



**Auditor of State  
Betty Montgomery**

**East Liverpool City School District  
Columbiana, Ohio**

**Report on Accounting Methods**

**Local Government Services Section**

**East Liverpool City School District, Columbiana County  
Report on Accounting Methods**

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**CERTIFICATION**

On December 18, 2003, the East Liverpool City School District was declared to be in fiscal emergency. Section 3316.10(A), Revised Code, requires that after the declaration of the existence of a fiscal emergency, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports. This report shall indicate whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

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

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

September 1, 2004

**East Liverpool City School District  
Columbiana County**

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**Purpose**

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

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the East Liverpool City School District, and (2) whether the current accounting system is in compliance with Section 117.43 of the Revised Code and the requirements of the Auditor of State. Information for this report was obtained by interviewing School District personnel and reviewing pertinent accounting, financial, and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the East Liverpool City School District. We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on specific elements, accounts, or items of the School District's financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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**Governance Overview**

East Liverpool City School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Prior to the School District being declared in a state of fiscal emergency, it operated under a locally-elected five-member Board of Education (the Board) and provided educational services mandated by the State and Federal agencies.

On December 18, 2003, the School District was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. Commission membership is as follows:

1. The director of budget and management or a designee;
2. The superintendent of public instruction or a designee;
3. A resident of the School District and owner of a local business appointed by the mayor of the City of East Liverpool;
4. A local business person appointed by the Governor; and
5. A parent with a child enrolled in the School District appointed by the state superintendent of public instruction.

The Financial Planning and Supervision Commission, under Ohio Revised Code Sections 3316.06 and 3316.07, is given the authority to assume complete managerial control of the East Liverpool City School District. Under Section 3316.06(A)(2) of the Ohio Revised Code, the Commission is to specify the level of fiscal and management control that the Commission will exercise within the School District during the period of fiscal emergency and shall enumerate respectively, the powers and duties of the Commission and the duties of the school board during that period.

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

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

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**Governance Overview**

(continued)

The Commission has defined the level of fiscal management and control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06 (A)(2) of the Ohio Revised Code. The complete role of the Commission and the School Board has been addressed in the financial recovery plan adopted on March 24, 2004 and includes the power to approve contracts entered into by the East Liverpool City School District for personal services, purchases in excess of \$10,000, and employment contracts for all positions other than temporary positions.

The Commission will continue in existence until the Auditor of State, or the Commission itself, determines that:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The School District Board has prepared a financial forecast for a five-year period and such forecast is, in the Auditor of State's opinion, "nonadverse".

Once these requirements are satisfied and certified to the Commission, the Governor, the Director of Budget and Management, and the County Budget Commission, the Commission will be terminated. Upon termination of fiscal emergency and the Commission, all responsibility for the management of the School District will revert to the locally-elected Board.

**Auditor of State Comments**

None

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**Budgetary Process**

**Description of an Effective Budgetary System**

The legally adopted annual budget plays a unique and central role in determining how much and what type of financial resources shall be raised, and how those financial resources shall be spent. An annually appropriated budget should be adopted for all funds other than agency funds by the governing board and the amounts appropriated for each fund should not exceed the estimated resources available for the year. The budget should present sufficient information to identify the major sources of revenues, the functions and major objects of expenditures and demonstrate the level of control over expenditures maintained by the governing board. The process should encompass current operation of academic and student programs, capital acquisition, replacement, and maintenance for the various school district buildings, and debt retirement. The adopted budget should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized revenues and unspent balances available for expenditure.

**Statutory Requirements**

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

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

Estimated Resources: Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the county budget commission and receives the commission's official certificate of estimated resources which includes the estimated beginning unencumbered fund balance and the estimated revenue of each fund. Prior to June 30, the school district must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year; however, any reserve balance account and the principal of any nonexpendable trust fund is to be excluded. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the school district treasurer.

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

Encumbrances: As part of formal budget control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and/or maintain legal compliance with the adopted appropriations.

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

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

Certification of Adequate Revenue: Certification of adequate revenues involves two types of certifications. Certification of routine items under Section 5705.41, Revised Code, is addressed in the Purchasing Process section of this report. Section 5705.412, Revised Code, requires the School District to certify, prior to entering into a qualifying contract, that payment of the obligation will not affect the school district's ability to maintain all personnel and programs for the term of the contract. The certificate is to be attached to the qualifying contract and signed by the treasurer, superintendent, and president of the board of education. If the School District is in a state of fiscal emergency, the certificate shall be signed by a member of the School District's financial planning and supervision commission who is designated by the commission for this purpose. The certificate is to be attached to any qualifying contract and appropriation measure.

A qualifying contract means any agreement for the expenditure of money under which aggregate payments from the funds included in the school district's five-year forecast under Section 5705.391 of the Revised Code will exceed the lesser of five hundred thousand dollars or one per cent of the total revenue to be credited in the current fiscal year to the school district's general fund, as specified in the district's most recent certificate of estimated resources.

