



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

LORDSTOWN LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
FINANCIAL ACCOUNTING REPORT

Local Government Services Division
Auditor of State's Office

**Lordstown Local School District, Trumbull County
Financial Accounting Report**

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OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

CERTIFICATION

Within ninety days after the declaration of the existence of a fiscal emergency condition pursuant to Section 3316.03(B), Revised Code, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports of the Lordstown Local 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 Lordstown Local School District comply with the orders of the Financial Planning and Supervision Commission relating to the development of an effective financial accounting and reporting system by promptly bringing its existing system of financial accounting and reporting into compliance with Section 117.43 of the Ohio Revised Code.

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

JIM PETRO
Auditor of State

March 8, 2001

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Governance Overview

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

On December 8, 2000, the Lordstown Local School District was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. The Commission membership consists of the following:

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

A Financial Planning and Supervision Commission has been established and given the authority to assume complete managerial control of the Lordstown Local School District under Ohio Revised Code Sections 3316.06 and 3316.07. Under Section 3316.06 (A)(2) of the Ohio Revised Code, the commission is to specify the level of fiscal and management control that the commission will exercise within the school district during the period of fiscal emergency, and shall enumerate respectively, the powers and duties of the commission and the powers and duties of the school board during that period in the financial recovery plan.

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

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.

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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 the 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 Commission has not yet formally defined the level of fiscal and management control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06 (A)(2) of the Ohio Revised Code. The role of the Commission and the School Board are to be addressed in the financial recovery plan.

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

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

Estimated Resources: Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the county budget commission and receives the commission's official certificate of estimated resources which 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; however, the balance in any reserve balance account and the principal of any nonexpendable trust funds are excluded. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the school district treasurer.

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

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

The certificate of adequate revenues is to be signed by the treasurer and president of the board of education and the superintendent of the school district, unless the district is in a state of fiscal emergency. In that case, the certificate shall be signed by a member of the district's financial planning and supervision commission who is designated by the commission for this purpose.

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.

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

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

Certification of Adequate Revenue: Under Rule 3301-92-05 of the Administrative Code, certifications of appropriation measures shall not anticipate the renewal or replacement of existing levies nor anticipate the revenue from a new tax levy, and shall not anticipate the approval to extend a current income tax beyond its expiration nor anticipate the revenue from a new levy.

Five-year Financial Forecast: School districts are required under Rule 3301-92-04 of the Ohio Administrative Code to submit to the Department of Education a five-year projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. The projection shall contain information and be in a format as prescribed by the Department of Education and Auditor of State. The forecast is to be filed upon the adoption of an annual appropriation measure, but no later than December thirty-first of the current fiscal year. A school district is required to update its five-year projection by June thirtieth if the school district experiences a deviation of revenues or expenditures in a net amount of five percent or more from its original projections.

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School District's Budgetary Process:

Prior to January 15, the Board adopts a tax 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. By no later than January 20, the Board-adopted budget is filed with the Trumbull County Budget Commission. The Superintendent and staff are responsible for preparing the annual budget and presenting the proposed operating budget to the Board for adoption.

Prior to April 1, the Board accepts, by resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Official Certificate of Estimated Resources.

Near the end of the first quarter, the Treasurer prepares a certificate of year-end balances which includes any unencumbered cash balances from the prior year and incorporates any estimated revenue changes since submission of the tax budget and receipt of the official certificate of estimated resources.

The Treasurer prepares a temporary appropriation measure for adoption by the Board at the start of the new fiscal year. Prior to October 1, the Treasurer, with the input of the Superintendent, revises the appropriation measure to include the estimated expenditures for the fiscal year. Adoption of the annual appropriation measure is completed upon certification receipt from the county auditor of an amended certificate of estimated resources based on the final assessed values and tax rates or a certification stating no new certificate is necessary. Appropriations are limited to the amounts reflected in the current amended certificate of estimated resources or an anticipated amended certificate that has been requested from the budget commission. Appropriation documents are prepared by the Treasurer using three years of historical information adjusted for the changes anticipated in the current year.

The appropriations are adopted by the Board for all funds at the fund level. The Treasurer further allocates appropriations to the special cost centers within the funds at the function and object levels based on the work sheets used to develop the appropriation measure. Revisions to the appropriations and supplemental appropriations are approved by the Board periodically throughout the fiscal year.

Auditor of State Comments:

Estimated Resources:

1. The School District should file with the county budget commission the certificate of year-end balances within a reasonable period after the end of the fiscal year.
2. The amounts reflected on the certificate should be adjusted for any reserve balance accounts, self-insurance reserves, and the principal amount of any nonexpendable trust fund.
3. Amended certificates of estimated resources should be requested throughout the year when revenue estimates significantly change.

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Appropriation Measures:

1. The School District should have a temporary appropriation measure approved by the Board prior to the start of the fiscal year.
2. The annual or permanent appropriation measure should be adopted at the earliest time permitted by State law.
3. The amount appropriated for each fund should be within the estimated resources as reported on the existing certificate of estimated resources at the time of passage.
4. The timing of the passage of a supplemental appropriation measure should allow a reasonable amount of time for the budget commission to certify that appropriations are within estimated resources.
5. No supplemental appropriation measure should be posted to the accounting system nor should expenditures be incurred against the revised appropriations until the legally effective date.

Monitoring the Budget:

1. Budget amounts in the accounting system should be in agreement with the related documents.
2. Descriptions, such as fund names and numbers, should be used consistently between the accounting system and the budget documents.
3. The treasurer should post the budget adjustments to estimated revenues upon receipt of the amended certificate from the budget commission.
4. Supplemental appropriations should be posted upon receipt of the certificate from the county budget commission.
5. The treasurer should review and formally document the review of budget and actual data at least monthly to identify anticipated changes.
6. The timing of budgetary adjustments should take into account the time needed for Board approval, when necessary, and for the budget commission to complete its statutory requirements.

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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. A sound system also ensures timely deposit of receipts with the Treasurer and into the bank.

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

Administrative Code Requirements: Rule 117-2-02(A), Administrative Code, requires that all school districts maintain an accounting system and accounting records sufficient to enable the school district to identify, assemble, analyze, classify, record and report its transactions. Rule 117-2-02(D)(2), Administrative Code, indicates that the receipts accounting records typically assemble and classify receipts into separate accounts for each type of receipt of each fund the school district uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transaction should be included.

