medical, prescription, dental and life insurance benefits are processed through the payroll system and then used as part of the payment. The Central Office Assistant is responsible for the preparation of the documentation for the payments of medical, prescription, dental and life insurance benefits. All payroll deduction reports and insurance invoices are maintained by the Central Office Assistant.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(continued)

Severance: The School District offers severance pay upon retirement to its certified and classified employees with at least ten years of service in the School District. Payments for certified employees are twenty-five percent of the value of their accumulated sick leave up to eighty days paid. Classified employees receive twenty-five percent of the value of their accumulated sick leave. Certified employees accumulate sick leave without any limit. Payment is based on the daily rate of pay at retirement.

Payroll Preparation: Access to the payroll system is password protected. The Treasurer has given authority to NEOMIN, the School District's A-site, to grant access and supply a password. The Treasurer and the Central Office Assistant have full access to the payroll system.

The Central Office Assistant has a checklist for running the payroll program. The checklist names the reports that need to be run and lists the steps to be taken to process payroll. All timesheets, overtime reports and absence/substitute reports must be received by Thursday or Friday at the end of the pay period. Once all payroll information is entered into the system by the Central Office Assistant on Thursday and Friday, the payroll is ready to be processed.

According to the payroll checklist the first report run is the bi-weekly report called INICAL. The INICAL lists the total regular employee bi-weekly payroll prior to exceptions (stipends, certain supplementals, miscellaneous pays, etc.) The next payroll report generated is a distribution proof listing called PAYSUM which details out the gross payroll by individual employee. The Central Office Assistant will review this report and check for any unusual entries and make any necessary corrections.

The next step according to the check list is the CALCPAY program which generates four reports, the PAYRPT, DEDTOT, the CALCERR, and the BUDPRO. The PAYRPT details the gross payroll and deductions by individual and pay group. The DEDTOT lists all payroll deductions including STRS and SERS deductions. The CALCERR lists items that are unusual and may need further attention. This report is reviewed by the Central Office Assistant for any errors. The BUDPRO details the gross payroll by budget account. The Central Office Assistant reviews this report to verify there are no errors in the payroll coding.

Payroll checks are printed on the Monday of every pay week. The blank check stock paper is kept in a cabinet next to the printer in the Treasurer's office. The check stock paper is completely blank, not containing school name, account number, check number or any other information. All this information is printed on the checks through the check writing process including the signature. The Central Office Assistant uses the create-a-check program to generate, electronically sign and print the payroll checks. The Treasurer and the Central Office Assistant have security access for printing payroll checks.

Prior to printing the payroll checks and electronically submitting the direct deposits, the Central Office Assistant has the Treasurer review the payroll. The Treasurer spot checks to verify that hours worked from the overtime reports and the hourly employees' timesheets have been entered correctly.

The Central Office Assistant prints the payroll checks and direct deposit pay stubs using the CHKPRT program. Direct deposits are submitted electronically to the bank by Friday, one week before the pay date. After submitting the direct deposits, the Central Office Assistant prints a batch summary report off the bank's web page. The Central Office Assistant verifies that the direct deposit amount on the batch summary report matches the total on the PAYDIR report. Money is transferred from the general checking account into the payroll account by the Treasurer.

McDonald Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(continued)

Direct deposit is mandatory for all full-time certified and classified employees. Part-time employees have the option of direct deposit or paper checks. In the future, the Treasurer plans to make direct deposit mandatory for all certified and classified employees. Paper checks are signed at the time of printing with an electronic check signer on the printer. The paper checks are usually sent to the department or building where the employee works. Employees can also request that their paper check be mailed to their home or they can pick them up in the Treasurer's office.

Employees receive a pay stub on Thursday or Friday of the payroll week. The pay stubs are usually sent to either the department or building where the employee works. During the summer, the pay stubs for nine month employees are mailed to the employee's home.

Payroll checks and direct deposits are posted to the payroll system and general ledger system by running the CHKUPD program. Appropriate deduction checks are printed and posted to the payroll system and general ledger system by running the DEDRPT and PAYDED.

The AUTOPOST program automatically posts the payroll information to the accounts from which the employees are charged within the payroll system and the budgetary system.

Internal Revenue Service W-2 forms are processed before the first payroll for the new calendar year. W-2 forms are distributed to all employees usually by early January. All W-2 information is submitted electronically to the IRS through the School District's A-site, NEOMIN.