A certificate of adequate revenues is also to be attached to each appropriation measure of the current 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. This certificate is not required to be attached to a temporary appropriation measure if (1) the amount appropriated does not exceed 25 percent of the total amount from all sources available for expenditure from any fund during the preceding fiscal year; (2) the measure will not be in effect on or after the thirtieth day following the earliest date on which the School District may pass an annual appropriation measure; and, (3) an amended official certificate of estimated resources for the currently if required, has not been certified to the board of education under division (B) of section 5705.36 of the Revised Code.

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**Budgetary Process**  
(continued)

Five-year Financial Forecast: Section 5705.391, Revised Code, requires school districts to include five-year projections of revenues and expenditures in a spending plan. Under Section 3301-92-04 of the Ohio Administrative Code, school districts are to submit the projections to the Department of Education. The projection contains information and is in a format prescribed by the Department of Education and Auditor of State. The projection includes three years of historical revenues and expenditures and a projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. The projection is filed upon the adoption of an annual appropriation measure, but no later than October 31. A school district is required to update its five-year projection between April 1 and May 31 and submit it to the Department of Education. Nothing precludes a school district from filing other updates to its five-year projection at any time in addition to the required filings.

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

The ability to certify under Section 5705.412 of the Revised Code is based on the current five-year projection. The assumptions underlying the decision to proceed with the obligation or contract to be certified must be the same assumptions supporting the amounts presented in the current five year projection. If the revenue assumptions or the revenue estimates used to support the ability to certify under Section 5705.412 differ from the current five-year projection, the projection needs to be updated to reflect the new information. If the certificate is associated with a contract or obligation that results in additional costs or changes in the expenditure assumptions in the current five-year projection, the projection must be updated to reflect the new information. If adding the new expenditures created by an obligation or contract cause a fiscal year end deficit in the projection, then the obligation or contract may not be certified. Any change to the five year projection must be approved by the board of education. Each school district must maintain sufficient documentation to support these changes.

Responsibility for the preparation of the forecast, the accuracy of the presented figures and the reasonableness of the assumptions on which they are based rests with the school district administration and the board of education. The automatic retrieval of historical data does not relieve the district of the responsibility for insuring that those numbers are reasonable and accurate.

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**Budgetary Process**  
(continued)

**School District's Budgetary Process**

Prior to January 15, the Board of Education adopts a tax budget for the fiscal year commencing the following July 1. This budget includes proposed expenditures and the means of financing the expenditures for all funds other than agency funds. Public hearings are held to obtain taxpayer comments. A notice of the public hearing is published in the local newspaper. By no later than January 15, the Board-adopted budget is filed with the Columbiana County Auditor. The Treasurer is responsible for preparing the current year operating budget (tax budget) and for presenting the proposed operating budget to the Board for adoption. The Superintendent works with the Treasurer to prepare the annual budget, as well as the annual appropriation resolution.

Prior to April 1, the Board accepts, by resolution, the tax rates as determined by the county budget commission and receives the certificate of estimated resources. Prior to the start of the fiscal year, the treasurer, with Board approval, revises the appropriations so the total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the original certificate of estimated resources. On or about July 1, the Treasurer amends the certificate to include any unencumbered cash balances from the proceeding year.

After the close of the fiscal year, the Treasurer certifies the fiscal year-end fund balances to the budget commission and requests an amended official certificate of estimated resources that includes unencumbered cash balances from the preceding year. The Treasurer also amends the certificate at the beginning of the fiscal year if projected revenues have increased or decreased.

The School District adopts a temporary appropriation measure prior to the start of the new fiscal year. A permanent appropriation measure is adopted by October 1, each year. The School District adopted their permanent appropriations on October 1, 2003; however, the County did not receive a copy of the appropriation resolution. The Interim Treasurer submitted a new appropriation measure on March 8, 2004. The Board adopts appropriations at the fund and function level for the general fund and at the fund level for all other funds. Upon passage, the Treasurer allocates the appropriations to the various accounts within each fund based on prior year actual amounts and any anticipated changes for the current fiscal year.

Building principals and department heads may request adjustments to appropriation amounts under their control by submitting a request to the Treasurer. The Treasurer reviews the request and if the amounts are reasonable will approve and post the changes. Appropriations for all student activities are set at the fund level in the appropriation measure. The student activity budget forms are prepared by the high school Clerk/Cashier.

The Treasurer reviews estimated revenues and appropriations twice a year. A request for an amended certificate is prepared, if needed, and a supplemental appropriation measure is prepared for Board approval. The supplemental appropriation measure is used to adjust appropriations by fund so that they do not exceed the estimated resources as anticipated in the new amended certificate. After approval of the supplemental appropriation measure, both the request for an amended certificate and the supplemental appropriation measure are sent to the county budget commission.

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**Budgetary Process**  
(continued)

The School District submits the five-year forecast annually to the State Department of Education and updates the forecast periodically during the year. The forecast is approved and adopted by Board resolution prior to it being filed.