School District's Revenue Receipt Process:

The District's receipts are in the form of wire transfers, checks and cash. Revenues received are usually property taxes from the County, school foundation monies from the Ohio Department of Education, grants or entitlements from various sources, interest and miscellaneous revenues including amounts collected at the individual school buildings. The Treasurer's office handles receipts in the form of wire transfers, checks, and cash. The school building secretaries are responsible for the collection and deposit of fees, fines, and miscellaneous money collected in their buildings. Student activity monies are sent directly to the School District Treasurer for recording and deposit. Building secretaries retain a copy of bank deposit slip as their receipt and do not receive a receipt from the School District Treasurer. The School District Treasurer writes receipts on the second, or yellow, copy of receipts with a felt tip pen to eliminate legibility issues. The yellow copy is retained as a permanent record in the receipt book. The white, or original, is torn from the book and shredded.

The Board requires that all employees who handle money coming into the District to be bonded by position with the Board paying the cost of the position bonds.

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All School District mail is delivered to the Superintendent's office in the administration building. The Superintendent's secretary sorts and distributes the mail, placing the mail for the different buildings into a basket marked for each building. Mail is not stamped with the date and time. The High School Principal or Secretary picks up the high school mail. Mail for all other buildings is transported daily by the Maintenance and Transportation Coordinator. The Superintendent's Secretary gives all mail clearly identified for the Superintendent, Treasurer, Accounts Payable Clerk, and Payroll Clerk to those individuals. All other mail is given to the Treasurer to determine who it should go to.

Building receipts (fees, fines, etc)

Fees and fines are established by the Board. Students are required to bring money to the main office in each building. The building secretary, a bonded employee, counts the money and records the amounts on a District receipt form. Depending on the building and the type of receipt, the receipt form will be a "Deposit Slip By Account" used by the elementary, middle, and high school buildings; an "Activity Fund Transmittal Sheet" used by the Gordon D. James Career Center; or, a "Daily Pay-In Report" used by the Gordon D. James Career Center. The three forms are ordinarily referred to as a Pay-In-Order.

The form provides a fee description, number of items (receipts) per fee, individual charge, total amount per fee, subtotal by department, account code, and notation column. Fines are also shown in the fee description column. The total amount of the deposit is shown, which agrees with the bank deposit slip. The building secretary prepares a deposit slip and deposits the money at the bank. The Pay-In-Order form and the bank deposit slip are submitted to the Treasurer for preparation of a receipt and recording into the computer system.

Checks

Checks received as payment for fines, fees, and etc. in the buildings are deposited in the bank with the cash collected for similar payments by the building secretaries. All other checks are received directly by the Treasurer or in the individual buildings and turned over to the Treasurer. Attached to the check is the remittance advice and other documentation identifying the nature of the receipt and the fund, cost center and receipt code to which the receipt should be credited. The Treasurer prepares bank deposit slips, prepares all receipts, and enters the receipt information into the computer system.

Invoiced Receipts

Invoiced receipts and checks are all handled through the Treasurer's office. All invoices are generated in the Treasurer's office. The District rents various facilities to organizations on a recurring and occasional basis according to the rental fees approved by the Board. Rental of facilities is coordinated through the Support Services Manager and the Athletic Director when it involves athletic facilities. The Support Services Manager maintains a calendar of reservations and schedules the rental of all facilities. Deposits for rental of District facilities are not required. The Support Services Manager coordinates and schedules custodial personnel to be at the building for each rental activity. The Support Services Manager uses the time sheets to determine the amount to be charged for custodial services in addition to the rental fees established by the Board. The billing amounts are forwarded to the Treasurer's office for the preparation and mailing of the invoice by the Accounts Payable Clerk. Organizations renting District facilities are required to have their own insurance and provide proof of insurance prior to renting a District facility.

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Payment for the amounts invoiced is received by check and processed in the manner described above for checks.

School Foundation

The school foundation monies are wire transferred into the District's account. The District receives the statement in the mail. The Treasurer prepares a receipt showing the distribution and assigns the account codes and then enters the information into the computer. The Treasurer uses a memo expenditure adjustment on the receipt to record the expenditure deductions into the computer system.

County Auditor Settlements

The District receives tax money from the Trumbull County Auditor through electronic funds transferred into the District's account. The Treasurer prepares a receipt utilizing the information provided on the settlement sheet, assigns the account codes, and posts the information in the computer. Tax settlements are recorded at gross and a memo expenditure adjustment on the receipt is used to record the expenditure deductions into the computer system.

Cafeteria Receipts

Money is collected in the individual building lunchrooms at the lunchroom cash register. The money is counted and checked against the register tapes by the lead cook in the building. The money is bagged and brought with the register tapes to the Support Services Manager who counts and double checks the amount. Once all parties agree that the money matches the register tapes, the Support Services Manager makes the daily entries on to the CN-7, School Lunch and Milk Program Daily Worksheet (worksheet), for each building. The total amount on each building worksheet agrees with the bank deposit slips prepared by the Support Services Manager, who places the money into a sealed bag and takes it to the bank. The daily cash register tapes are attached to the worksheet reports and retained for State inspection.

The Support Services Manager uses the amounts from the worksheet to prepare a Weekly Cafeteria Receipts form for each building and submits the form to the Treasurer. The Treasurer checks the daily deposit slips to the Weekly Cafeteria Receipts form for each building. The Treasurer then prepares a separate receipt from the information on the Weekly Cafeteria Receipts form for each building and enters the receipt information into the computer system.

Student Activity Fundraising Activities

All student activity fundraising is approved by the Board through adoption of a budget for each individual student activity. Budgets are prepared by the Activity Advisor, submitted to the building Principal for approval, and final approval of the Superintendent is required prior to submission to the Board for approval.

Individual fund raising activities require the preparation of a Sales Project Potential form. The top portion of the form provides information as to what will be purchased, proposed cost per unit, and proposed sales price per unit. The form is prepared by the Activity Advisor, and requires approval of the Building Principal and the Superintendent prior to the start of any fund raising project.