Auditor of State Comments

None.

McDonald Local School District – Trumbull County

Financial Accounting Report

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before debt is issued, a resolution authorizing the issuance of debt should be passed by the School Board. The statute authorizing the issuance should be identified in the resolution as well as the purpose of the debt, the principal amount, the maturity, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of the Board of Education and the Treasurer. Debt proceeds should be receipted 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 receipted 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

Debt issuances are approved by the Board by resolution. The Board resolution identifies the statute which allows for the issuance of the debt, the purpose, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment.

The Treasurer matches all bills received for debt to the appropriate amortization schedules to ensure that the correct debt payments are made. Debt payments are all made by budgetary check. The money used for the payment of debt comes from State Foundation and property taxes. All debt documents and amortizations schedules are kept on file in the Treasurer's office.

The amount of the School District's outstanding debt at June 30, 2010 was \$3,422,556 and consists of the following:

	Interest Rate	Principal Outstanding 6/30/2010
State Solvency Assistance Advance	0.00%	\$2,001,000
<u>General Obligation Bonds:</u>		
School Improvement Bonds, Series 2000		
Capital Appreciation Bonds	6.0% to 6.1%	4,000
Accretion on Capital Appreciation Bonds		118,506
<i>Total School Improvement Bonds, Series 2000</i>		<u>122,506</u>
School Improvement Bonds, Series 2006		
Serial Bonds	3.7% to 4.0%	625,000
Capital Appreciation Bonds	4.6% to 4.7%	84,997
Accretion on Capital Appreciation Bonds		56,526
Term Bonds	3.7% to 4.1%	495,000
Unamortized Loss		(69,449)
Unamortized Premium		106,976
<i>Total School Improvement Bonds, Series 2006</i>		<u>1,299,050</u>
<i>Total Debt</i>		<u>\$3,422,556</u>

McDonald Local School District – Trumbull County

Financial Accounting Report

Debt Administration

(continued)

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

During fiscal year 2010, the School District received an interest free State solvency assistance advance in the amount of \$2,001,000. The State solvency assistance advance will be paid from the general fund with school foundation revenue. A liability for the note is reflected in the general fund which received the proceeds. In fiscal years 2011 and 2012, the School District will pay \$1,000,500 a year to retire the solvency assistance advance.

On June 1, 2000, the School District issued \$2,004,000 in voted general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$710,000, \$1,290,000 and \$4,000, respectively. The general obligation bonds were issued for the purpose of providing funds for renovations to the high school and for construction of a new elementary school. On May 31, 2006, the full amount of the term bonds was retired by the School District through an advance refunding. The general obligation bonds mature December 1, 2011 and will be retired from the debt service fund.

On May 31, 2006, the School District issued \$1,289,997 in voted general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$625,000, 580,000 and \$84,997, respectively. The general obligation bonds were issued for the purpose of refunding the term bond portion of the 2000 school improvement bonds to take advantage of lower interest rates. The bonds were issued for a sixteen year period with a final maturity at December 1, 2022. These bonds will be retired from the debt service fund.

The School District incurred a deferred loss on the advance refunding of \$92,288. The deferred loss is being amortized over the life of the bonds.

The 2006 school improvement bonds were sold at a premium of \$142,155. This premium is being amortized over the life of the bonds.

Auditor of State Comments

None.

McDonald Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

Capital assets of the School District should be accounted for and reported in accordance with generally accepted accounting principles (GAAP). 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, determination of cost, useful lives, method of depreciation, assignment of assets and depreciation expense to an expense function, tracking of capital and non-capital assets, and determination of salvage value. An inventory should be maintained that includes a description of each item, its cost, serial and/or model numbers, date of purchase, location, useful life, salvage value, depreciation information, fund and account used to purchase asset, tag number, whether the item is leased, and current purchases and disposals. The purchase and disposal of an asset should be authorized by the governing board, reported to and promptly recorded by the Treasurer or Business Manager, and insurance records adjusted. The transfer or reassignment of assets should be approved by an appropriate official and promptly recorded. Verification of the listed assets should be performed periodically.

Consumable materials and supplies lose their original shape or appearance with use. Examples include office supplies, gasoline, cafeteria supplies and food, and donated commodities. Inventories, where appropriate, should be monitored, controlled, and a physical inventory of materials and supplies should be performed periodically to ensure that items purchased are on hand or have been used. A physical inventory of all material items should be conducted at or near fiscal year-end.

