

**BROOKLYN CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

***FINANCIAL ACCOUNTING REPORT***

Local Government Services Division  
Auditor of State's Office

**Brooklyn City School District, Cuyahoga County  
Financial Accounting Report**

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**CERTIFICATION**

Pursuant to Section 3316.03(A), Revised Code, after the declaration of the existence of a fiscal emergency condition, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports of the Brooklyn City School District. This report states whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

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

Therefore, pursuant to Section 3316.03(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 Brooklyn City School District.

JIM PETRO  
Auditor of State

A handwritten signature in black ink, appearing to read "Christine L. Hansen".

Christine L. Hansen, CPA  
Chief of Local Government Services

January 28, 2000

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**Governance Overview**

Brooklyn City 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 Brooklyn City School District being declared in a state of fiscal emergency, the School District was operated under a locally-elected five-member Board of Education and provided educational services mandated by the State and/or federal agencies.

On April 28, 1999, the Brooklyn City School District was declared in a state of fiscal emergency by the Auditor of State and, accordingly, a Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. At the time the Commission was created, this section required that a commission consist of seven voting members. Since then, the requirement has been reduced to five voting members. The Brooklyn City School District Commission continues to operate with seven members due to the change occurring after the Commission was established. The Commission membership consists of the following:

1. The Director of Budget and Management designee;
2. The Superintendent of Public Instruction designee;
3. The Superintendent of the School District;
4. The Mayor of the City of Brooklyn;
5. A local business person appointed by the Governor;
6. A parent with children enrolled in the School District appointed by the Superintendent of Public Instruction; and
7. A Brooklyn resident and business owner appointed by the Mayor.

The Commission has the following powers, duties and functions:

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

A Financial Planning and Supervision Commission has been established and given the authority to assume complete managerial control of the School District. Currently, the Commission has not formally defined their role in the School District. The Commission has developed and adopted a financial recovery plan for the Brooklyn City School District.

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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 or the Auditor of State, and the Governor, the Director of Budget and Management, and the County Budget Commission, the Commission will be terminated.

Upon termination of the existing fiscal emergency and the Commission, all responsibility for the management of the School District will revert to the locally-elected Board.

**Auditor of State Comments**

The School District should establish an audit committee to act as an informed, vigilant, and effective overseer of the financial reporting process.

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**Budgetary Process**

**Description of an Effective Budgetary System**

The legally adopted annual budget plays a unique and central role in determining how much and what type of financial resources shall be raised, and how those financial resources shall be spent. An annually appropriated budget should be adopted for all funds and the amounts appropriated for each fund should not exceed the estimated resources available for the year. The budget should present sufficient information to identify the major sources of revenues and the programs, activities, and major objects of expenditures. The process should encompass current operations and maintenance for the various School District departments, student programs, capital acquisition and replacement, and debt retirement. The adopted budget should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized revenues and balances available for obligation.

**Statutory Requirements**

The budgetary process is prescribed by provisions of the Ohio 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, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is established by the Board at the object level within each function. Any budgetary modifications at this level may only legally be made by resolution of the board of education.

**Tax Budget** Prior to January 15, the board of education is required to adopt an operating 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 to be filed with the county budget commission for rate determination actions.

**Estimated Resources** Prior to April 1, the board of education accepts, by formal resolution, the tax rates as determined by the county budget commission and receives the commission's certificate of estimated resources which states the projected 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 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. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the school district treasurer.

**Appropriations** Upon receipt from the county auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certification stating no new certificate is necessary, the annual appropriation measure must be legally enacted by the board of education. Prior to the passage of the annual appropriation measure, the board may pass a temporary appropriation measure to meet the ordinary

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expenses of the school district. The appropriations established for each fund must be within the most recent amended official certificate of estimated resources 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 the legal level of appropriation must be approved by the board of education. 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.

**Budgeted Levels of Appropriation** Administrative control is maintained at the board's level of appropriation, which is generally by fund, function and object level, e.g., General Fund, Regular Instruction, Personal Services. Appropriated funds may not be expended for purposes other than those designated in the appropriation resolution. The appropriations made by the board remain fixed unless amended by the board.

**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. Expenditures plus encumbrances may not legally exceed appropriations.

**School District's Budgetary Process**

The Board of Education adopts an operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing the expenditures for all funds other than agency funds. Public hearings are conducted to obtain taxpayer comments. The Board-adopted budget is filed with the Cuyahoga County Budget Commission. In the Brooklyn City School District, the Treasurer is responsible for preparing the current year operating budget (tax budget) and for presenting the proposed operating budget to the Board for adoption. The Board of Education does not consistently adopt an operating budget prior to January 15 nor is the budget consistently filed with the County Budget Commission by January 20. The School District did not obtain a valid extension from the State Tax Commission for budgets filed after January 20.

The Board of Education accepts, by resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources. The School District does not pass a resolution to accept, certify, and authorize the necessary tax levies (tax millage rates) prior to April 1 as required by State statute. Prior to the end of the fiscal year, the Treasurer of the Brooklyn City School District, with Board approval, revises the appropriations so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the most recent certificate of estimated resources.

The School District did not submit the Certificate of the Total Amount from All Sources Available for Expenditures and Balances for the Fiscal Year Ended June 30, 1999 until September 9, 1999. The School District corrected the unencumbered fund balances and resubmitted the Certificate of the Total Amount from All Sources Available for Expenditures and Balances for the Fiscal Year Ended June 30, 1999 on September 27, 1999.

The Treasurer requests an Amended Official Certificate of Estimated Resources that includes unencumbered cash balances from the preceding year. The Treasurer also requests additional certificates periodically during the year if projected revenues increased or decreased; however, the budgeted revenues in the computer

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system exceeded the amounts on the last Amended Official Certificate of Estimated Resources approved by the County Budget Commission and dated prior to the fiscal year end of June 30, 1999.

When preparing the appropriations, the School District considers the most recent Amended Official Certificate of Estimated Resources issued by the County Auditor as the maximum amount available for appropriation; however, the final appropriation resolution for the fiscal year ended June 30, 1999 exceeded the most recent Amended Official Certificate of Estimated Resources. The appropriations are based on prior year spending and any anticipated changes. The Treasurer estimates the amount of appropriations needed which serves as a basis for the Board resolution. The appropriations are then adopted and certified by the Board of Education. Effective with the fiscal year 2000 permanent appropriation resolution that was passed on September 30, 1999, the Board adopts appropriations at the fund, function, and object level for the general fund. Appropriations for all other funds are adopted at the fund and object levels. The Treasurer then records the appropriations in the computer at these amounts. Appropriations for the fiscal year ended June 30, 1999 in the computer system did not agree with the final appropriation resolution.

The Brooklyn City School District historically operates under a temporary appropriation measure and then passes a permanent appropriation measure prior to the end of the fiscal year. For fiscal year 1999, the School District passed permanent appropriations on June 25, 1999. For fiscal year 2000, the School District passed permanent appropriations on September 30, 1999. Revisions to the appropriations and supplemental appropriations are approved by the Board of Education.

All commitments for the expenditure of monies, except salary commitments, are encumbered to keep spending within the amounts authorized. Since salary commitments are governed by contracts, this provides an additional level of control over spending. The permanent appropriations incorporate amounts required under the contracts. The School District uses blanket certificates, purchase orders, and then-and-now certificates. The then-and-now certificates are mainly used for teacher mileage reimbursements. The School District does not use super blanket certificates.

**Auditor of State Comments**

1. The School District should compare budgeted revenues on the computer system with the most recent Amended Official Certificate of Estimated Resources and, if the budgeted revenues exceed the amounts on the Amended Official Certificate of Estimated Resources, the budgeted revenues should be adjusted to match the Amended Official Certificate of Estimated Resources.
2. The School District must submit requests for an Amended Official Certificate of Estimated Resources in time to receive it back from the County Budget Commission prior to year end. The School District needs time to make the final appropriation adjustments and enter the revisions into the computer prior to year end at June 30.
3. The School District should submit the Certificate of the Total Amount from All Sources Available for Expenditures and Balances for the Fiscal Year Ended June 30 1999 closer to the actual year end. This will enable the School District to receive a more accurate Amended Official Certificate of Estimated Resources approved by the County Budget Commission to facilitate making management decisions.