**Auditor of State Comments**

1. The School District should update its Policy Manual regarding its budgetary process. The Policy Manual should include policies to properly reflect all aspects of the budgetary process including the level at which the Board is to adopt appropriations, the allocations of appropriated amounts by the treasurer, the monitoring of budget and actual amounts, and the frequency that monitoring should occur. In addition, the manual needs to be updated to address the five year forecast requirements, addressing the dates that the forecast is to be submitted to the Ohio Department of Education. These policies have not been updated since July 1991.
2. Expenditures plus encumbrances are not to exceed appropriations; however, management allows this to occur at the legal level of control and in the various accounts that receive allocations by the Treasurer. The allocation of Board approved appropriations is at the discretion of the Treasurer. There is no Board policy identifying, establishing, or requiring the establishment of controls over this process.
3. Appropriations should not exceed estimated resources. The temporary appropriations submitted to the county for fiscal year 2004 had thirteen funds that exceeded the certified estimated resources.
4. The Treasurer should submit supplemental appropriation measures to the county budget commission in a timely manner to allow the budget commission to certify that appropriations are within estimated resources.
5. By statute, appropriations are limited to the estimated resources in the existing amended official certificate of estimated resources. If new or additional revenue is anticipated and the Board desires to spend it, an amended certificate is to be received before the appropriations are passed.
6. Documents received from the county budget commission do not always agree with information submitted by the School District. The documents received from the county budget commission should be reviewed upon receipt and corrections requested if needed.
7. Budgeted revenues and appropriations in the accounting system do not agree with the most current supporting documents. Amendments should be posted to the accounting system after approval by the board for appropriations and the budget commission for estimated receipts.

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**Revenue Activity**

**Description of an Effective Method for Recording Receipts**

The receipting process should allow for the consistent identification and recording of the account classification and source of each receipt. Receipts should be promptly recorded, safeguarded and deposited. The receipt or pay-in-order form should be a consecutively pre-numbered multi-part form. The receipt should bear the name of the entity and reflect the date received, the payer, amount, the purpose or nature of the receipt, account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payer. Adequate safeguards should be in place to ensure that one individual does not have total control over the receipting of monies, deposit of monies, posting of receipts, and reconciliation of bank accounts.

**Statutory Requirements**

Section 9.38, Revised Code, provides a person who is a public official, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys 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.

Section 3313.642 (C), Revised Code, allows boards of education to adopt rules and regulations prescribing a schedule of fees for materials used in a course of instructions and prescribing a schedule of charges which may be imposed upon pupils for the loss, damage, or destruction of school apparatus, equipment, musical instruments, library material, textbooks, or electronic textbooks required to be furnished without charge, and for damage to school buildings, and may enforce the payment of such fees and charges by withholding the grades and credits of the pupils concerned.

**School District's Receipt Process**

The School District receives money in the form of wire transfers, cash, money orders and checks. The revenues received by wire transfer are state foundation monies and grants. The remittance forms for the wire transfers are received in the mail from the payer. The receptionist/transportation secretary receives and sorts the mail for the Treasurer's office daily. The Treasurer's secretary codes wire transfers and grant receipts with the fund and receipt code. All money received by mail for the Treasurer's office is recorded by the Treasurer's secretary in a receipt book then posted into the School District's computer system.

Each building secretary and the food service cashiers are responsible for taking their deposits to the bank on a daily basis. Deposit information is recorded on a two part deposit slip. The individual making the deposit takes both slips to the bank in an unlocked zipper bank bag. The bank verifies the deposit, date stamps the deposit slips, and returns the yellow copy of the deposit slip.

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**Revenue Activity**

(continued)

The Budgetary Clerk posts monthly receipts for the food service, student activities, and the five instructional buildings. She receives a monthly report via inter-office mail from each school or department. The report includes a summary of the money received during the month and the yellow copies of the bank deposit slip. The building secretaries, the high school Clerk/Cashier, the Budgetary Clerk and the Treasurer's secretary code receipts following guidance provided by the Treasurer. The Treasurer's secretary files all the yellow copies for their records in the Treasurer's office. The receipts prepared by and entered into the computer system by the Treasurers' secretary and the Budgetary Clerk are reviewed by the Administrative Assistant at the time bank accounts are reconciled only if there is a problem reconciling at month end.

All employees who handle money are bonded by position through Travelers Insurance with the School District paying the cost of the position bond. All receipts prepared in the School District's Treasurer's office and the various buildings use pre-numbered receipts. The receipts have an original and a copy. The original receipt is sent to the Treasurer's office from the five instructional buildings when they submit their monthly revenue reports and they keep the copy. The receipts received from the five instructional buildings, along with their monthly reports, are filed with the original receipts of the Treasurer's office for each month of the fiscal year.