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The bottom portion is completed at the end of the project by the Activity Advisor and provides detail information about purchases, sales, the total amount deposited with the Treasurer, and the profit for the project. The Activity Advisor, Building Principal, and the Superintendent sign and date the bottom portion of the form.

A Pay-In-Order form specifically for use by student activities is completed by the Activity Treasurer for each deposit from a student activity. The top portion completed by the Activity Treasurer provides detailed information for the particular Student Activity Program Fund, date, source of the receipts, and detail of coin, currency, and checks comprising the Pay-In. The form is approved by the Activity Advisor, and signed by the Activity Treasurer.

The bottom portion of the form is completed by the School District Treasurer and indicates the amount received, date, name of payee, and signature of the School District Treasurer. One part is retained by the Activity Treasurer; one part is retained with the receipt written by the School District Treasurer to record the deposit to the proper student activity program fund.

Daily receipts for student activity funds at the Gordon D. James Career Center are summarized on the Gordon D. James Career Center Activity Fund Transmittal Sheet. The form lists the various activities at the career center and the amount from each activity. The form is prepared by the building secretary and forwarded to the Treasurer along with the money for deposit and recording.

Activity treasurers and sponsors are required to deposit all money collected on a daily basis unless the amount is \$50 or less and additional monies are anticipated to be collected within the next day or two, then the money can be held for that period and all of the money deposited with the School District Treasurer at one time.

Detailed, written procedures for the daily processes and procedures employed by various School District employees in collecting, recording, safeguarding, and reporting revenue collection in the various buildings in the District were not available.

Auditor of State Comments:

1. Mail being delivered to the Treasurer's office should be monitored closely and stamped with the date and time.
2. Another employee in the Treasurer's office should be trained to enter receipts into the computer when the Treasurer is not at work.
3. The School District should develop detailed, written procedures for the daily processes and procedures employed by various School District employees in collecting, recording, safeguarding, and reporting revenue collection in the various buildings in the District.
4. The School District Treasurer should consider issuance of receipts to the building secretaries for monies they turn over to the Treasurer or deposit directly to the bank.

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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. A purchase order should be in written form clearly indicating the items, quantities, unit cost, and used for each purchase transaction. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Statutory Requirements: Several State laws govern the purchasing process. These requirements are as follows:

Major Contracts: Section 5705.412, Revised Code, provides definitions for qualifying contracts and states that no school district shall make any qualifying contract or increase any wage or salary schedule unless there is a signed certificate attached thereto that the school district has sufficient revenue to enable the district to maintain all personnel and programs for a specified number of days. A certificate attached to any qualifying contract shall cover the term of the contract; a certificate attached to a wage or salary schedule shall cover the term of the schedule. The certificate shall be signed by the treasurer and president of the board of education and the superintendent of the school district, unless the district is in a state of fiscal emergency, in which case the certificate shall be signed by a member of the district's financial planning and supervision commission. Obligations that do not have a certificate of adequate revenues as required are considered void and no payments may be made on void obligations.

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

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 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.

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Routine Purchasing: Section 5705.41 (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 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 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 need 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.

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

School District's Purchasing Process:

The Board has a policy requiring the use of requisitions. However, when employees or teachers need to purchase supplies, a blank purchase order form is used in place of a requisition. Certified employees complete a purchase order form and submit it to the Principal. Classified employees that work in the offices complete a purchase order form and turn it in to their supervisor. Non-office classified employees verbally request the Support Service Manager to order the items needed. He then completes purchase orders for those requests. For purchases of \$500 or less, employees obtain between two and four quotes, either verbally, or from catalogs without documenting quotations and price comparisons.

Purchase orders are prepared manually as the result of District employees using a blank purchase order form instead of a requisition form. Applicable information from the manually prepared purchase order is entered into the computer system that is required for the accounts payable process. The computer system allows purchase orders to be posted against accounts which do not have sufficient appropriations to cover the amount of the purchase order.

Purchase orders are approved by the appropriate supervisor or principal, then forwarded to the Superintendent. The Superintendent reviews and either signs or rejects the purchase order. He then gives approved purchase orders to the Treasurer who either certifies the money is available and signs the purchase order or rejects it.

The Treasurer then gives the purchase order to the Accounts Payable Clerk who assigns the purchase order number and disburses the four part purchase order form. The white copy is sent to the vendor and the accounts payable office keeps two copies: the blue for the accounts payable file and the gold to return when the bill or invoice is paid. The accounts payable copies are maintained in an alphabetic file. The yellow copy goes to the person who initiated the purchase order so they can check it against items when received. When goods are received, they sign the yellow copy and send it back to the Accounts Payable Clerk to be paid.

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The Accounts Payable Clerk maintains a notebook log of the purchase order numbers, the date, and the individual making the request. The Accounts Payable Clerk then puts vendor numbers on the purchase order, inputs the information into the computer system, and encumbers the appropriation for the goods or services.

When a purchase order comes in with a vendor not previously used, the Accounts Payable Clerk enters the information in the computer, assigns a vendor number, and flags the vendor's 1099 status.

The Accounts Payable Clerk prints a Purchase Order Transaction Proof Listing to ensure that information entered into the computer is correct. If changes or corrections are required, the change or correction is made, and a second Purchase Order Transaction Proof Listing is printed. A Purchase Order Report By Purchase Order Number and Purchase Order Report General Fund Only are routinely printed and retained for reference.

The purchase order form is also used for blanket certificates, prepared by the Accounts Payable Clerk when entering the information into the computer.

Student Activity Purchases

Student activities follow the same rules as above except the sponsor and the treasurer of the activity both must sign as the person making the request.

Student activity purchases are authorized by the activity sponsor and building Principal once the Board approves the activity budget. Expenditures for trips require a purchase order to be prepared through the same process as all other purchases. Advance deposits for student activity trips are made against the purchase order with appropriate documentation requiring the advance deposit. Otherwise, processes and procedures are the same for all other invoice processing.