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4. The School District should include all required items on the Certificate of the Total Amount from All Sources Available for Expenditures and Balances for the Fiscal Year Ended June 30, 1999 to prevent the Amended Official Certificate of Estimated Resources from being inflated. This should eliminate the passage of an inflated appropriation resolution.
5. The School District must ensure that changes to the appropriations are entered into the computer system in a timely manner. The School District should monitor available appropriations monthly so that purchase orders will not be issued which exceed the amount appropriated.
6. In order for the School District to receive the Official Certificate of Estimated Resources in a timely manner, the School District must pass the annual tax budget and submit it to the County Auditor in a more timely manner.
7. The School District must pass and submit a resolution to accept, certify, and authorize the necessary tax levies (tax millage rates) to the County Auditor prior to April 1.

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**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. The receipt or pay-in order form should be a consecutively pre-numbered multi-part form. The receipt should bear the name of the school district and reflect the date received, the payee, amount, the purpose or nature of the receipt, account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payee. All receipts or pay-in orders should be posted in a timely manner.

**School District's Revenue Receipt Process**

Receipt Ledger Procedures

All revenues received are recorded in the receipt book by the Assistant Treasurer. The Assistant Treasurer normally prepares the bank deposit slip and takes the money to the bank. If the Assistant Treasurer is ill, the Accounts Payable Clerk copies the deposit information and leaves the copy for the Assistant Treasurer to utilize once she returns to work. The Accounts Payable Clerk gives the original information to the Treasurer. The Treasurer prepares the bank deposit slip and takes the money to the bank.

The Assistant Treasurer records almost all receipts. On occasion, the Accounts Payable Clerk will write a receipt but it is usually only for a refund of a receipt.

The receipt is a duplicate form. The white original is attached to the supporting documentation for the receipt and is filed. The yellow copy remains in the receipt book. The receipt shows the date of the receipt, a description of the source of the receipt, and the fund and revenue code to which it is to be posted. The receipts are signed by the Assistant Treasurer or the Accounts Payable Clerk.

The receipt book is given to the Treasurer who reviews and initials the receipts. The receipt book is then returned to the Assistant Treasurer. Once a week, the Assistant Treasurer enters the receipts into the computer. If she does not get a chance to enter the receipts on a weekly basis, she tries to post them before the close of the current month.

At the end of each month, a detailed revenue report is printed. The Assistant Treasurer checks to see if each receipt has been entered. She also totals the receipt book and compares the totals to the detailed revenue report.

The current and previous receipt books are kept in the Assistant Treasurer's office. All other receipt books are kept in a box in the safe. The safe is located in the Treasurer's office.

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Mail Procedures

All mail sent to the administration building from other school buildings or departments is delivered to the Board of Education office where it is sorted by office, department, or building (i.e. Superintendent, Treasurer, or school building within the School District). Normally, the mail is delivered twice a day by bus drivers or office staff. It is delivered once in the morning and once in the afternoon. The mail for the Treasurer's office is separated by the Accounts Payable Clerk between mail containing checks and/or cash and other mail.

Checks that have no supporting documentation are photocopied. Cash and checks received via the mail are placed into the safe by the Accounts Payable Clerk who then notifies the Assistant Treasurer. The remaining mail is placed into a green file folder which is then placed on the Assistant Treasurer's desk.

The Assistant Treasurer sorts the mail for the Treasurer, Accounts Payable and Payroll Clerks, and for herself. The Treasurer's mail is placed on top of the green folder and both are placed on the Treasurer's desk. The Treasurer reviews his mail and the items in the folder.

The folder is then given to the Payroll Clerk. The Payroll Clerk removes the items pertaining to payroll and then forwards the folder to the Accounts Payable Clerk.

Receipts

The School District receives school foundation monies from the Ohio Department of Education, property taxes from the County Auditor, grants from various sources, student activity fees and revenue from fund raisers, billings, cafeteria sales, student fees and interest.

When someone makes a payment or a donation in person, the Assistant Treasurer places the cash or check in the safe. If the check represents a donation, a copy of the check is made and placed in the safe along with the original check.

Receipt of Foundation

The foundation monies are wire transferred to the School District from the Ohio Department of Education. The foundation statements for the distribution of the monies are mailed to the School District. The foundation statement is given to the Assistant Treasurer who prepares a receipt for the revenue.

A memo expenditure is prepared for the STRS and SERS deductions. Other adjustments and some expenditure deductions on the foundation settlement are recorded as negative receipts.

Receipt of Property Taxes

When monies are wire transferred from the County Auditor, the Assistant Treasurer prepares a receipt for the revenue. A memo expenditure is prepared for the deductions. The Treasurer signs the copy of the tax settlement and returns it to the County Auditor to verify receipt of the tax settlement.

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Receipt of Grant Monies

For a new grant year, the Accounts Payable Clerk sets up a new cost center and then runs detailed REVSUM and BUDSUM reports. The reports are given to the Assistant Treasurer so that she will know the new cost centers to use when assigning account codes to the receipts. New grant information is put into a file folder and placed in the filing cabinet directly outside the Assistant Treasurer's door. The Assistant Treasurer prepares a receipt for the revenue.

Deposit of monies received

Checks are brought from the safe to the Assistant Treasurer's office. The Assistant Treasurer totals the checks and then gives them to the Treasurer to recount. The procedure is not done in each other's presence.

Each check is recorded as a separate receipt in the receipt book. The Assistant Treasurer then stamps the endorsement on the back of the check and records the receipt number used in the receipt book prior to the Treasurer recounting the checks.

If the Assistant Treasurer is ill, the Treasurer will decide whether or not to count the checks for the day. He may choose to leave them in the safe until the Assistant Treasurer returns the following day or he may count and deposit the checks.

Checks and cash that were received via the mail that were placed in the safe are subsequently brought out of the safe and a deposit ticket is prepared by the Assistant Treasurer or Accounts Payable Clerk. The checks, cash and original deposit ticket are placed into a bank bag. Bank bags are kept in the Assistant Treasurer's office. The bags do not lock. The Treasurer or Assistant Treasurer takes the deposit to the bank.

If a deposit is not going to be made that day, the cash and checks that were received after 2:00 p.m. will be placed into a locked filing cabinet in the safe and deposited the following day.

Safe procedures

The door to the safe is kept open during working hours. All of the Treasurer's staff and the building custodian know the combination to the safe. The custodian knows the combination because the main breaker box controlling lights for the Board office and the auditorium is located in the safe.

Cash and checks received during the day are kept in a filing cabinet in the safe which is kept locked at all times. The key is hidden; however, all personnel in the Treasurer's office know where the key is located.

Student Activity Receipts

Student activity receipts include the sale of uniforms or pieces of equipment, club dues and fees, and field trip fees.

The advisor collects the monies from the participating students. As each student pays, the advisor completes a "Student Activity Pay-in Order" form. These forms are kept in each school building principal's office and in the Treasurer's office. Advisors may request several of the "Student Activity Pay-in Order" forms if they know that monies will be received from students. The "Student Activity Pay-in Order" form is a three part

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form. The original is white and the copies are yellow and pink. The original is attached to the white receipt, the yellow copy is placed in a separate student activity folder for that student activity, and the pink copy is returned to the activity advisor.

The cash and checks are either put into an envelope or paper clipped to the form. The advisor is responsible for getting the cash, checks and form to the Treasurer's office. This is done either by personal delivery, student delivery (or anyone heading in that direction), or inter-school mail.

The Assistant Treasurer or Accounts Payable Clerk collects the "Student Activity Pay-in Order" forms along with the monies and places them into the locked filing cabinet in the safe until it is time to count the monies. After the Assistant Treasurer or the Accounts Payable Clerk counts the monies, a receipt is prepared. The monies are then placed back into the filing cabinet or deposited in the same manner as all other receipts. The white original receipt is paper clipped to the pay-in order and then given to the Accounts Payable Clerk.