Receipt of State Foundation: State foundation monies are wire transferred bi-monthly to the School District's general checking account from the Ohio Department of Education. The foundation settlement sheets which show the various sources of state aid are mailed to the School District and are available online at the Ohio Department of Education's web page. Generally, foundation settlements include restricted and unrestricted receipts, tuition receipts and various other State payments to the School District. The foundation statement is given to the Treasurer's secretary who prepares a pre-numbered pay-in receipt for the gross amount of the settlement. Deduction from the foundation settlement such as STRS, SERS, and open enrollment are posted as memo expenditures. Parity aid is posted as unrestricted grants in-aid. State foundation receipts are posted using the USAS codes provided on the settlement sheets.

Receipt of Property Taxes: Upon receipt of a check and tax settlement sheet from the Columbiana County Auditor, the Treasurer prepares a sheet outlining the account for net taxes. The tax settlement sheets show the tax distribution to various funds. The Treasurer's secretary prepares a pay-in receipt and posts the information at net to the general fund. The check is added to the deposits on the day it is received and is taken to the bank by the Treasurer's secretary.

Receipt of Grant Monies: The School District receives federal, state, and local revenue in the form of restricted and unrestricted grants. All grant applications are approved by the Board. The Federal/State Grants Director receives an email notification from the Ohio Department of Education upon approval of the grant amount and receives intergovernmental receipts by electronic fund transfer from the Department of Education through the Auditor of State. She makes a copy of the notification, notes the proper fund number of where the money is to be received, and delivers a copy to the Treasurers' secretary. When the remittance notice is received, the Treasurer's secretary prepares the pay-in receipt and posts the transaction. Grant monies received by a check are coded and posted by the Treasurer's secretary.

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**Revenue Activity**  
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Athletic Event Receipts: The School District charges for admittance to various types of athletic events. The Ticket Manager is provided with a check in the amount of \$1,500 signed by the Treasurer to create a change fund that is used for the school year. These funds are the responsibility of the Ticket Manager. The money is returned before the end of the school year. The Ticket Manager provides each seller with a change fund and a ticket/cash accountability form for use with each event. The form includes the name of the seller, the event, date, a photo copy of the adult and student beginning number of each ticket roll being used and the ending ticket number. Persons buying tickets pay the ticket seller and receive their ticket. The ticket is given to a ticket taker at the entrance to the game, who tears the ticket in two. The ticket seller counts the cash and enters the amount collected along with the last ticket number sold on the accountability sheet. The change fund is returned to the Ticket Manager before the end of the event separate from the ticket proceeds.

The Ticket Manager computes the sales and compares the amount collected to the number of tickets sold times the ticket price for student and adult tickets. If there are discrepancies, they are resolved with the ticket seller the same day. A two part deposit slip is prepared. The money and the deposit slips are placed in a lock bagged and dropped in a night depository at the bank. The ticket/cash accountability form is kept by the ticket manager until the next school day. Deposits dropped in the bank night drop are posted to the School District's bank account the following business day. The Ticket Manager picks up the night deposit bag from the bank with the yellow copy of the bank deposit slip on the next bank business day. The high school Clerk/Cashier receives a copy of the ticket/cash accountability form and the yellow deposit slip from the Ticket Manager. The high school Clerk/Cashier keeps the ticket/cash accountability form and then prepares a pre-numbered pay-in receipt with the proper revenue code. The high school Clerk/Cashier takes the coded receipt and the yellow deposit slip to the Budgetary Clerk. The Budgetary Clerk posts the revenue to the computer system. The original copy of the ticket/cash accountability form and the yellow copy of the deposit slip are kept in the Ticket Manager's office.

Student Activity Receipts: When a student organization has a fund raiser, a sales project approval and potential form must be completed and signed by the advisor. The advisor responsible for the activity fills out Section I of the form that provides the details of what will be purchased, cost per unit, and proposed sales price per unit for pre-approval by the building principal and the superintendent. Students who want to participate in the activity are provided with a sales sheet and an envelope for the money they collect. Students take orders for merchandise and collect the money before delivering the merchandise. Students can turn in their order forms and cash anytime during the fund raising period. Advisors turn in money from sales to the building secretaries or the high school Clerk/Cashier as they receive it. Advisors record the cash received in Section II of the fund raiser report. The deposit slip and fund raiser report are then sent to the high school Clerk/Cashier. The high school Clerk/Cashier checks the report for any errors, codes a pay-in receipt and creates a monthly report with month end totals and account codes. The high school Clerk/Cashier takes the deposit slips and the monthly report to the Budgetary Clerk who posts the receipts from the monthly report. When the fund raising project is over, Sections II and III of the form are completed and given to the high school clerk/cashier or the building secretary at the middle school. These sections provide information about purchases, sales, return of unsold merchandise and receipts from money turned in to be deposited.