Bids

Contracts to build, repair, enlarge, improve, or demolish a school building along with contracts for food, windows, and bleachers for more than \$25,000 are bid. Bus specifications are set by law so the District adjusts for their particular needs. Bid specifications for major building projects are initiated with the architect hired by the District. The Treasurer reviews the architect's specifications and gives them to the Superintendent's Secretary to type. The Treasurer prepares the bid notices and runs them in the local newspaper for four weeks. The Treasurer collects the bids as they are received. The Treasurer opens all bids before one or more witnesses at a previously designated time and place. The Treasurer reviews the bids and makes a recommendation to the Superintendent. The Superintendent makes the proposal to the Board. After the Board accepts and approves the bid, it authorizes the Superintendent to award and sign a contract as the Board's designated Purchasing Agent.

The Board requires that, if feasible, at least three price quotes be obtained for all purchases between \$15,000 and \$25,000 for all purchases other than athletics.

The Athletic Department is required to obtain bids for all purchase that exceed \$500. Athletic Department bids are subject to the approval of the building Principal who determines whether the bids are obtained orally or in writing. Oral bids are not always permanently documented. Additionally, the Principal may require that athletic department purchases less than \$500 be subject to these bidding requirements.

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Bids are obtained for food service requirements at the beginning of the year and are good for the entire year. Bid sheets of items used are sent to anyone who requests them and are then approved by the Board. These items are milk, bread, ice cream, and other food products.

The Treasurer has the authority to use a “Then and Now Certificate”. However, the Treasurer prefers not to use the authority except in rare and exceptional circumstances.

The District’s written policies are vague and no formal written procedures are in place to provide necessary clarification. District employees follow verbal guidance and procedures for the purchasing, bidding, and for amending purchase orders.

At the end of the year, a 1099 status report is printed. The Accounts Payable Clerk verifies that the 1099 status report is correct and the 1099's are printed and mailed.

Auditor of State Comments:

1. The Board policy requiring requisitions should be amended to allow the use of a blank purchase order form or the School District should begin using the specified requisitions.
2. The District should require quote information be documented in some manner, either on the purchase order itself, through the use of vendor supplied documents, or on a District-devised document.
3. The computer system should not allow purchase orders to be posted against accounts which do not have sufficient appropriations to cover the amount of the purchase order.
4. The District should have detailed written purchasing and bidding procedures.
5. The District should have detailed written procedures for amending purchase orders.

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Cash Disbursements

Description of an Effective Method for 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 process 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 are adequate appropriations 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.

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

Warrants: Expenditures may only be made by a proper warrant drawn against an appropriate fund. The warrant must show upon its face the appropriation from which the expenditure is made and the fund which it is drawn upon.

Restrictions: Money is drawn from the school district treasury only for appropriations enacted by the Board. 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.

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

School District’s Cash Disbursement Process:

As billing statements and invoices are received in the Board office, they are given to the Accounts Payable Clerk who matches the invoice with the blue and gold copies of the purchase order and places the documents into a separate alphabetic file.

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The individual or department that ordered the goods or services completes the yellow copy of purchase order documenting that the goods were received in good condition and in the proper quantities, or that services have been rendered and sends it to the Accounts Payable Clerk.

When the yellow copy of purchase order is received by the Accounts Payable Clerk, it is matched with blue and gold copies of the purchase order and put in a separate alphabetic file until a bill or invoice is received. As bills or invoices are received, they are matched with the purchase order copies previously matched and placed in a separate alphabetic file folder until it is time to write checks. Accounts payable checks are prepared on approximately the 10th and the 20th of each month.

About four days before checks are to be written, the Accounts Payable Clerk goes through the alphabetical folder and compares and computes the amounts on the invoices attached to purchase orders to ensure invoice accuracy that all items have been accounted for, and the total does not exceed the amount of the purchase order. The Accounts Payable Clerk posts the informational items that will be included on the checks in the computer and runs a proofing list of the checks to be paid. The proof list is checked against the purchase order and bill. If no corrections are to be made, checks are printed by the computer and posted to the appropriations when check printing is completed. Checks are mechanically signed with an imprint of the Treasurer's signature. The Treasurer will manually sign checks only when one or two manual checks need to be signed.

The Accounts Payable Clerk is allowed to increase the purchase order amount up to a maximum of ten percent of the total purchase order. The computer system allows purchase orders to be posted against accounts that do not have sufficient appropriations to cover the amount of the purchase order. When the invoice exceeds the purchase order by more than ten percent or sufficient appropriations are not available, the Accounts Payable Clerk consults the Treasurer for resolution. The Treasurer will either authorize the amount or have the goods returned to the vendor.

The District uses a three part check. After checks are printed and the original mailed, the voucher packet comprised a copy of the check, the invoice, and the gold copy of the purchase order is filed in check number order in the Treasurer's office. The blue copy of the purchase order and a copy of the invoice are stamped paid and placed in an alphabetic vendor file.

Manual checks are processed the same as other checks, except that they are typed by the Accounts Payable Clerk on the typewriter. A list of manual, "off system" checks is maintained by the Accounts Payable Clerk as they are prepared, and given to the Treasurer at the end of the month to be entered into the system by the Treasurer.

The supply of blank checks, when not actually being used, is kept in the vault in the Treasurer's office.

During the cash disbursements process, the Check/Vouchers Payable Transaction Proof Listing By Vendor (Alphabetic), Fund Accounting Check Register and Appropriations Transaction History Report By Vendor are generated.

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Auditor of State Comments:

1. Written procedures should be in place for the Accounts Payable Clerk position in the event someone who is not trained in that position would be required to step in for the Accounts Payable Clerk.
2. The District should enter manual checks into the computer more frequently than once a month.
3. The District should establish and enforce written cash disbursements procedures to prevent instances where invoice dates preceded the purchase order date.
4. The District should establish written policies or procedures to ensure that a “Then and Now Certificate” is used in those rare situations where the fiscal officer’s certificate was not obtained prior to the purchase.
5. The District should establish and enforce written cash disbursements procedures to prevent instances where disbursements can be made against funds that will create a negative cash balance in that fund.

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Payroll Process

Description of an Effective System for the 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, and the gross and net compensation for the pay period and the year. 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 employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official. 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.

Statutory Requirements: The following State statutes apply:

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

Sections 3307.01, 3307.381, 3307.51, 3307.53, and 3307.56, Revised Code, for State Teachers Retirement 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 retirement system the amounts withheld, matched with an appropriate percentage for employer contributions.