#### Receipt of Student Fund Raiser Sales

If a club wishes to hold a fund raiser, the advisor completes an "Application for Student Activities Fund Raiser" form and returns it to the building principal. The forms are delivered by courier through the interoffice mail to the Superintendent in the Board of Education offices. The Superintendent then gives his approval. The Treasurer's office is not notified of fund raising activities. As the students collect money for items sold, it is given to the advisor. The process then followed for delivery of funds to the Treasurer's office and deposit of funds is the same as that followed for the other student activity receipts.

#### Receipt of Billings

The Assistant Treasurer generates invoices for temporary building use and monthly rent. Depending upon the type of payment, the receipt of a check via mail or a payment made in person, the standard receipting procedures are followed.

#### Receipt of Cafeteria Monies

The School District does not have lunch ticket sales. All cafeteria sales are in cash and collected by the cafeteria staff. The cafeteria staff member working on the cash register marks the type of lunch or a la carte item sold on the cash register worksheet. The Cafeteria Manager collects the daily cash register tapes, cash register worksheets, and cash from the cafeterias. She reconciles the cash from all of the school registers to the cash register tapes and worksheets and prepares a cash count sheet. She then forwards the reconciliation and cash to the Accounts Payable Clerk who makes the deposit.

The Accounts Payable Clerk receives the original cash count sheet and cash register worksheet while the cafeteria manager retains a copy for her records. There is a cash register worksheet from each school in the School District. The pink copy of the deposit slip, the register tapes and the bag tag are attached to the cash count sheet and register worksheets.

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The Accounts Payable Clerk verifies the cash count sheet totals against the deposit ticket and divides the lunch sales into the following three categories:

1. Adult lunches
2. Regular and reduced student lunches and milk sales
3. *A la carte* sales

These amounts are posted to a “Cafeteria Daily Combined Totals and Bank Deposit Amount” reconciliation. This sheet includes the date, type of lunch sold, dollar amount by type of lunches sold, daily and monthly grand total, total bank deposit, receipt ledger number and number of student and adult lunches.

The Accounts Payable Clerk then gives the information to the Assistant Treasurer to record the receipt of the lunches in the computer system.

#### Receipt of Student Fees

Student fees are collected in each school building. At the elementary schools, the teachers collect the fees from the students and give them to the building secretaries. At the middle school, the secretary collects the fees from the students. At the high school, the guidance secretary collects the fees from the students. After the fees are collected, a “Uniform School Supplies” form is completed and attached to the monies received. The collectors either send the “Uniform School Supplies” form via inter-school mail or take it down to the Treasurer’s office. Once the Treasurer’s office receives the paper work, the normal receipting process is then followed for the cash/check portion of the packet. All monies collected are placed in the safe until deposited. The “Uniform School Supplies” form is then maintained with the deposit ticket in the monthly receipts folder, which is maintained in the Treasurer’s office.

#### Receipt of Interest from Checking Accounts and Investments

All monies are swept into a money market mutual investment account. The Assistant Treasurer calls the bank to find the amount of interest for the month. The Assistant Treasurer then uses the FINANC report to calculate the amount of interest due to each fund that receives interest. Interest is allocated to funds based on end of the month fund balances. The Assistant Treasurer then records the receipt in the receipt book.

#### **Auditor of State Comments**

1. The receipt book/ledger should be maintained where it is accessible to whomever is collecting revenues. It is the original book of entry and should be completed immediately upon receipt of any revenue. The sharing of this responsibility would support the need to cross train support staff and alleviate some of the time constraints placed on the Assistant Treasurer.
2. Mail being delivered to the Treasurer’s office should be monitored closely and date/time stamped. The Treasurer’s mail slot is open so that anyone in the office is able to pick up the mail. Therefore receipts could be misplaced or lost before reaching the proper office staff. It would be best for all mail to be placed in a secured box or bag and a designated individual in the office should consistently deliver the mail to the Treasurer’s office.

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3. The Assistant Treasurer counts all money available for deposit and then gives the money to the Treasurer to recount. All receipts should be counted in the presence of two employees at the same time, therefore reducing the chance of lost or stolen money.
4. Money received should be deposited daily by the Treasurer or Assistant Treasurer.
5. All monies collected outside of the Treasurer's office should be placed in a secured sealed envelop or money bag when being delivered to the Treasurer's office. This will help eliminate the possible loss or theft of money. All related forms should be included with the money and students should not have easy access to funds collected.
6. The School District should develop a policy relative to access to the safe. The policy should include provisions to change the combination when personnel having the combination leave the School District.
7. The School District should consider moving the main breaker box out of the safe to a more appropriate location, eliminating the need for custodians to have access to the safe.
8. Procedures regarding student fund raiser sales should be amended to include steps for notifying the Treasurer of such activities so they may be more effectively monitored and managed.

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**Purchasing Process**

**Description of an Effective Method for Purchasing**

The process of purchasing goods or services should ensure that each transaction is properly authorized, documented, and recorded and the purchasing process should be integrated with the budget. The process should include an authorization of need and selection of the vendor with the best price as well as authorization by an appropriate individual. In addition, authorization must include the treasurer's certification of the availability of funds and that the amount has been appropriated and is free from previously encumbered obligations. All purchase orders 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.

**Authority to Contract** - School district contracts are made by the board of education and executed in the name of the school district by the superintendent and treasurer, except as otherwise specified by statute.

**Major Contracts** - Substitute House Bill 412 provides guidelines for estimating revenues when completing the certificates under section 5705.412, Revised Code. This section requires the treasurer, superintendent and president of the board of education to certify that adequate revenues will be available to maintain all personnel, programs and services essential to the provision of an adequate educational program for a specified number of days. The certification of adequate revenues must be attached to all negotiated agreements, contracts for benefits, increased salary or wage schedules and construction contracts. In general, the certificate covers the remainder of the current fiscal year and two succeeding fiscal years or the term of the contract, whichever is longer. Obligations that do not have a certificate of adequate revenues as required are considered void and no payments may be made on void obligations.

**Bidding** - All school district contracts calling for expenditures in excess of \$25,000, must be in writing and made to the lowest responsible bidder. The board of education must authorize and direct all such expenditures. Exceptions to the bidding requirements include contracts for:

1. Acquisition of educational materials used for teaching;
2. Any item which the board, by a two-thirds vote, determines is available and can be obtained only through a single source;
3. Energy conservation projects may be excluded upon declaration of the board by a two-thirds vote; and
4. Acquisition of computer software or hardware for instructional purposes pursuant to Section 3313.37(B)(5), Revised Code.

**Routine Purchasing** - Section 5705.4(D), Revised Code and other 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 school district 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 obligation in the fiscal year in which the



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contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance.

The treasurer may prepare blanket purchase orders for authorizing obligations for a particular purpose over a three month period, not extending beyond the end of the fiscal year. A general certification of up to \$5,000 may be established for any specific appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine recurring type items or for unanticipated emergencies. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**“Super” Blanket Certification of the Availability of Funds** - The super blanket certification permits the fiscal officer to certify amounts greater than \$5,000. 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, roadway materials 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 Certificate** - The treasurer’s certification is required to be secured at the time a purchase order is issued or a contract is executed. If prior 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 the process of collection to the credit of an appropriate fund free from any previous encumbrances. The board has thirty days from the receipt of such certificate to approve payment by resolution. If approval is not made within thirty days, there is no legal liability on the part of the school district.

Amounts of less than \$1,000 may be paid by the treasurer without such affirmation of the board of education upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the board.

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:

**Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year** - Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made needs to be certified (1987 Op. Atty. Gen. 87-069).

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**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.

The administrative rules adopted under Chapter 117, Revised Code, require the use of purchase orders and the following:

- a. All purchase orders shall be numbered consecutively.
- b. The purchase order shall be prepared by the purchasing authority. Two copies shall be forwarded to the treasurer who shall complete and sign the certificate and forward one copy to the vendor. The treasurer's copy shall be used for posting in the appropriation and authorization ledger as provided in rule 117-2-13 of the Administrative Code. The third copy remains with the purchasing agent. This third copy serves as a receiving report and is returned to the treasurer once the item(s) are received and verified. The third copy of the purchase order is also attached to the voucher along with the invoice.
- c. Each executed purchase order/requisition must contain the date, appropriation fund code classification, executed treasurer's certificate, quantity and description of goods or services. When a blanket certification has been authorized, the purchase order indicates the blanket certification, the effective date of the certification, and the amount.