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**Revenue Activity**  
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Receipt of Cafeteria Monies: The School District contracts their food service program through Nutrition, Inc. Cash registers are run by cafeteria employees. Money is collected for sales in the individual building lunchrooms and a pre-programmed cash register is used to account for the food service sales. Each student has an identification number issued to them when they become a student of the School District. Prior to the beginning of each school year, student names, their corresponding identification numbers, and the free and reduced lunch applications from the Treasurers' office are programmed into the cash register. Students enter their identification number at the cash register and the register automatically calculates whether the lunch is paid, free or reduced price. Ala carte items are also served and the price is posted in the cafeteria. At the end of the day each cashier closes out their register and completes a sales activity report. Using the data inputted from the student numbers, this report gives the daily totals for each cash register by category of how many lunches were sold (i.e. paid, free, reduced-price, extra milk, ala carte, adult receipts and student workers). There are eight school cashiers. Each cashier reconciles the money in their cash drawer to the closing cash receipt tape, prepares a deposit slip, takes their deposit to the bank and delivers the bank stamp deposit slip along with their activity report to the Food Service Supervisor. At the end of every month, the Food Service Supervisor prepares a monthly report for the Treasurer's office. The Budgetary Clerk posts the revenues for the monthly report.

Free and reduced lunch applications are given out to students at the beginning of the school year. The students turn the completed forms into the building principal. The principal approves or disapproves the applications. Upon approval the applications are sent to the Treasurer. The Treasurer sends the applications to the food service department.

Miscellaneous Receipts: Money for lab fees, overdue book fines, damaged equipment and student ID cards are brought to the Treasurer's secretary in the administration building, the high school Clerk/Cashier, or the building secretary. The person receiving the money prepares the pre-numbered pay-in receipt and a deposit slip and deposits the money at the bank before the end of the day. The bank counts the deposit and stamps the yellow copy of the deposit slip. Receipts from the Treasurer's office are entered into the computer system by the Treasurer's secretary. Receipts from the high school, middle school and elementary schools are sent monthly to the Treasurer's office with a summary transaction report, a copy of the pay-in receipt and the yellow deposit slip. The Treasurer's secretary prepares pre-numbered pay-in receipt for miscellaneous revenue and posts it to the computer system. The Budgetary Clerk posts the miscellaneous receipts from the summary transaction reports provided from the other five school buildings and the food service department.

The Treasurer's office prepares and mails invoices for tuition. The copies of the invoices are maintained in a folder until the payment is received and posted. When payments are received, the Treasurer reviews the folder to check the status of each account due. The Treasurer's secretary prepares a pay-in receipt when the tuition payments are received and posts the revenue to the proper account. The money, deposited daily, is placed in a locked drawer until the Treasurer's secretary deposits it at the bank.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Revenue Activity**  
(continued)

**Auditor of State Comments**

1. The School District's policy manual has not been updated since February 1995. The manual should be updated to include safeguarding of receipts, timely deposits, and the segregation of duties. In addition, the procedures used in the collection and recording of receipts should be documented and on file in the treasurer's office.
2. The posting of receipts should be reviewed periodically during the month at an appropriate level of management rather than at the time bank accounts are reconciled by the administrative assistant.
3. Property tax receipts should be posted at gross and memo expenditures for the various deductions as identified on the apportionment sheets when received rather than net of the various fees charged by the county for collection of property taxes.
4. The student activity advisors are to record cash receipts remitted to the School District in Section II of the sales project approval and potential form. This procedure is being completed by the high school Clerk/Cashier. Student activity advisors should make sure that Section II is kept up to date and at the end of the fund raising project, the form should be signed by the building principal and the treasurer. The high school Clerk/Cashier should not be completing this form for the advisors.
5. The billing and collection of tuition should be reviewed on a regular basis to ensure that all tuition is invoiced and paid in a timely manner.

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**Report on Accounting Methods**

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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 selection of the vendor with the best price as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds stating that the amount has been appropriated and is encumbered. Purchase orders should be used for all non-payroll transactions, and should be in written form clearly indicating the items, quantities, and unit cost. Authorized purchase commitments should be recorded against a budget line item in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

**Statutory Requirements**

Several State laws govern the purchasing process. The requirements are as follows:

Certification of the Fiscal Officer - Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the portion of the obligation to be performed in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrance. This certificate need be signed only by the subdivision's fiscal officer. Additionally, the subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that do not extend beyond fiscal year end in an amount established by the board of education. A general certification of this type may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine recurring items or for unanticipated emergencies.

"Super" Blanket Certification of the Availability of Funds - The super blanket certification permits the fiscal officer to certify any amount from a specific line-item appropriation. The certification is authorized to be outstanding for any period up to the end of the fiscal year and more than one certificate is permitted to be outstanding at one time. The certification must identify a specific line item appropriation in a specific fund. The certification may be limited to a specific vendor, if desired. A list of obligations incurred and expenditures made under each certification must be maintained by the fiscal officer.

Purchases that may be made through the use of a super blanket certificate are the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor, or appraiser by or on behalf of the subdivision; fuel oil, gasoline, food items, and utilities; and any purchase exempt from competitive bidding under Ohio Revised Code Section 125.04 and any other specific expenditure that is a recurring and reasonably predictable operating expense.