Section 3319.141, Revised Code, for certified school employees and Section 3319.084, Revised Code, for classified employees, provide for minimum vacation and sick leave to be granted to affected employees (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 District processes payroll for approximately 142 employees, not including substitutes, on a biweekly basis, with twenty-six pays per year. In a year that would otherwise have twenty-seven pays, the twenty-seventh is eliminated by having two pays covering three-week pay periods. Only the Payroll Clerk and Treasurer have access to the payroll system through computer access codes. The District utilizes Bob Snyder hardware and software through Northeast Ohio Management Information Services (NEOMIN).

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Employee files are maintained for each employee. They are created upon start of employment and include tax forms, contracts, insurance forms, salary notices, college transcripts, annuity forms, certificates, evaluations, position assignments, reprimands, requests for Leaves of Absence (LOA), and the like.

Administrative contract periods begin August 1 for the Superintendent, Treasurer, Support Services Manager, and Athletic Director. The Superintendent's Secretary's contract begins July 1. All other certified contracts begin September 1, and all other classified contracts begin September 1. The Payroll Clerk prepares the contracts and tracks the step and education increases for all employees through the computer system.

The Payroll Clerk determines the payroll calendar and enters the payroll dates into the computer system. Notifications of non-renewal of teaching contracts is accomplished by the required April 30th deadline. The new contracts are distributed as soon as individuals are identified as needed for the next year, generally before June 30. Contracts are to be signed and returned within ten days to the Payroll Clerk who maintains the personnel files. Salary notices are sent out by June 30. Changes in steps and classes are made only at the beginning of the school year. All information must be turned in to payroll by September 15. Hours beyond Masters Degree will also be adjusted midyear if turned in by February 15.

Classified contract employees include the following groups:

1. 260 day classified contract employees include two secretaries, two finance clerks, one bus coordinator, and all custodial employees
2. 210 day classified contract employees include four secretaries
3. 190 day classified contract employees include cafeteria cooks
4. 188 day classified contract employees include bus drivers
5. 186 day classified contract employees include cafeteria helpers

The payroll system advances the steps for all employees and pulls the pay amounts from the Salary Schedule (which has been updated with the new pay data). All employees pay is calculated as a per year contract amount divided by the 26 pays unless they are not 12 month employees and request 19 pays. Even though the new contract year starts on September 1, the August days of the school year are paid at the new daily rate assigned for the new contract year.

If an employee doesn't work their full contract year, their pay is adjusted as follows. Once employees have stopped working, their total days actually worked are calculated. Their original daily rate for the year is multiplied by the actual days worked for their new adjusted contract amount. The amount of the contract that has already been paid to them is subtracted and the remainder is their final payment. If they should return in the same school year, their total days remaining to be worked will be multiplied by the original daily rate for the additional contract amount to be paid. It is then divided by the number of remaining pays in their contract year. For payroll purposes, all employee's contracts are handled in the same way. Hourly employees' wages are converted to a daily rate and multiplied by the number of days to be worked in the contract year to come up with a yearly contract amount to divide by the 26 pays. All wages are Board approved either by individual or by union contract.

Supplemental contracts are prepared by the Payroll Clerk according to Board approved rates. Regular contracted employees have first choice and then outside people are considered. The employee can choose to be paid in equal payments over the period of the activity or they can receive one lump sum at the end of the activity. All payments must be completed by the pay date for the pay period in which the activity ended. The

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Payroll Clerk is notified by the building Principal or the Athletic Director when the activity is completed and final payment can be made. All supplemental contracts are paid under a separate employee number.

All certified contracted employees are set up in the payroll system to automatically be paid each pay at 1/26 of their contracted amount. Once an employee is in the system, the only information entered is when something changes. Certified substitutes must be entered separately.

A pay sheet comes from each building secretary's listing who was absent along with an absence report for each. This absence report is used to deduct any sick, personal, or vacation days from the employee's account. Also on the pay sheet are the names of the substitutes used to cover the absences and what days they worked. The substitute name, daily rate, and number of days are combined on the Payroll Worksheet to be entered into the payroll system as a temporary employees payment. The Payroll Clerk enters only the daily rate and the number of days for the system to calculate the pay for each substitute. Once entered in the system, it is balanced back to the worksheet. Each building secretary also sends a pay sheet for any aides or tutors who have worked in the pay period.

Several annuities that the employees can pay into are set up in the payroll system, as well as credit union deductions. The District does not have payroll direct deposit. The Payroll Clerk follows a list of reports and directions set up by NEOMIN to process the payroll. NEOMIN provides needed support when problems arise.

After all temporary employee payments, including substitutes, aides, tutors, and per diem employees, have been entered, and reports run, the checks are printed on a single part form according to location. Checks are mechanically signed with an imprint of the Treasurer's signature. The Support Service Manager distributes the checks to the buildings. In the summer, all checks are mailed except for the twelve month employee checks, which are distributed as usual. The supply of payroll checks is kept locked in the vault except when checks are being printed.

On the morning of the pay date, the Payroll Clerk transfers the total payroll amount by phone from the General checking account to the Payroll account. A fax goes to the Credit Union with a list of employees and their deduction amounts. The total amount has been faxed to the bank on the previous day for transfer to the Credit Union. All other deductions such as taxes and some annuities are mailed out on the pay date or the day after. Some annuities are mailed out per pay and some only once a month. Federal and State taxes are transferred electronically and local taxes are printed and mailed out once monthly. Deduction checks are signed using a check signer with the Treasurer's name as soon as they are printed and mailed.

All classified contracted employees are set up in the payroll system to automatically be paid each pay for 1/26 of their contracted amount. Each building has a time clock where the classified employees must clock in and out. The time cards go to payroll along with a pay sheet for each department. The Support Services Manager completes the pay sheet. It lists the absent employees and the substitutes and also any extra time worked. Payroll then calculates the pay for the substitutes and any additional time worked and combines it all on a Payroll Worksheet. After entering this information in the payroll system, the Payroll Clerk makes sure they balance. Each building secretary also sends a pay sheet for any secretary substitutes or aides who have worked in the pay period. Certified and classified pay is processed together and is combined on the same reports.