### **School District's Purchasing Process**

When materials and teaching supplies are needed, the teacher or secretary will complete a purchase order with the vendor name and address, items ordered, the account number to be charged and any shipping information needed. The purchase order is then given to the department head or building principal to be reviewed and approved. The Business Manager is responsible for authorizing all purchase orders for utilities, cleaning and building supplies. The Assistant Superintendent will review and approve all purchase orders for curriculum items. All purchase orders are then given to the Business Manager, who will determine whether adequate funds are available. The Business Manager authorizes the purchase order and passes the purchase order to the Superintendent who initials it. The purchase order is then sent to the Treasurer's office for processing.

The Treasurer and the Assistant Treasurer receive the purchase orders through the inter-office mail and give them to the Accounts Payable Clerk to verify the account numbers and the amount to encumber, listed in the certification of funds section of the purchase order. The amount available is researched on a report showing the remaining encumbrances in account number order printed at the end of the prior month. The Accounts Payable Clerk will subtract the amount of the purchase order from the amount listed on the report to keep a running balance of the amount available. If the account has the funds available and the purchase order information is complete, it is then certified by the Treasurer. This manual method causes miscalculations, inappropriate approval, and overspending in an account. Purchase orders are not entered into the system after they are certified by the Treasurer, but are entered when a batch of invoices are pulled to be paid.

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The purchase order forms are sequentially numbered and are a five-part form. The white copy goes to the vendor. The green copy is returned to the originator, once all required signatures are obtained. Once the item(s) are received, the green copy is marked “okay to pay” and forwarded to the Treasurer’s office to process payment. The green copy of the purchase order is sometimes lost and the School District does not have a procedure to mark the replacement green copy to show that the original was lost or misplaced. The yellow copy is used to enter the encumbrance into the system. It is filed in numerical order and kept for a reference for three years. The pink copy is kept in the Account Payable Clerk’s files until an invoice is received and then processed for payment. The goldenrod copy, which is detached before the purchase order is approved, is kept by the department or person originating the purchase order for their records.

If the purchase order is for a student activity fund raising purpose and the goldenrod copy is not removed prior to approval, the Accounts Payable Clerk will put it in the student activity file along with the yellow copy of the pay-in receipt processed for that activity. If the goldenrod copy is removed, a copy of the pink sheet is made and the purchase order number highlighted in yellow and then filed. This keeps all records of activity for that account in one place and gives the Accounts Payable Clerk a copy.

A purchase order for a student activity fund that does not have an available balance will be approved if an approved “Application For Student Activities Fund Raiser” form is attached and indicates that sufficient revenues will be collected. In the past, purchase orders for student activity purposes were generated after an invoice had been received.

A student activity fund may have an account set up in the files or may use the “zero fund”, where the money comes in and goes right back out, having a zero balance. The copy allows for an accounting of the amounts each student activity has in the fund, the individual student activity payments made, and amounts owed the fund by an individual student activity.

Purchase order forms are kept in the Treasurer’s office. A supply of blank purchase orders is given to each school building principal, the garage supervisor, the Food Service Supervisor, and the Board Office Secretary. When more purchase order forms are needed, a request is made to the Treasurer’s office and they are forwarded to the appropriate person.

All new vendors are entered when processing the purchase orders before payment. If a purchase order does not have complete information on it when received in the Treasurer’s office, it is returned to the department for the necessary information. The vendor name, address and the account number must be supplied along with information on the items ordered.

The system flags vendors that may require a 1099 at the time the vendor is entered into the system. The vendors include contractors, referees and others. The computer will generate a listing of all 1099 vendors at year-end. It will include those service vendors who received \$600 or more that are not incorporated. All information needed to complete the 1099 forms is included on this report. The Accounts Payable Clerk reviews the report and then prints the 1099's. The Accounts Payable Clerk mails the 1099's by the January 31<sup>st</sup> deadline and files all reports with the Ohio Department of Taxation and the Internal Revenue Service on a timely basis.

In the past, blanket certificates were used to process utilities payments. Now, neither purchase orders or blanket certificates are used. The Food Service Department uses blanket certificates for all purchases.

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If a purchase order is voided, the purchase order is marked “void” and returned to the Treasurer’s office and filed numerically.

For purchases of less than \$25,000, the formal bid process is not required; however, the Business Manager will obtain quotes from various sources before making the purchase to ensure the best price. For purchases of \$25,000 or more, the formal bid process is followed.

The School District uses the State purchasing and co-operative purchasing programs when possible.

At month end, the Outstanding Purchase Order List, in vendor order, is run as well as the Remaining Encumbrances Report, in account number order.

**Auditor of State Comments**

1. The purchase orders should be entered into the computer system daily as they are approved. The Treasurer, Business Manager, Assistant Treasurer, Accounts Payable Clerk, department heads and others would then have the most current information available.
2. The School District should eliminate using a manual report and subtracting the “to be booked” new purchases each time current information is needed. This manual method causes miscalculations, inappropriate approval and overspending in an account.
3. The Treasurer should not certify a purchase order until it is entered into the system and it is assured that funds are available.
4. The School District should consider developing a “new vendor” form that is to be completed and attached to the purchase order.
5. The School District needs to establish a policy and a set of procedures to prevent negative fund balances. When necessary, a transfer request should be prepared for the Board’s approval to provide the monies needed. If the School District will be reimbursed for the expenditures, a request for an advance should be prepared for the Board’s approval.
6. All efforts should be made to eliminate the loss of purchase order copies. The School District should review the filing procedures of the green copies within the departments to eliminate or reduce the need to make copies of the pink copy to replace a lost green copy.
7. The School District should consider using a memo expenditure form to keep a record of all transactions, including transfers, since most are completed through verbal approval.
8. The School District should use blanket purchase orders for utilities payments to insure that all commitments are identified and reported.

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**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 or receiving copy of the purchase order, a comparison of the prices on the invoice to the purchase order, and the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount and account 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 that there is adequate cash in the fund to pay the obligation. All checks should be signed by the treasurer and posted in the appropriate accounting records. Vouchers should be filed numerically or by vendor.

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

**Restrictions** - Money is drawn from the school district treasury only for appropriations enacted by the board of education. Appropriations from each fund may be used only for the purposes of such fund.

**No Certification** - If no certificate is furnished as required, upon receipt by the School District 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 school district may authorize the drawing of a warrant in payment of amounts due upon such contract, but such ordinance shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without such affirmation of the board if such expenditure is otherwise valid.

The administrative rules adopted under Chapter 117, Revised Code, define a voucher and the information to be disclosed thereon as follows:

- a. A “voucher” is a written order authorizing the drawing of a check in payment of a lawful obligation of the School District.
- b. The date, purchase order number, account code, amount, and other required information must be entered in the appropriate space or column provided on the form.
- c. Vouchers are required to be in the prescribed form, but may vary from this standard form to meet the individual requirements of the School District.

**School District’s Cash Disbursement Process**

Invoices and bills are processed on the 10<sup>th</sup> and the 25<sup>th</sup> of the month. The School pays the bills within a 30 day cycle. If the bill is due in 15 days, it is usually paid within 30 days regardless of due date. When a discount is available, the School District will try to take the discount. Sometimes the School District will write a manual check to take advantage of the discount.

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When invoices are received in the Treasurer's office through the inter-office mail, they are matched to the pink copies of the purchase orders. The information is compared and the invoice is attached to the pink copy of the purchase order. The green copy of the purchase order is returned to the Treasurer's office noting that the items ordered were received and is approved for payment before the invoice is processed for payment. The green copy is then attached to the invoice and the invoice can be processed for payment. If a green copy is lost, the pink copy is used to make a copy on green paper and then approved for payment and sent to the Treasurer's office to continue the payment process.

If an invoice is received and cannot be matched to a pink copy of the purchase order, it is returned to the department listed on the invoice. The department head makes a copy of the correct purchase order and gives it to the Accounts Payable Clerk along with the invoice. If the department head cannot locate the purchase order for the invoice, the invoice is returned to the Treasurer. The Treasurer submits the invoice to the Board for approval. If the Board approves the payment, a then-and-now purchase order is then processed and the invoice is paid. If the Board does not approve the payment, the invoice is returned to the department head, supervisor, or principal who then becomes personally responsible for the invoice.