Statutory Requirements

Section 3313.41(A), Revised Code, requires that, except as provided in divisions (C),(D),(F), and (G) of this section, when a board of education decides to dispose of real or personal property that it owns in its corporate capacity, and that exceeds in value ten thousand dollars, it shall sell the property at public auction, after giving at least thirty days' notice of the auction by publication in a newspaper of general circulation or by posting notices in five of the most public places in the School District in which the property, if it is real property, is situated, or, if it is personal property, in the School District of the Board of Education that owns the property. The Board may offer real property for the sale as an entire tract or in parcels. Under division (B) of Section 3313.41, when the Board of Education has offered real or personal property for sale at public auction at least once pursuant to division (A) of this section, and the property has not been sold, the Board may sell it at a private sale. Regardless of how it was offered at public auction, at a private sale, the Board shall, as it considers best, sell real property as an entire tract or in parcels, and personal property in a single lot or in several lots. Real property is a permanent improvement and the proceeds are to be recorded into a permanent improvement fund as per Section 5705.01 and 5705.10 Revised Code.

Administrative Code Requirements: Section 117-2-02 (D)(4)(c) of the Ohio Administrative Code requires that the school district maintain capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

McDonald Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

(continued)

School District's Method of Accounting for Capital Assets

The School District's capital asset policy requires the School District to maintain a capital assets accounting system. The capital assets accounting system is to provide sufficient information to permit the preparation of year-end financial statements in accordance with generally accepted accounting principles, determine adequate insurance coverage and provide control and accountability. Board policy states that the Treasurer's office is responsible for the development and maintenance of the capital assets accounting system. Currently, the Treasurer's office does not maintain a capital assets accounting system.

The School District's capital asset policy sets the capitalization threshold at \$1,500 for new additions and \$1,000 for replacement costs. In practice, the School District only capitalizes assets with a value of \$5,000 or greater. The classification of capital assets includes land, land improvements, buildings and improvements, equipment and furniture, and vehicles. All assets are capitalized at cost or estimated historical cost if the actual cost is not available.

Valuation Engineers compiled capital assets and calculated an insurable value for the School District in August 2004. The Valuation Engineers capital asset reports were kept and used as a basis for all capital assets acquired in fiscal year 2004 and prior years. Beginning in fiscal year 2005, the accounting firm hired as the GAAP converter created a capital asset listing spreadsheet. The information for capital assets acquired in fiscal year 2004 and prior years was entered into the spreadsheet from the Valuation Engineers reports. Each year, the GAAP converter updates the spreadsheet with the capital asset addition and deletion information received from the Treasurer. The spreadsheet is also updated with an additional year of depreciation for those assets which are not fully depreciated. The GAAP converter maintains the capital asset listing spreadsheet and the Treasurer simply reviews this spreadsheet.

The Treasurer identifies capital asset additions by running an expenditure report which includes all 600 capital outlay expenditure object codes from the School District's system. All capital assets at or above \$5,000 are capitalized. The Treasurer gives the capital asset addition information to the GAAP converter who assigns an asset number to each item and enters all additions into the Excel spreadsheet. The information entered into the spreadsheet includes asset number and class, asset description, year acquired, fund and function, cost, estimated useful life and annual depreciation.

The Technology Coordinator will physically tag assets such as computers, printers, copiers, projectors and audio/visual equipment with a numbered tag. The asset tag aids in identifying the existence of the asset.

Depreciation is calculated by using formulas in the capital asset spreadsheet prepared by the GAAP converter. Salvage value is not used. The Treasurer reviews the depreciation calculated on the spreadsheet. Depreciation is calculated on a straight-line basis. A full year of depreciation is calculated in the year of acquisition and then for each following year through the last year of the asset's useful life.

Employees send a list of the assets they wish to dispose of to the Treasurer's office. This list is submitted to the Board for approval. Upon Board approval, the assets may be trashed or recycled. If an asset can still be used, the Treasurer's office will sell the asset. The sale of capital assets is very rare and in almost all cases disposed assets are simply scrapped.

McDonald Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

(continued)

After the end of the fiscal year, the Treasurer reviews the capital asset listing spreadsheet and identifies all deleted assets that need to be removed from the spreadsheet. The GAAP converter updates the spreadsheet for the deleted assets.

The School District does not perform an annual physical inventory of capital assets.