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Overtime for custodial and cafeteria employees and bus drivers is approved by the Support Services Manager. Overtime for secretaries is approved by their immediate supervisor, the building principal or the Superintendent. Overtime for the Accounts Payable Clerk and the Payroll Clerk is approved by the Treasurer. Overtime authorization and approval does not have to be approved by the Superintendent once the immediate supervisor has approved the overtime. Secretaries and Treasurer's office clerks generally take compensation time in lieu of overtime. Overtime pay is processed the same as classified substitute pay.

The certified substitutes used by the District have all been approved by the Trumbull County Educational Service Center. There may be a rare exception where someone is hired by the Superintendent. When a substitute has not been used in the District before, he or she must complete new hire forms at the building where he or she is working and those forms are sent to payroll along with the pay sheet from the building secretary. His or her days worked are listed on the pay sheet. The first 60 days worked on the same assignment are paid at \$60 a day. If there are no absences, a step 0, BA daily rate is paid for days 61 and after, along with benefits.

All substitute pay is entered into the payroll system on a temporary basis and must be reentered each payroll period.

All classified substitutes must first be approved by the Board and that approval is good for one school year. Substitutes not previously employed by District must obtain new employee forms from the Payroll Clerk, complete the new hire forms, and personally return them to payroll and provide any documents which need to be photocopied.

Classified substitutes are then called by the Support Services Manager, or by the secretary they are replacing, to come to work. For each pay period a pay sheet is sent to payroll by the Support Service Manager and the building secretary listing the substitutes and their hours worked. The Payroll Clerk calculates the pay and enters it into the payroll system on a temporary basis, and it must be reentered each pay.

All employees are given 15 sick days per year at a rate of 1.25 per month, and it is accrued on the last pay of the month. At least half of a month must be worked to accrue sick time. Employees with more than ten years of seniority have five personal days per year. Two of those days are restricted and can only be used for specific reasons. Three of those days are unrestricted and no reason needs to be given, but the employee must have at least 45 sick days accrued in order to use the third unrestricted day. With less than ten years of seniority, two restricted and two unrestricted days are given. Personal unrestricted days must be requested at least two days in advance and cannot fall immediately before or after a school-approved vacation or holiday.

For certified employees, the request is signed by the building principal and sent to payroll where it is determined if the employee does in fact have the time available. It is then sent to the Superintendent to sign, and copies are distributed to the employee, payroll, and building principal. When the sick or personal day is actually taken, an absence report is filled out and sent to payroll. In payroll, the absent days are entered into the payroll system and are deducted from the employee's balance. The new balance appears on the pay stub. If the employee has no more sick days, the system gives the choice of docking the employee for the daily rate or entering advance sick days. The employee also has the option of requesting from the Treasurer five advance sick days for extended illness situations to be paid back as the sick days accrue. The maximum sick days which can be advanced is five, and if they have already been advanced, the sick day will be deducted from the employee's pay at their daily rate.

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Other leaves available are Family Medical Leave (FMLA) parental, jury/court duty, sabbatical, assault, military, extended sick, and other personal extended leave without pay. These leaves must be approved by the Board in advance, except in an emergency, and then as soon as possible. If there is no sick or personal time available, any leave taken will be without pay. Absence reports are prepared by each building secretary and sent to the Payroll Clerk for paid absences so that the days can be deducted from the employee's balance in the payroll system. All attendance is manually recorded by the Payroll Clerk in the permanent attendance book for contracted employees, temporaries and substitutes. The payroll system tracks the accrued and unused leave balances.

Generally, the procedure and rules for classified leaves are the same as for certified except for the following changes: For classified employees, all twelve-month employees are eligible for vacation after one year of service. For one to nine years of service an employee will receive ten days per year, 10 to 14 years of service they receive 15 days per year, and for 15 years of service and up an employee will receive 20 days vacation per year. Fifty percent may be carried over into the new year starting July 1. Approval is given by the employee's supervisor and should be requested as far in advance as possible on a vacation request form. Classified employees do not need to have 45 sick days to use their third unrestricted personal day. Request forms are signed by the Support Services Manager in most cases, or the building principal where secretaries are concerned. All request forms for vacation or personal days and absence reports are sent to payroll so they can be entered into the payroll system.

If employees wish to attend professional meetings on a school day, they must submit a Professional Meeting Request form to their Supervisor or Principal. When the day is actually taken, an Absence Report must also be submitted. Employees will receive pay for attendance at professional meetings only if it is approved and falls on a normal school or scheduled work day.

Written step-by-step procedures and guidelines to be followed by the Payroll Clerk are not available.

Auditor of State Comments:

1. The District should develop a payroll procedures manual with step-by-step procedures and guidelines to be followed by the Payroll Clerk.

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Debt Activity

Description of an Effective System for 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. 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.

Statutory Requirements: General statutory guidelines regarding the issuance of debt are found in Chapters 133, 321, and 5705 of the Ohio Revised Code. Additional statutes relating to school districts are found in Title 33 of the Ohio Revised Code.

School District's Debt:

The School District's outstanding debt at June 30, 2000 consisted of the following:

	<u>Principal Outstanding 06/30/2000</u>
Energy Conservation Notes, 1999 Series, maturity July 5, 2014	\$1,283,800
Energy Conservation Notes, 1999 Series, maturity November 16, 2014	<u>449,040</u>
Grand Total	<u><u>\$1,732,840</u></u>

The District issued \$1,376,200 of Energy Conservation Notes as a series of notes on June 24, 1999, maturing one note annually, with the final note maturing July 5, 2014. The District issued \$449,040 of Energy Conservation Notes on November 16, 1999, with annual payments due November 16 until final maturity on November 16, 2014.

The funds necessary for payment of the principal and interest are provided by an allocation of general fund property tax revenues to the bond retirement fund.

Auditor of State Comments:

1. The School District should show all required principal and interest payments for each year debt is outstanding on the State Department of Education Cash Basis Annual Financial Report, Statement M, Schedule of Debt Service Requirements to Maturity.

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Fixed Assets and Supplies Inventories

Description of an Effective System of Accounting For 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 number, location, and date of purchase should be maintained by the school district. 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.