The School District is currently implementing a policy where any invoice that does not have a purchase order processed in advance, other than in emergency situations, will become the responsibility of the person placing the order since the individual did not follow the proper procedures. The Ohio Revised Code allows the use of a "Then and Now Certificate" that allows the School District to pay the invoice when the Board determines extenuating circumstances existed.

The Accounts Payable Clerk pulls the invoices to be paid with a batch and puts them in a folder for processing. The yellow copy of the purchase orders are used to enter them into the system. This process could take an entire day due to the quantity of invoices to pay.

Once the purchase orders are entered, the APE software is used to post the invoice amount against the purchase order, to close the purchase order, or to post a partial payment against an open purchase order. An Invoice Listing Report is printed after all purchase orders are entered into the system. The money is deducted from the accounts when the purchase orders are encumbered. The information is also posted to the PO and OHUSAS files in the purchase order program.

A calculator tape is made of the total invoices to pay. The total on the Invoice Listing Report is compared to the total on the tape. If it matches, the process continues. If it does not match, the tape is compared to the report until the error is found and then corrected.

If the amount of the invoice is greater than the original purchase order, the School District has a policy that allows a ten percent increase in the amount of the purchase order without additional authorization. If the amount is greater than ten percent, a new purchase order will need to be generated and it must be approved by the Business Manager or Treasurer. If a payment has already been posted against the purchase order, the system will not allow an increase in the encumbered amount and a new purchase order will need to be generated.

All accounts payable checks are processed from the general checking account. The School District processes from 50 to 200 checks per batch. A box of checks is kept in a locked drawer by the Accounts Payable Clerk's desk and the remaining checks are kept in the safe. The check signor is kept in the safe until needed.

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The Accounts Payable Clerk accesses the CKPROC software program to produce the majority of the checks. The Check Pay Report is run after the checks are printed to automatically post the information to the accounts in the system.

Once the checks are printed, they are processed through the check signer. The check and copy are separated. The check is placed into an envelope with the remittance advice, if available, and the copy is attached to the purchase order and all supporting documentation.

The School District prepares some manual checks. These include registrations for classes and workshops, credit card purchases, student activity rush payments, medical and life insurance premiums, payments to the retirement systems, and utilities. The checks are typed and then manually entered into the system using the CKPROC software program. All manual checks must be signed by the Treasurer and not the check signer. The School processes approximately 20 manual checks per month.

All check copies and supporting documentation kept by the School District are stamped "paid" in the lower right hand corner with a stamp that provides space for the check number and date. The green copy of the purchase order remains with the paid invoice and the pink copy is returned to the originator to show the date the invoice was paid and the check number.

The check copies and supporting documentation are given to the Treasurer to review. The Treasurer compares the checks with the invoices that were approved for payment. If no errors are found in the review, the Treasurer signs the checks.

If a check is to be held, the Treasurer will put it into the safe until the problem is corrected and then it will be mailed. If a check is to be voided, the check is voided in the system and stamped "void". The check is given to the Assistant Treasurer to use in the monthly bank reconciliation process and then filed in numerical order along with all canceled checks.

The check copies and supporting documentation are then given to the Assistant Treasurer, who enters the information into a spreadsheet to verify the total of the check run to the Check Pay Report. This verification process assists the bank reconciliation at month end. It also helps to ensure that all manual checks are posted in the proper time period. The clerical accuracy of invoices is checked when the Assistant Treasurer enters the checks into her spreadsheet. Invoices and purchase orders are stamped "paid" or "void" after the check is mailed.

The Assistant Treasurer prepares the purchase orders and checks when the Accounts Payable Clerk is absent.

**Auditor of State Comments**

1. The School District should establish a procedure for determining which invoices are to be paid and when. The invoices could be filed by due date. If a vendor has terms of one percent ten, net thirty (meaning the School District may take a one percent discount if paid within ten days; otherwise, the total is due in thirty days), the School District should schedule payments to take advantage of the discount.

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2. Invoices to be paid could be pulled a few days prior to the check run and reviewed by the Treasurer. This would eliminate the need to void checks when the Treasurer decides a bill is not to be paid. Reducing of the number of voided checks could facilitate the bank reconciliations and reduce errors.
3. The School District should eliminate the use of manual checks for routine monthly expenditures such as registrations, utilities, insurances and payroll taxes.
4. The School District should also reduce the use of manual checks to eliminate the need for the Assistant Treasurer to prepare a spreadsheet that tracks these checks.
5. The School District should evaluate the procedures currently in use to process invoices by the Accounts Payable Clerk. The School District needs to rely more on the computer system to make various job functions more efficient. The system will allow for invoices to be selected for payment several times before doing a check run.
6. The School District should establish a day during the week to process invoices for payment and enter them in the computer. By instituting this method, the process becomes less cumbersome and lengthy, and should reduce errors.
7. The School District should ensure that purchase orders and blanket certificates are entered into the computer system daily. This will enable the School District to have current information and allow all personnel to rely more on the system information.



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**Payroll Process**

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, the gross and net compensation for the pay period and the year-to-date. Standard deductions such as pension, medicare, federal and state taxes, should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the School District 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. Payment of deductions and the related employer obligations should be within the time established and reported in the format prescribed by the regulatory agency. Personnel files should contain relevant employee information and any other information required by federal and/or state laws.

The following State statutes apply:

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

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

Section 3319.141, Revised Code, for certified school employees and Section 3319.084, Revised Code, for classified employees, provide for minimum vacation and sick leave to be granted to affected employees (the school districts generally may provide more than the minimum), and indicate the procedures for paying the employees for leave balances credited to them upon separation from service.

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

**School District's Payroll Processing Procedures**

The School District processes payroll on a biweekly basis for approximately 240 full and part time employees, including substitutes.

The School District uses the State software to process payroll. All checks are kept in the safe along with the check signor. The School District uses a zero balance checking account for payroll.

The Assistant Treasurer prepares the teachers contracts and mails them in March or April. The contracts must be signed and returned to the Assistant Treasurer before the first payroll of the new school year. The Board must approve all contracts and supplemental employee payments. After the Board has approved the

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contracts, a copy of the minutes is given to the Payroll Clerk so that she can enter the contract amounts into the payroll system which calculates the amount to be paid each pay period. A listing of all supplemental employee contracts is kept and updated each time a payment is made. At the end of the school year all supplemental employee payments are reviewed and outstanding balances are verified. Any outstanding amounts are paid the first payroll of July.

Contract amounts for other salaried employees, such as administrators and supervisors, are also entered into the payroll system by the Payroll Clerk. These contract amounts are entered at the time the employee's personnel information is entered into the system or after the contracts are approved by Board action. Payroll tax and retirement forms are given to new employees, completed, signed and returned to the Payroll Clerk. The Payroll Clerk then enters the information into the computer. If employees need to change their payroll tax or retirement information, they can obtain the forms from the Payroll Clerk who enters the changes into the computer. Vacation, personal, and sick days are posted to the proper category and the balances are updated automatically through the pay screen in the ATDSCN program.

Hourly employees complete a time sheet for each pay period. The time sheets list the number of hours worked, days absent, and type of hours worked (regular or overtime). The supervisor reviews the time sheet and, if it is correct, approves it. The Business Manager then reviews all the time sheets and, if they are correct, approves them before sending them to the Payroll Clerk. The Payroll Clerk also reviews the time sheets for accuracy. If a discrepancy is found, the Payroll Clerk contacts the Business Manager and notifies the Treasurer that there was an error in the calculation. The time sheet stays with the Payroll Clerk unless the supervisor requests that it be returned. If a return request is made, the Payroll Clerk makes a copy for the payroll files. The time sheet is processed once a decision is made by the Business Manager about the discrepancy. The Payroll Clerk is notified of the decision.

The Assistant Treasurer verifies that all employees are coded to the proper funds, accounts and sub-accounts. This process is completed at the beginning of the school year and reviewed monthly for accuracy. If an error is found, it is corrected immediately so that the proper account is charged.