School District's Methods for Assets for Supplies

The School District does not perform an annual physical inventory of supplies to verify existence or non-existence. For financial reporting purposes, the only inventory of supplies that is reported is food service.

The Head Cook at the elementary school building takes a monthly physical inventory. A monthly inventory sheet for non-food supplies, food and government donated commodities is prepared including item description, units on hand and unit price. The Head Cook then calculates the dollar amount of the inventory based on the cost per unit and writes this on the monthly inventory sheets. The inventory sheets are reviewed for any mathematical errors and any necessary adjustments are made. The dollar totals from the monthly inventory sheets are used to complete the State Child Nutrition reports online which are submitted to the State Department of Education.

Auditor of State Comments

1. The Board policies on capitalization and inventory control threshold are not being followed. The current policies state that asset additions with a value of \$1,500 or greater and replacement costs with a value of \$1,000 or greater are to be capitalized; however, the School District is only capitalizing assets with a value of \$5,000 or greater. The School District should update its policies to reflect what assets it capitalizes.
2. The School District does not complete a physical inventory to verify the existence of capital assets. The School District should complete a physical inventory every two to three years to verify the existence of capital assets. The School District should also update the Board policy to reflect this.
3. The School District does not maintain capital asset records. The School District currently only reviews the capital asset listing maintained by the GAAP converter. The School District should maintain records for capital assets using the state software Equipment Inventory System (EIS).
4. The School District does not assign salvage value to depreciable capital assets. In accordance with GASB Statement No. 34, depreciation expense should be calculated by allocating the net cost of depreciable assets over their estimated useful lives. The net cost of depreciable assets is defined as historical cost less estimated salvage value. The School District should assign salvage values to depreciable assets and recalculate annual and accumulated depreciation.
5. The School District does not maintain a listing of individual assets under the capitalization threshold that should be tracked for insurance purposes only. The School District should update its capital assets policy to identify which individual assets should be tracked for insurance purposes only and maintain a listing of these assets.

McDonald Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

(continued)

6. The Treasurer's office does not verify the existence or non-existence of any significant consumable inventory other than food service supplies. The Treasurer should verify that there are no significant inventories other than food service to be reported. This should be done by physically checking the areas where consumable inventories would be stored.

McDonald Local School District – Trumbull County

Financial Accounting Report

Cash Management and Investing

Description of an Effective Method of Cash Management

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

Statutory Requirements

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

Section 135.12, Revised Code, requires that the designation period for depositories be five years.

Section 3315.01, Revised Code, allows the board of education of any school district to adopt a resolution requiring the treasurer of the district to credit the earnings made on the investment of the principal of the moneys specified in the resolution to the fund from which the earnings arose or any other fund of the district as the board specifies in its resolution, except for earnings made on the investment of the bond retirement fund, the sinking fund, a bond fund or the school facilities project fund.

McDonald Local School District – Trumbull County

Financial Accounting Report

Cash Management and Investing

(continued)

Federal Requirements

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that, in order for a depositor to have a valid claim to assets of a failed financial institution, there must be a security agreement. This agreement must have been:

1. in writing;
2. executed by the financial institution and the depositor making the claim;
3. approved by the board of directors or loan committee of the institution; and
4. an official record of the financial institution continuously from the time of its execution.

If these requirements are not fulfilled, the Federal Deposit Insurance Cooperation (FDIC) may be able to void a security interest and leave the School District with only the right to share with other creditors in the pro rata distribution of the assets of a failed institution.

The School District's Methods of Cash Management and Investing

The School District's treasury activities are the responsibility of the Treasurer. The Treasurer reconciles the treasury with the accounting records and transfers cash from the general checking account to the payroll account as needed. The School District maintains a general checking account, a payroll checking account, and a sweep account.

The Farmer's National Bank general checking account receives wire transfers and daily deposits for the McDonald Local School District. Checks are written against this account for the daily operations, other than payroll, of the School District.

At the beginning of each month, the Treasurer closes out the previous month. Within the next two weeks, the Treasurer reconciles the bank accounts for the previous month. To identify outstanding checks, the Treasurer enters into the accounting system the check numbers that cleared the bank per the bank statement and then runs an outstanding check register report. Any discrepancies are noted on the monthly cash reconciliation. This reconciliation is presented to the Board of Education.

Voided general operations and payroll checks have the signature portion torn off and void written on them by the Treasurer's Aide or Central Office Assistant. These voided checks are filed in numerical order in the Treasurer's Office.