Administrative Code Requirements: Rule 117-2-02 of the Ohio Administrative Code requires that fixed asset records include such information as the original cost, acquisition date, voucher number, the asset type, description, location and tag number.

School District's Methods of Accounting for Fixed Assets:

The Board has adopted a policy requiring that the District conduct a complete inventory, by an appraisal company, every five years, by physical count, of all District-owned equipment and supplies. For purposes of this policy, "equipment" means a unit of furniture or furnishings, an instrument, a machine, an apparatus or articles which retain shape and appearance with use, is nonexpendable and does not lose its identity when incorporated into a more complex unit.

The Board policy further requires that a fixed asset accounting system be maintained. The fixed asset system is to maintain sufficient information to permit the preparation of year-end financial statements in accordance with generally accepted accounting principles; adequate insurance coverage and control and accountability. Currently, the District's fixed asset accounting system is not completely functional.

Buildings and additions to buildings are identified by location or name and are described in detail (e.g., size, number of floors, square footage, type of construction, etc.) with the value shown for all individual structures.

Equipment is inventoried by building, floor and room name or number; and each item is to be listed individually. Leased equipment that the District will eventually own must be inventoried. Updated reports prepared by Valuation Engineers provide the information.

Televisions, VCR's, computers and any other items highly susceptible to theft have a permanent number engraved on them. Any item that has a model number or serial number has that number noted in the description for full identification. Moveable furnishings and equipment, not permanently affixed to a building, is inventoried by building, floor and room name or number; each item is to be listed individually. Currently, individual listings are included in reports provided by Valuation Engineers. All items assigned to a building are the building administrator's responsibility.

All equipment purchased, after the initial inventory, as capital outlay or replacement with a cost of \$500 or more and with an estimated useful life of five years or more are tagged and made part of the equipment inventory. A periodic review of object code (420, 500, 600, and 700) expenditures for equipment purchases against the fixed asset acquisition forms is completed by the Treasurer and the Accounts Payable Clerk to identify additional fixed assets to be recorded.

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Audio-visual equipment and computer equipment are inventoried through the library with the library being used for the location code. Each component is inventoried and a number is engraved on each. An accurate official record of textbooks, computer software and library books is required by Board policy. The District is in the process of preparing the official record under direction of the Treasurer hired during fiscal year 2000.

A computer-generated listing of all equipment is supplied to each building and department. This listing is updated annually by the close of the school year, or not later than the second Friday in June of each year. The annual update is accomplished by principals, directors, supervisors and professional and support staff under direction of the Treasurer. This updated listing is then submitted to the Treasurer's office for computer update.

The District conducts annual updates of fixed assets and inventory. The Board hired Valuation Engineers as the School District's inventory control company to provide annual updates, reports and tapes. Each building fills out an inventory form any time they have additions, transfers, and deletions. These forms are sent to the Treasurer who compiles the information on a form provided by Valuation Engineers. This form is sent to the company where the proper changes are made. Information required by the Administrative Code, including historical cost is included on the forms and the reports provided by Valuation Engineers. The company then creates a tape which is sent to the District's "A" site and down loaded directly into the District's computer system. The Treasurer retains copies of all forms as part of the supporting asset documentation.

All tags for additions are issued by the Treasurer to the proper building. The building then records all the information pertaining to the asset on the District's inventory form and turns the form into the Treasurer.

Assets are not sold, disposed of, or deleted unless the Board authorizes the disposition by Board resolution. Once authorized by Board resolution, the Treasurer compiles the information on a form provided by Valuation Engineers. This form is sent to the company where the proper changes are made.

The District's fixed assets policy does not address valuing donated assets, assigning salvage values, and defining private property (items belonging to staff and students).

School District's Methods of Accounting for Supplies:

The Board has adopted a policy requiring that a physical inventory of supplies be taken at the building level at the close of the school year, or not later than the second Friday of June of each year. This updated listing is then submitted to the Treasurer's office for GAAP reporting purposes.

The Treasurer has overall responsibility, and is assisted by the principals, directors, supervisors and professional and support staff in the physical performance of the annual supplies inventory.

At the end of the fiscal year, consumable supplies are inventoried by item for full cases in the cafeterias and individual buildings. Counts are provided to the Treasurer by the individual building principal or the building secretary and the Support Services Manager for cafeteria and custodial supplies along with dollar values. The values are provided to the GAAP conversion consultant.

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Auditor of State Comments:

1. The fixed assets policy should be expanded to address valuing donated assets, assigning salvage values, and defining private property (items belonging to staff and students).
2. The School District should monitor movement of assets from one location to another as it occurs.
3. The School District should use a standard form for inventories of consumable supplies.
4. The consumable supplies inventory worksheets should indicate who took the inventory, who checked the actual count, descriptions of all items, quantity of each item, unit of measurement for each item, unit cost, and extended cost.
5. The School District should establish detailed written procedures for fixed asset recording and monitoring and consumable supplies inventory to supplement and facilitate implementation of the Board policy.

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Cash Management and Investing

Description of an Effective System of 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.

Reconciliations should be completed for all accounts on a monthly basis. The books should be closed immediately following the end of the month and processing of transactions for the new month should commence. The reconciliations should be completed immediately upon receipt of the bank statement. Reconciling items include deposits in transit, unrecorded transactions (such as interest not posted), and transaction errors (school district and bank).

All reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items, should be posted in the month subsequent to occurrence and not carried forward to a second month unless waiting for the bank to correct an error, supported by appropriate correspondence.

Statutory Requirements: 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. Cash management and investment activities of a school district are additionally governed by Sections 133.03, 135.01 to 135.22, 319.04, 321.46, 733.27, 3313.291 and 5705.10 of the Ohio Revised Code. Interest earned on federal grant funds is governed by United States Code 7 CFR 210.14(a).

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 a general checking account to segregate and control the cash flow, a payroll clearing account, and a sweep account. These accounts are as follows:

Second National Bank:

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

The Treasurer deposits receipts into the general checking account which automatically sweeps the majority of the account balance into overnight repurchase agreements. The bank forwards the bank statements by FAX and mails the originals at a later date. The Treasurer posts receipts and expenditure adjustments at the close of the month while reconciling all accounts. Separate Bank Reconciliation forms are used for the General Account and the Payroll Account.