Supplemental employees must have a Supplemental Sheet form completed in order to process their payroll. Some supplemental employees are contract employees and others are hourly. Examples of supplemental employees are coaches, tutors, chaperones, and extended day employees. The principal approves the supplemental form and then it is sent to the Assistant Superintendent for review and approval. Once approved, it is sent to the Payroll Clerk for processing. The Payroll Clerk reviews the form for accuracy. If a discrepancy is found, the Payroll Clerk contacts the principal, the Assistant Superintendent, and the Treasurer to notify them that there was an error in the calculation. The supplemental form stays with the Payroll Clerk unless the supervisor requests it be returned in which case the Payroll Clerk makes a copy to keep for her reference. The Supplemental Sheet is processed once a decision is made by the principal and the Assistant Superintendent about the discrepancy. The Payroll Clerk is then notified of the decision.

Substitute teachers must complete a pay sheet. All substitute teachers are contract employees. The principal approves the pay sheet and then it is sent to the Assistant Superintendent for review and approval. Once approved, the pay sheet is sent to the Payroll Clerk for processing. The Payroll Clerk reviews the form for accuracy. If any discrepancies are found, the Payroll Clerk notifies the principal, Assistant Superintendent and Treasurer that there was an error in calculation. The pay sheet stays with the Payroll Clerk unless the supervisor requests that it be returned. If a return request is made, the Payroll Clerk makes a copy for the payroll files. The pay sheet is processed once a decision is made by the principal and Assistant Superintendent about the discrepancy. The Payroll Clerk is then notified of the decision.

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Overtime earned in one pay period is not paid until the next pay period for salaried employees. The hours must be approved by the supervisor and Business Manager before they are sent to the Payroll Clerk. The Payroll Clerk reviews the form for accuracy. If discrepancies are found, the Payroll Clerk notifies the Business Manager and Treasurer. The pay sheet, time sheet, or Supplemental Sheet form remains with the Payroll Clerk unless the supervisor requests that it be returned in which case the Payroll Clerk makes a copy for her reference. If a return request is made, the Payroll Clerk makes a copy for the payroll files. The pay sheet, time sheet, or Supplemental Sheet form is processed once a decision is made by the Business Manager and Treasurer about the discrepancy. The Payroll Clerk is then notified of the decision.

All payroll information must be received by the Friday before the actual pay date. If information is available, the Payroll Clerk enters payroll changes on Thursday or Friday. On Friday she organizes payroll information and time cards. Payroll information is input into the payroll system on Monday afternoon. On Tuesday, she finishes entering payroll information and prints the checks in the afternoon. Depending on time, the Payroll Clerk will run final payroll reports either Tuesday afternoon or Wednesday morning. Direct deposit transfers must be completed by 3:00 p.m. Wednesday. The Payroll Clerk performs the following steps:

1. The startup program, Initial Calc, sets the dates for payroll and must be run first. The "Input Information Menu" lists the various screens to use depending on the information being entered and who is being paid. Salary, hourly and leave information is entered using different screens.
2. The current payroll information is entered using the UPDCAL\_CURR screen for salaried employees and the ATTENDANCE screen for hourly employees. BIOSCN screen is used to access employee records that contain the employees name, address, social security number. JOBSCN is used to access employee records that contain the pay rate and department number. PAYSCN is used to find the account number charged for the payroll. The Payroll Clerk must enter the days worked and the type of leave taken during the pay period. Hours and amounts are verified on the PAYCALC screen. The Payroll Clerk adjusts the hours and amounts if the default amount shown does not match the actual amount to be paid.
3. USPSPEC is the main payroll program and is used to enter new employees, account numbers, address and name changes, and salary or hourly rate changes. This program is also used to set up payroll calendars, new jobs, and new payroll deductions.
4. The PAYSUM report is run after all pay information is entered and provides a summary of the payroll information entered for all hourly employees.
5. The CALCPAY program prints several payroll reports.
6. The CALCERR error report flags errors in processing. For example, if an employee did not earn enough money to cover the voluntary deductions, the system will not take voluntary deductions out of the gross pay. The next payroll posted to the system will double the voluntary deductions to make up for the previous payroll. The employee only receives a pay check after all deductions are made. The Payroll Clerk monitors and then corrects any errors.
7. The PAYRPT report is sorted by employee name and lists all payroll transactions.
8. The BUDDET report is sorted by account number and lists all employees paid and their gross pay.

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9. The BUDDIS report has total payroll expenses by account number.
10. The BUDPRO report is the projected payroll distribution summary by account number and includes the fiscal year-to-date balance, the current payroll expense, and the balance available.
11. The DISDET report is the payroll account distribution detail which lists, by account number, all the employees paid and their pay.
12. The PAYRPT report is compared to the time sheets and other information entered into the system for accuracy. The Payroll Clerk is able to make modifications as needed before printing checks.
13. The ATDSCN report lists the vacation, sick and personal leave days. The system automatically updates the balances available to the employee.

The check printing process begins with the CKPRT program that initializes the check printer with the starting check number and the date. CHKFORM report prints the checks. The check will be given to the employee and the duplicate is printed, retained and filed. The copies are retained because the payroll information is only maintained in the system for a few days.

When payroll checks are printed, a lead check, that remains blank, is used to position the checks properly in the printer, the second check is voided and the third check is the first payroll check. The lead check and the second check are marked void and filed numerically. The Assistant Treasurer uses them to complete the bank reconciliations at month end. The checks are left in the printer until after the payroll deduction checks are printed to eliminate the need for voiding additional checks.

The CHKFORM\_01 program is run once all the checks are printed and a check register is printed for all regular checks. Direct deposit checks are processed in the DIRFORM program. The BACKUP\_PAY program can be used to create a backup file of the payroll. This program can only be run by the data center.

The direct deposit program, PAYDIR, initializes the report and the amount of the direct deposits to be submitted to the bank. The DIRFORM report produces a paper copy of the direct deposit forms. The data center is notified when the process has been completed and then they create automated clearing house (ACH) tapes for the banks. The direct deposit tapes must be at the banks by 3:00 p.m. Wednesday. PAYDIR creates the ACHTAP, which is a sequential file that is transmitted to the School District's bank by the data center.

The deduction report program, DEDREP, is produced in one of three options depending on the pay of the month. Option 1 for the first pay of the month, option 2 for the second pay of the month and option 3 for the third pay of the month, if there is one. This report program creates reports for all deductions, taxes, retirements, wire transfers, and federal and state taxes which are wire transferred.

The BRDDIS report is the board distribution report that lists the Board's share of deductions. It is given to the Assistant Treasurer to post medicare to the individual accounts in the accounting system.

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The PAYDED program initializes the payroll deduction checks. Next, the PAYFORM program is run. This program produces a paper copy of the checks after the actual checks are printed. The paper copy of the deduction check is filed with the paper copies of the payroll checks and the direct deposit register.

The system calculates the payroll and prints a check for city taxes. The State, federal, medicare and social security taxes are paid by wire transfer. The DEDREP calculates the amounts to be paid and generates the deduction reports. The DEDREP reports are run for each payroll.

The STRS report is a monthly deduction report. The STRS report prints two reports per pay. One report is for the employees' share and one is for the Board's share. The report lists the days paid for employees whose portion of STRS is picked up by the Board. The report is sorted alphabetically by employee name. The computer system loads all the information into the monthly deduction reports. After the report is printed, the report fields are cleared. This is an internal report that is used to reconcile the monthly payments with the amounts posted in the computer. Once the balances are reconciled, the reports are discarded. Although STRS is paid monthly, it requires only an annual report from the School District. This external annual report is prepared by the Payroll Clerk and filed in a timely manner.

SERS is paid monthly and also requires a monthly report. The report is sorted alphabetically by employee name. After the monthly check is mailed to the SERS lockbox, the Payroll Clerk prepares a cover sheet for SERS. The data center forwards a listing of employee days worked and monies earned and deposited to SERS.

Payroll deductions for medical insurance, life insurance, STRS, SERS, employment services, retirement, and pick up reports are processed through the payroll system and completed and filed in a timely manner. The Payroll Clerk is responsible for balancing and completing the reports for hospitalization, life insurance and all other benefits. She is also responsible for the payment of these benefits when due.