Then and Now Certification - It is intended that the treasurer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate that both at the time the order was placed (then) and at the current time (now) a sufficient sum was appropriated for the purpose of such a contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Purchasing Process**  
(continued)

Major Contracts - Section 5705.412, Revised Code, provides definitions for qualifying contracts and states that no school district shall make any qualifying contract or increase any wage or salary schedule unless there is a signed certificate attached thereto that the school district has sufficient revenue to enable the district to maintain all personnel and programs for a specified number of days. A certificate attached to any qualifying contract shall cover the term of the contract; a certificate attached to a wage or salary schedule shall cover the term of the schedule. The certificate shall be signed by the treasurer, and president of the board of education and the superintendent of the school district, unless the school district is in a state of fiscal emergency, in which case the certificate shall be signed by a member of the district's financial planning and supervision commission.

Obligations that do not have a certificate of adequate revenues as required are considered void and no payments may be made on void obligations

The following certification requirements also regulate purchases by school districts; however, determination must be made whether the contract is subject to Section 5705.412, Revised Code.

Per Unit Contracts - Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year needs to be certified (1987 Op. Atty. Gen. 87-069).

Contract or Lease Running Beyond the Termination of the Fiscal year Made - Pursuant to Section 5705.44, Revised Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year needs to be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

Bidding - School District contracts in excess of \$25,000 to build, repair, enlarge or demolish any school building, shall follow the competitive bidding requirements in Section 3313.46, Revised Code. Items not requiring competitive bidding include:

1. Educational materials used in teaching;
2. Computer hardware and software used for instructional purposes;
3. Any item that is available and can be acquired only from a single source (this exception requires the board to adopt a resolution by a 2/3 vote that this is the case); and,
4. Energy conservation measures (with certain restrictions provided by statute).

Findings for Recovery Database – Effective January 1, 2004, Ohio law (Section 9.24, Revised Code) prohibits any state agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds, to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved.

The Auditor of State has established a database pursuant to Section 9.24, Revised Code, in order to list all persons who have unresolved findings for recovery, dating back to January 1, 2001. To comply with Section 9.24, Revised Code, the Auditor of State's office recommends that before entering into a public contract as described above, a state agency or political subdivision verify that the person does not appear in this database.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Purchasing Process**  
(continued)

**Administrative Code Requirements**

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

**School District’s Purchasing Process**

When goods or services are required a hand written requisition is prepared by the purchaser and sent to the building principal or department supervisor to be signed for approval. Once the hand written requisition is signed and approved, it is sent to the building or department secretary to be entered into the computer and printed. Both requisitions are sent to the Treasurer’s office.

All requisitions must be approved by the Treasurer before going to the Superintendent. The Treasurer verifies that the proposed purchase is not subject to bid, that sufficient funds are appropriated, and that an existing supply of the goods being requested is not available elsewhere in the School District. Approved requisitions are then sent to the Superintendent, who reviews the requisition and indicates his approval by signing the requisition. The requisitions are sorted between the Administrative Assistant and the Budgetary Clerk. The Budgetary Clerk verifies the account codes and converts the computer information purchase orders for the general fund through the three hundred funds. The Administrative Assistant verifies the account codes and converts the computer information into purchase orders for the 400 through 599 funds. After the purchase order is printed and manually signed by the Treasurer, it is torn apart and disbursed to the proper department.

The purchase order is a four-part form which is pre-numbered and distributed as follows:

- 1) White – Original (white) gets mailed or faxed to the vendor by the Treasurers’ secretary.
- 2) Yellow – Returned to the office of origination (high school, middle school, elementary school, or administration building)
- 3) Pink – Treasurer’s copy.
- 4) Blue – Treasurer’s office and attached to a copy of the warrant.

Note: The yellow, pink and blue copies of the purchase order are kept in the office of origination until an invoice is received.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Purchasing Process**

(continued)

**Auditor of State Comments**

1. The School District is in the process of updating the Board policies for purchasing and competitive bidding. School District management should consider whether the purchasing functions should be centralized or remain a function of the various buildings and incorporate appropriate policies in the manual.
2. The purchase orders which include the fiscal officer's certification should clearly reflect the appropriate language for blanket and super blanket certifications and then and now certifications.
3. The School District should provide "412" certificates signed by the treasurer, superintendent and board president for all negotiated agreements, salary schedules and construction contracts. The "412" certificates should be signed at the time the contract was approved by the Board or no later than the time the contract is signed.

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**Report on Accounting Methods**

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**Cash Disbursements**

**Description of an Effective Method for Accounts Payable and Cash Disbursements**

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the School District. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips, a comparison of the prices on the invoice to the purchase order, and 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 accounts codes, and should include a copy of the purchase order, invoice, and receiving report or a signed billing slip. A check should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data) and a properly executed certification by the Treasurer. All checks should be promptly signed by the Treasurer, posted in the appropriate accounting records, and mailed to the vendor. Vouchers should be filed numerically or by vendor. No invoices of payments should be processed that were not properly certified unless the Treasurer is able to execute a then and now certificate. Sufficient safeguards should be in place to ensure that one individual does not have total control over the receipt of goods, processing of invoices for payment, issuance of checks and the reconciliation of bank accounts.