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The Treasurer reconciles (traces) all checks that have cleared the bank. The Treasurer then prints out the outstanding check list from the Check Reconciliation Report and the Summary of Available Cash by Fund Report to check the balances against the bank statements. The outstanding check list is proofed to verify that all checks on the list are appropriate and no checks were missed. Canceled checks returned by the bank are stored in the vault in the Treasurer's office after the reconciliation process is completed.

The deposits identified on the bank statement are compared to posted receipts to make sure all amounts are correct, all amounts have been recorded, and to identify any deposits in transit through the receipt book, receipt proof listing and the expenditure adjustment proof listing. Adjustments to the bank balance are listed on the bank reconciliation form. Adjustments to the books are verified through the receipt book, receipt proof listing, check list for the month, and the expenditure adjustment proof listing.

The payroll account is reconciled from the bank balance to outstanding checks. The preferred method is to determine a book balance, identifying specific amounts not yet paid, such as withholding taxes, various deductions for other taxes, deferred compensation plans, and credit unions.

The School District has adopted investment and petty cash fund policies. The investment policy addresses authorized investments and liquidity. The original investment policy filed with the Auditor of State, Clerk of the Bureau on November 29, 1996 has been superceded by a new policy adopted by the Board on March 15, 2000. The new policy has not been filed with the Clerk of the Bureau. However, since the District's annual portfolio is \$100,000 or less, it is not required to file an investment policy, provided that the Treasurer or governing board certifies to the Auditor of State that the Treasurer or governing board will comply and is in compliance with the provisions of Ohio Revised Code Sections 135.01 to 125.21. The District has had investments (including the Sweep Accounts) in excess of \$100,000. Currently, the School District has no investments other than the sweep accounts.

The Board has adopted policies for petty cash accounts and cash in school buildings. A petty cash fund of \$100 has been established by Board resolution, under control of the Treasurer, and is kept in the vault in the Treasurer's office. Uses of the petty cash fund are well defined and limited, and require receipts to substantiate expenditures according to Board policy. Major purchases are prohibited from the petty cash fund.

The Board policy authorizes change funds, but does not specifically authorize amounts and does not establish who is responsible for change funds. Each building cafeteria in the School District has a \$25 change fund provided at the beginning of the school year and returned at the end of the school year.

The School District does not have a Board adopted interest allocation policy listing the specific funds to receive interest and how the interest is to be allocated. Interest is credited to the General Fund.

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Auditor of State Comments:

1. Someone other than the preparer should review and approve all monthly bank reconciliations on a timely basis. The reviewer should initial and date the reviewed reconciliation.
2. Reconciling adjustments should not be carried forward for an extended period of time. Reconciling adjustments caused by bank errors should be immediately corrected.
3. The District should reconcile the payroll account to zero, specifically identifying amounts not yet paid, such as withholding taxes, various deductions for other taxes, deferred compensation plans, and credit unions as reconciling adjustments.
4. The District should file a copy of the Investment Policy adopted March 15, 2000, and, or, any subsequently adopted Investment Policy with the Auditor of State's Office, Clerk of the Bureau.
5. The District should establish an interest allocation policy through Board resolution to eliminate any potential for discretion and to ensure that the School District will be in compliance with State statute. The policy should list the specific funds to receive interest and how the interest is to be allocated.
6. The School District should revise the petty cash policy by Board resolution. The policy should include the office, department, or building that is authorized to have specific amounts of petty cash, and what the money is permitted to be used for.
7. The School District should revise the change fund policy by Board resolution. The policy should include the office, department, or building that is authorized to have specific amounts in each change fund, and what the money is permitted to be used for.

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Financial Reporting

Description of an Effective System of Financial Reporting:

The Treasurer should provide the Board 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. Annual financial reports should be prepared in accordance with generally accepted accounting principles (GAAP).

Statutory Requirements: Section 117.38, Revised Code, requires that the annual financial report be filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year for reports prepared in accordance with generally accepted accounting principles (GAAP).

Administrative Code Requirements: 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 District's computer system, the report is either generated by the system or completed manually on the prescribed form. If the District prepares the 4502 using State software, the report is transmitted via modem to the Department of Education. If the District completes the 4502 manually, a hard copy is mailed to the Department of Education.

School districts are required by Rule 117-2-03(B), Administrative Code, to prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP). All school district's were required to report on a GAAP basis for all fiscal years ended June 30, 1996 and thereafter.

The report is to be certified by the Treasurer. 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.

School District's Financial Reporting:

The District prepares general purpose financial statements (GPFS) in accordance with GAAP. The report is filed with the Auditor of State, Local Government Services Division, within one hundred and fifty days after the close of the fiscal year. However, cash basis financial statements were filed for fiscal years ended June 30, 1998 and June 30, 1999, resulting in qualified audit opinions for the audit of both fiscal years.

The Board and the Financial Planning and Supervision Commission of the District receive monthly financial reports. The monthly reports provided are a Monthly Budget Variance, Report, Summary of Available Cash by Fund, Revenue Report All Funds, Appropriation Report All Funds, and a Check List for Current Accounting Month.

The Lordstown Local Board and the District Financial Planning and Supervision Commission do not receive monthly bank reconciliations which reconcile to the fund balances and provide details of all adjustments.

The Treasurer performs the month-end closing procedures and prints various reports, including the Appropriation Report All Funds, Monthly Appropriations - Detail, Monthly Appropriations - Summary Function, Monthly Appropriations By Object and Appropriations History By Check.

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Auditor of State Comments:

1. The District should provide monthly bank reconciliations which reconcile to the fund balances with details of all adjustments to the Board and the Financial Planning and Supervision Commission.
2. The School District should prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP) for each year consistent with Ohio Administrative Code requirements.
3. The School District needs to ensure that it has a disaster recovery plan for computer systems, and signed agreements to provide both software and hardware services in the event of a disaster, and should also physically test the plan to ensure it will work.

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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, the current methods of the accounting and financial reporting of the School District are not completely in compliance with the various Chapters of the Ohio Revised Code and the Chapter 117 Ohio Administrative Code requirements of the Auditor of State as disclosed throughout this report.