Once all deduction checks are printed, the final payroll reports are run. The Auto Post program will automatically post the payroll information to all of the appropriate accounts and files within the payroll system and the accounting system.

Accounts Payable must be closed each month before the first payroll of a new month can be posted. Sometimes there is a few days delay in the posting due to closing out the preceding month

A civil service report, CIVILSRV, provides a listing of all wages paid to non-certified employees. A copy of this report is filed in the Treasurer's office and another is sent to the Civil Service office with a sign-off sheet attached. Once the Civil Service office has reviewed the report, the sign-off sheet is completed and returned to the School District to be filed with their report.

The Human Services Report lists all of the new hires and is mailed to the Ohio New Hire Reporting Program.

An audit report, AUDRPT, is run approximately every two months. It lists all changes made to the payroll records while processing the payroll on the computer.

Once all the reports are run, the checks are run through the check signor. The checks are put into envelopes by the Accounts Payable Clerk. The checks are manually counted and compared to the total listed on the pay report to guard against checks sticking together and being mailed to the wrong employee.

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Payroll checks for employees who are currently working are divided by department and delivered to the respective buildings and offices to be distributed by the supervisors and building principals. The payroll checks to be mailed are put in the mail on Thursday morning, to be received on Friday.

Employees who work at night are given their checks Thursday night. If employees work on Friday, they receive their checks on Friday. Sign-up sheets are sent to the supervisors and principals along with the checks. The employees sign the sign-up sheets when receiving their paychecks. It is returned to the Treasurer's office when signed by all employees receiving a check.

If employees are sick on payday, they are responsible for contacting their supervisor and making arrangements to either pick up their check, have it held, or have it mailed to their home.

If employees are on vacation on payday, the check is usually mailed to their home unless other arrangements have been made with the supervisor and the Payroll Clerk.

If employees need to pick up their checks early, they must contact the Payroll Clerk and obtain the check directly from the Treasurer's office.

If a check is lost, an immediate stop payment is placed on it. The payroll or deduction check is voided in the system and a new check is issued. Void is marked on the filed paper copy of the original check. The next available check is used for the new check, or if a lead check has not been voided, it can be used. All information is given to the Assistant Treasurer for processing the bank reconciliation.

The Payroll Clerk is responsible for keeping the vacation, sick, personal and other leave records. A report is run each pay listing the outstanding balances for all leave types. The balances can also be accessed on the computer. The Payroll Clerk keeps a ledger of leave time taken by all employees that is supported by the leave time sheets. The leave report is reconciled to this ledger. The manual report is used to verify balances in the event of error.

An Absence form is completed in duplicate and submitted to the employee's supervisor, department head, or principal at the completion of the absence. If employees fail to do any of these things, they will not be paid for the absence. One copy of the form, approved by the immediate supervisor, is sent to the Treasurer's office and the other copy is given to the principal, department head or supervisor. Employees must complete an Absence form and have it approved before they will be paid for the absence. The Business Manager approves leave time. After the forms are approved, they are given to the Payroll Clerk to account for time off and allow leave payments to be paid during the appropriate payroll. A minimum of one-fourth day is charged for each absence. Vacation leave requires an additional form to obtain approval for the leave.

Annual education reimbursements for graduate studies are available to administrators and exempted employees are eligible for reimbursement of up to three semester hours each year. These payments are included in the payroll process. Since only 18 staff members are currently eligible for this benefit, very few reimbursements have been made.

Retirement buy-outs and severance payments are processed through the accounts payable system. The early retirement incentive contract (ERI) entitles the employee to three equal payments which are to be received in January of each year following retirement.

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Internal Revenue Service W-2's are processed after the last payroll for the year and the year-end closing. Yearly reports are provided in addition to the W-2 forms. The W-2's are mailed by the end of January.

**Auditor of State Comments**

1. The School District should use Status and Change forms for all new employees or changes to employee information that affect payroll such as wage increases, new deductions, address or name changes, or change in tax status.
2. The School District should establish and enforce a deadline of noon on the Monday of the payroll processing week for Status and Change forms to be submitted to the Payroll Clerk.
3. The School District needs to have a current list of all employees, their job titles, and the accounts from which they are paid. The list should be readily available and generated from the payroll system. This list should be used to verify the account an employee is being paid from before the payroll is processed, reducing the need for adjustments and corrections at a later date.
4. The School District should have payroll information entered into the system by Monday morning of payroll week and then run a CALCERR report to check for errors. This will give the Treasurer's office the opportunity to correct negative appropriations, verify account numbers, and to fix any other discrepancies before the checks are printed.
5. The School District should utilize a lost check affidavit to be completed by the employee or vendor whenever a check is lost. This record of the lost check will ensure that lost checks are removed from the outstanding check lists in a timely manner.

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**Debt Activity**

The issuance of debt is strictly controlled by State statute. A resolution authorizing the issuance of debt must be approved by the board of education. The statute authorizing the debt issuance should be identified in the resolution as well as the purpose of the debt, maturity date, lender, interest rate, and source of revenue to be used for repayment.

Debt proceeds should be receipted into a separate fund and used only for the purpose specified in the authorizing resolution. Money to be used for debt payment may be receipted into a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code.

**School District's Debt**

The School District's outstanding debt at December 31, 1999 is \$4,341,000 and consists of the following:

	Principal Outstanding 6/30/99	Additions	Deductions	Principal Outstanding 12/31/99
Energy Conservation Notes August 1994 - 10 years - Various	\$2,825,000	\$0	\$410,000	\$2,415,000
**Solvency Assistance Fund Advance June 1999 - 2 years - 0%	2,493,000	0	567,000	1,926,000
Grand Total	<u>\$5,318,000</u>	<u>\$0</u>	<u>\$977,000</u>	<u>\$4,341,000</u>

The funds necessary for payment of the principal and interest are provided by general fund transfers, property taxes, and State foundation revenues.

\*\*Beginning fiscal year 1999, the School District was able to receive a Solvency Assistance Fund advance from the State. The Solvency Assistance Fund advances money to school districts that are in fiscal emergency or that face a deficit caused by one or more of the nine reasons identified in the Administrative Rule 3301-92-03. For fiscal year 1999, the School District received an advance of \$2,493,000, at zero percent interest, to be repaid over two years.

The School District's Statement L, Schedule of Indebtedness - Notes (Long Term), in the cash basis annual financial report for the fiscal year ending June 30, 1999 did not include the series 1994 tax anticipation note for \$435,000 that was outstanding at the beginning of the period; nor did it include \$435,000 redeemed during the period. The debt was included, however, in the School Districts's general purpose financial statements for the fiscal year ended June 30, 1999.



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The School District's Statement L, Schedule of Indebtedness - Notes (Long Term), in the cash basis annual financial report for the fiscal year ending June 30, 1999 included the energy conservation note with an outstanding beginning balance of \$4,432,500 instead of the correct balance of \$2,825,000. Also, the Statement did not reflect \$410,000 redeemed during the period. The correct amounts were, however, included in the Districts's general purpose financial statements for the fiscal year ended June 30, 1999.

The School District's Statement M, Schedule of Debt Service Requirements to Maturity, in the cash basis annual financial report for the fiscal year ending June 30, 1999 failed to reflect the debt service requirements for the fiscal years 2000 through 2005, the final maturity of the HB 264 energy conservation notes, and the debt service requirements for the solvency assistance fund advance.

**Auditor of State Comments**

The School District should verify that the debt information on Statements L and M in the cash basis annual financial report is correct before issuing the report.

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**Fixed Assets and Supplies Inventories**

Fixed assets of the School District should be adequately safeguarded against loss or theft. An inventory describing each item, cost, serial and/or model numbers, location, and date of purchase should be maintained by the Treasurer. The inventory should be updated periodically for purchases and disposals. Verification of the listed assets should be performed at least annually. The disposal of any asset should be properly authorized and reported to the Treasurer.