The Board policy states that the Treasurer is authorized 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 a repurchase agreement through its sweep account. At the end of each business day, the balance in the general checking account is moved into the sweep account to earn a higher rate of interest. Each morning the balance in the sweep account is moved back into the general checking account. The School District does not have a policy for distribution of interest income but instead has chosen to follow state statute. In fiscal year 2010 and prior years, the only fund that received interest was the general fund. The Treasurer annually attends training on investing offered by the State Treasurer's office.

McDonald Local School District – Trumbull County

Financial Accounting Report

Cash Management and Investing

(continued)

The School District maintains three petty cash funds; one for each of the two school buildings and another for the central office. The School District also maintains a change fund for athletics. These funds are authorized by the Board.

Auditor of State Comments

1. The School District does not have a policy for distribution of interest income. The School District should adopt a policy for the distribution of interest income.

McDonald Local School District – Trumbull County

Financial Accounting Report

Financial Reporting

Description of Effective Method of Financial Reporting

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

Statutory Requirements

Section 117.38, Revised Code, requires an annual financial report to be certified by the Treasurer and filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year-end. At the time the report is filed with the Auditor of State, the Treasurer 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.

The School District's Method of Financial Reporting

The School District uses software provided by the Northeast Ohio Management Information Network (NEOMIN) which allows for standard and customized month and year-to-date reports. The School District prepares month and year-to-date reports, including the revenue, budget and appropriation account summary reports, which are kept on file in the Treasurer's office.

During the monthly Board meetings, the Board members receive a FINSUM report (receipts, expenditures and current fund balance for each fund), a CHEKPY report (list of bills paid for the previous month), a Staff Attendance report (shows leave days taken by employees) and a copy of the monthly cash reconciliation. Other financial reports are given according to requests of the Board members.

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 within 150 days of the end of the fiscal year end or, if unable to meet the deadline, an extension is requested. The School District filed a copy of its annual financial report to the office of the Auditor of State for the fiscal year ended June 30, 2010 on November 4, 2010. As soon as the financial audit is released by the Auditor of State, the audit is distributed to all Board members.

In prior fiscal years, the School District has not published a notice of the availability of the financial statements in the local newspaper. Copies of the financial statements are kept at the School District for the public and distributed when requested. All requests of financial information from the public are prepared and distributed by the Treasurer's office.

McDonald Local School District – Trumbull County

Financial Accounting Report

Financial Reporting

(continued)

Auditor of State Comments

1. The Board does not receive reports presenting estimated revenues and appropriations. The Treasurer should provide the Board with reports comparing estimated revenues and appropriations to actual amounts on a monthly and cumulative basis.
2. In accordance with Section 117.38, Revised Code, the School District should publish in a local newspaper that the financial report is available for public inspection at the office of the Treasurer.

McDonald Local School District – Trumbull County

Financial Accounting Report

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

The School District's minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale behind the Board's decisions. Minutes of proceedings should be approved at the subsequent meeting. A resolution should be limited to one subject, which should be clearly expressed in its title. Proposed legislation is to be drafted and available for all Board members to review prior to the Board meeting at which they will vote upon it. In the adoption or passage of a resolution, the yeas and nays should be entered into the minutes and the 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 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 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 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 the Board.

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 be open to public inspection. 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. The minutes need only reflect the general subject matter of discussions in executive sessions.

The School District's Method of Recording Official Proceedings

The Board of Education usually holds their regular monthly meetings on the third Monday of each month. The Treasurer takes notes during the Board of Education meetings. From those notes, the Central Office Assistant prepares the minutes of the meeting. The minutes include who is in attendance, a summary of topics discussed, resolution numbers and a description of the resolution, votes on each resolution and any reports or materials handed out to support the resolutions. The minutes are approved by the Board at the following month's meeting and signed by the President of the Board and the Treasurer. Typed minutes, resolutions and supporting exhibits are kept in black binders in the Treasurer's office.

Auditor of State Comments

None.

McDonald Local School District – Trumbull County

Financial Accounting Report

Conclusion

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

It is the opinion of the office of the Auditor of State that the current methods of the accounting and financial reporting of the McDonald Local 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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Dave Yost • Auditor of State

MCDONALD LOCAL SCHOOL DISTRICT

TRUMBULL 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
AUGUST 4, 2011**