**Statutory Requirements**

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

Restrictions - Money is drawn from the school district treasury only for appropriations enacted by the board of education. Appropriations from each fund may be used only for the purposes of such fund. Under Section 3315.51, Revised Code, no moneys of a school district shall be paid out except on a check signed by the Treasurer. The Treasurer shall preserve all vouchers for payment for a period of ten years (Section 3313.29, Revised Code) unless copied or reproduced according to the procedure prescribed in Section 9.01 of the Ohio Revised Code.

No Certification - If no certificate of available funds was furnished as required, upon receipt by the Board of a certificate of the Treasurer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the board may authorize the drawing of a warrant in payment of amounts due upon such contract, but such resolution shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than three thousand dollars, the Treasurer may authorize it to be paid without such affirmation of the board if such expenditure is otherwise valid.

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

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**Report on Accounting Methods**

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**Cash Disbursements**  
(continued)

**Administrative Code Requirements**

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

**School District's Cash Disbursement Process**

The Treasurer's office has the responsibility to ensure that goods and services are received prior to payment. Goods are delivered to the office that originated the order. When goods are received, the Building Secretary pulls the purchase order, verifies the contents of the order to the packing slip and writes on the invoice received in full. The Building Secretary prepares a report for invoices received and each week sends the report and the invoices to the Budgetary Clerk for invoice payment. The report includes the blue copy of the purchase order, the invoice and packing slip.

Invoices for payments are usually processed once a week. Upon receipt of the reports from the Building Secretary, the Budgetary Clerk matches the pink copies held in the Treasurers' office to the blue copies attached the Building Secretary reports. These invoices along with any invoices from the administrative office are compiled into a list by the Budgetary Clerk for the Treasurer to approve for payment. Upon approval from the Treasurer, the Budgetary Clerk prints the checks and the transactions are posted to the expenditure accounts. The checks are signed manually or stamped with the Treasurer's rubber signature stamp. The stamp is kept in the Treasurer's office and can be obtained from the Treasurer or the Treasurer's secretary. The checks have three parts, an original and two copies. The original is mailed to the vendor with the invoice, one copy is sent back to the office where the order originated and one copy is attached to the supporting documents that become the voucher package and is filed by check number in the Treasurer's office. Manual checks are written for insurance and employee pension deductions at the time payroll is prepared and are posted to the check register.

Although the School District does not have a written policy, if the invoice amount exceeds the purchase order amount, the Budgetary Clerk is allowed to modify and pay the invoice without the use of a then and now certificate.

The Budgetary Clerk maintains a daily hand written check log that records check number batches printed and the date. Voided checks and manual checks used to pay payroll deductions are to be entered on this check log, however, at the present time voided and manual checks are not being entered on this check log. Unopened boxes of blank checks are kept in a locked cabinet and one open box is kept in the cubicle of the Budgetary Clerk.

A computer generated, monthly, detailed check pay report and a summary check register of all checks written except manual checks are printed at the end of each month and filed in the Treasurer's office.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Cash Disbursements**

(continued)

**Auditor of State Comments**

1. The use of a “Then and Now Certification” should be completed for invoices exceeding the original purchase order amount and those purchases without prior fiscal officer certification. This policy should be established by the Board and include amounts.
2. The Treasurer should review the Daily Check Log to ensure that the use of all checks, including voided checks are recorded properly and the supply of blank checks should be properly safeguarded.
3. The School District allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the Treasurer should request, by resolution, Board approval of an advance from the general fund. The resolution should state how and when the advance will be repaid.
4. The School District’s policy manual should be updated to include the timely payment of obligations, the approval process, and the segregation of duties. In addition, the procedures used in the review and processing of invoices for payments should be documented and on file in the treasurer’s office.

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**Report on Accounting Methods**

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**Payroll Processing**

**Description of an Effective Method of Payroll Processing**

The processing of payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and Federal and State taxes should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain current contracts, information of the benefits that the employee has selected, withholding forms and any other information required by Federal and/or State laws. Safeguards should be in place to ensure that the same individual does not hire personnel, authorized pay rates, process payroll, generate and distribute pay checks, and reconcile the bank accounts.

**Statutory Requirements:** The following State statutes apply:

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

Sections 3307.01, 3307.381, 3307.51, 3307.53, and 3307.56, Revised Code, for State Teachers Retirement (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 all school employees and Section 3319.084, Revised Code, for classified employees, provide for minimum vacation and sick leave to be granted to affected employees, and indicates the procedures for paying the employees for leave balances credited to them upon separation from service. However, bargaining agreements may provide for more or less time.

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

**School District's Payroll Processing Procedures:**

The School District pay period begins on Sunday and ends on Saturday, fourteen days later. Payroll is processed on a biweekly basis for approximately 480 full and part time employees, including substitutes. Extra pay for certified teachers who work as detention monitors or for home school tutoring is included in their

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**Report on Accounting Methods**

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**Payroll Processing**  
(continued)

regular pay. All employees receive their compensation over 26 pays from July to June not as it is earned. Classified employees receive a separate longevity check in April and an attendance bonus in August. Certified employees receive an attendance bonus at the end of each grading period. There is no payment for unused vacation; vacation leave is lost if not used by the end of the school year.