**School District's Methods of Accounting for Fixed Assets**

Currently the District's independent accounting firm updates fixed assets annually by reviewing expenditures for 600 and 700 objects. The Business Manager is responsible for maintaining the fixed assets inventory and for tagging all assets except computer equipment. A spreadsheet is maintained using a building code number to track locations. Items are tagged when they are received. Annually a list of fixed assets is sent to department heads, principals and supervisors so they can identify the current status (location, acquisition, and disposal) of fixed assets. The department heads, principals and supervisors also are to include their consumable inventory on the list. The Technology Coordinator must log computer equipment into the system and tag the equipment as it is received.

Items valued at \$250 or more are included in the fixed assets, but are not valued for financial reporting purposes. Items valued at \$500 or more and expected to have a five year life are capitalized and included in the fixed assets for financial reporting purposes. Items valued at less than \$250 are included at no value for financial reporting purposes but are tagged and accounted for to prevent theft or loss.

The last physical inventory of fixed assets occurred in 1997. The School District has written generic fixed asset policies; however, they do not have written detailed fixed asset procedures.

**School District's Methods of Accounting for Supplies**

The Business Manager is responsible for maintaining the inventory of consumable supplies. During June each year a memorandum is sent to the department heads, principals and supervisors to provide guidance on taking the consumable supplies inventory. Consumable supplies inventory forms are completed by the departments and forwarded to the Treasurer's office. However, inventories are not physically counted nor are they spot checked and the extensions are not checked for accuracy by Treasurer's office.

**Auditor of State Comments**

1. The fixed asset policies should be expanded to address valuing donated assets, assigning salvage values, and defining private property. The School Districts's fixed assets and consumable supplies inventory procedures should also be in writing.
2. To ensure adequate controls over fixed assets and to prevent theft or loss, a physical inventory of fixed assets should be taken by the School District at least once a year.
3. The School District should implement proper fixed asset and consumable supplies inventory policies and procedures at all levels and hold personnel who do not follow the policies and procedures accountable to the Board of Education.

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4. The School District should obtain a copy of the Fixed Asset Manual published by the Auditor of State's Office to use as a guide in the development and implementation of fixed asset policies, procedures, and forms.

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**Cash Management and Investing**

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. Inactive cash should be invested according to Sections 135.14 and 135.35 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.

Reconciliations should be completed for all accounts on a monthly basis. The reconciliations should be completed immediately after the books are closed for the month and upon receipt of the bank statement. Reconciling items should be specifically identified and listed.

**School District's Methods of Cash Management and Investing**

The School District's treasury activities are the responsibility of the Treasurer. These activities include the acquisition and sale of investments and the transfer of cash assets among the various bank accounts. The School District maintains three checking accounts to segregate and control the cash flow and one account for investment purposes. These accounts are as follows:

*Key Bank:*

General Account	This checking account is used for the general operation of the School District.
Sweep Account	Excess amounts are swept out of the general account into this interest bearing account overnight consisting of overnight repurchase agreements.
Payroll Account	This checking account is used for the biweekly payroll distribution.

The School District deposits money into a checking accounts at Key Bank, N.A., which automatically sweeps the majority of the general account balance into overnight repurchase agreements. The Assistant Treasurer prepares the outstanding check list and reconciles all accounts at the close of the month. The deposits identified on the bank statement are compared to the receipts posted in the Financial Report by Fund to determine the deposits in transit. The Assistant Treasurer prepares the payroll account reconciliation. Both outstanding check lists are generated by computer. The monthly reconciliation report is prepared and the reconciled bank balance is then compared to the total fund balances.

The School District has adopted investment policies. The investment policy addresses authorized investments and liquidity. Currently, the School District invests in a mutual fund investment sweep account with Key Bank, N.A. The School District has not formally adopted an interest allocation policy.

The School District allocates the amount of interest for the month to funds that receive interest based on the end of the month fund balance as a percent of total fund balance. The percent is multiplied by the total amount of interest to calculate that fund's allocation of the interest. This method is based on past practice and has never been formally adopted by Board of Education.

Petty cash held in the various departments is treated as an expenditure when being established at the start of the school year and the expenditure is reduced when monies are returned at the close of the school year. The Board of Education does not have a petty cash policy.

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**Auditor of State Comments**

1. The School District should complete monthly bank reconciliations. The reconciliation should include detailed explanations of all adjustments. These adjustments should be posted to the District's books on a timely basis, and the bank reconciliation should be presented to Board of Education by the middle of the following month.
2. Someone other than the person preparing the reconciliation should review and approve all monthly bank reconciliations on a timely basis. The reviewer should initial and date the reviewed reconciliation.
3. The School District should establish a formal interest allocation policy through Board of Education resolution. The policy should list the specific funds to receive interest and how the interest is to be allocated.
4. The Board of Education should establish a formal petty cash policy by resolution. The policy should include the following:
  - a. the departments or buildings that should have petty cash,
  - b. the amount of petty cash each department or building should have,
  - c. a list of acceptable petty cash expenditures,
  - d. a list of employees who have access to petty cash,
  - e. the procedures necessary to safeguard petty cash, and
  - f. the employee(s) responsible for reconciling the petty cash funds on a monthly basis.
5. The School District should prepare a manual check to establish petty cash or change funds. The amount will be a reconciling factor on the monthly bank reconciliation. When the School District replenishes petty cash, a check should be written off of the system and the distribution should be based on the petty cash receipts.

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**Financial Reporting**

The treasurer should provide the board of education with financial information including the year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the school district. In addition, information concerning the estimated and actual receipts, appropriations and disbursements plus encumbrances should be presented for the board's review. By July 31 of every year, the treasurer should complete a Form 4502, Annual Financial Report, for the Ohio Department of Education. Depending on the school district's computer system, the report is either generated by the system or completed by hand on the prescribed form. If the school district prepares the 4502 using State software, the report is transmitted via modem to the Department of Education. If the School District completes the 4502 manually, a hard copy is mailed to the Department of Education.

School districts are required by Chapter 117, Revised Code to prepare and publish an annual financial report. The report must be certified by the treasurer or board and filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year if reporting on a generally accepted accounting principles basis (GAAP). At the time the report is filed with the Auditor of State, the fiscal officer must publish in the newspaper notice of the completion of the report and the fact that the report is available at the office of the fiscal officer. All school district's were required to report on a GAAP basis for the fiscal year ended June 30, 1996.

**School District's Financial Reporting**

The School District uses State software through Lakeshore Northeast Ohio Computer Association (LNOCA) and therefore has the ability to print multiple standard and customized month-to-date and year-to-date reports. The School District prepares month-to-date and year-to-date reports, places them in binders and stores them in the finance department area. Payroll, month-to-date, year-to-date, quarterly, and annual payroll reports are kept in the Payroll Clerks's files.

At the Board meetings, the Treasurer supplies the Board with an Appropriations Summary by Function and Object Report, a copy of the detailed FINANC report for the various student activity funds, and an investment summary report indicating the amount of interest earned during the month. Additionally, a copy of the monthly monitoring report prepared for the Financial Planning and Supervision Commission is provided to members of the Board.

Following the release of the School District's annual audit report, the Treasurer supplies the Board members with copies.

The School District accounts for its daily operations on a cash basis of accounting. The School District has a sophisticated computer system which generates daily reports with information pertaining to cash activity, receipts, expenditures and encumbrances. If these reports do not contain the desired information, reports can be generated in any format needed.

The School District prepared an annual financial report in accordance with Generally Accepted Accounting Principles (GAAP) and met the filing requirement without extension for fiscal year 1999.

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**Auditor of State Comments**

1. The School District should develop and implement a comprehensive Financial and Accounting Policies and Procedures Manual covering all aspects and functions of the Treasurer's office and how other departments account for monies, supplies, and property.
2. The Treasurer should review the debt schedules in the cash basis annual financial report to verify that they are accurate before filing the report.

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**Conclusion**

The methods described and included in this report are based on our inquiries and discussions with School District personnel and the related procedures documented from the School District's Policy and Procedures Manual, resolutions, administrative rules and the Ohio Revised Code. These methods in some cases vary from the actual methods used in performing the daily activities.

In conclusion, it is our opinion that the current methods of the accounting and financial reporting of the Brooklyn City School District are not completely in compliance with Chapter 117 of the Ohio Revised Code and the requirements of the Auditor of State as disclosed throughout this report.