Certified employee's salaries and benefits are governed by a negotiated agreement between the East Liverpool Education Association OEA/NEA. The contract covers the period of September 1, 2001 to August 31, 2004. Salaries and benefits for the classified employees are governed by a negotiated agreement between the East Liverpool Board of Education and the Ohio Association of Public School Employees. The present contract was originally approved for the period from September 1, 2002 through August 31, 2003. The classified employees are currently in negotiations for a new contract.

The Superintendent's office prepares the individual contracts for certified and classified employees. Contracts are normally mailed after Board approval at the April meeting. These contracts establish the hourly or annual rate of pay for each employee and the number of hours per day to be worked. Contracts must be signed and returned to the superintendent's office within ten days of the date mailed. The Superintendent's secretary enters the contract amounts on the front of each personnel file. As contracts are returned, the Assistant Treasurer is sent any new information necessary to update the payroll information. Certified and classified contracts are kept in individual employee files in the Superintendent's office.

Payroll tax and retirement forms are given to new employees to be completed, signed and returned to the assistant treasurer. The Assistant Treasurer then enters the information into the computer. If employees need to change their payroll tax or retirement information, they can obtain the appropriate form from the Assistant Treasurer who then enters the information into the computer. All withholding and the various deduction forms are kept in the Treasurer's office.

The Treasurer's secretary posts vacation, personal and sick time used in the payroll system from the attendance and leave forms provided by the building secretaries. The payroll system automatically updates the balances. A report is printed and reviewed to ensure that there are no errors in the balances being carried on the computer.

Hourly employees must complete a time sheet for each pay period. Time sheets list date, hours worked, and job position. Supervisors review and approve the time sheets. The Assistant Treasurer recomputes all time sheets for accuracy and resolves discrepancies with the supervisor. The time sheets are filed in the Treasurer's office by pay period.

The Assistant Treasurer verifies all time sheets of all employees are coded to the proper funds and accounts through a master pay list which shows each employee's name and their rate of pay. If an error is found it is corrected immediately so that the proper account is charged. Employees being paid from the various grant programs can be monitored through a report prepared by the grant administrator. This report includes the name of the grant, fund, account number, employee name, estimated wages and deductions to be paid.

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**Payroll Processing**  
(continued)

Supplemental contract employees must have a Supplemental Employment form completed in order to process their payroll. Preference for the award of supplemental contracts is given to teachers. Supplemental employees are paid in November, January, March and May, upon the completion of the contract. Some supplemental employees are paid on an hourly basis up to the contract maximum. All supplemental contracts are approved by Board resolution. Supplemental employees complete a time sheet for hours worked. The athletic director reviews the form for coaches, checking dates, time, and totals and resolves any discrepancies with the assistant Treasurer.

All substitute teachers are approved by the Board. A signed contract that includes the daily rate of pay is included in each personnel file in the Receptionist's office in the administration building. Substitute teachers receive \$70 per day and \$35 for a half day. A substitute call out list is created monthly according to Board minutes. When a substitute accepts an assignment, the administration building receptionist records the name of the building they will work at, who they are replacing and how many days they will work. These sheets are sent to the Assistant Treasurer daily. Each substitute completes an Employee Statement of Employment for each day they work. These forms are returned to the Building Secretary daily for review and sent with a report to the payroll person. The payroll person reviews the report for accuracy, compares it to the daily call log and resolves any discrepancies before payroll is processed.

Overtime sheets must be completed for each employee requesting additional pay. Each sheet must be approved by the supervisor or the building principal before being sent to payroll for processing. The Assistant Treasurer reviews the time sheets for math errors and to ensure that the form is correct. Any discrepancies are resolved before the payroll is processed.

All payroll information must be received by Tuesday following the last day of the pay period. The Assistant Treasurer begins entering payroll on Wednesday and continues until all documents are processed. Payroll information including changes, if any, are entered into the payroll system throughout the first week of the payroll processing cycle. On Wednesday of the second week of the processing cycle, the Assistant Treasurer prints checks and runs final payroll reports.

The School District uses State software to process payroll. All checks are kept in a box beside the desk of the assistant treasurer who prepares payroll. The signature stamp is kept in the Treasurer's office and can be obtained from the treasurer or the Treasurer's secretary. A zero balance checking account is used for payroll.

The system calculates the payroll and the deductions. The payroll check stub contains the detail of gross pay and deductions. A deduction report is printed each payroll period with the check number, check date and amount, employee number, gross pay, deductions and net pay. Checks are printed and mailed for all other deductions.

When a permanent Treasurer is in place the Assistant Treasurer takes the printed payroll checks and runs them through a signature machine and an additional machine that bursts the checks apart. The Administrative Assistant then manually folds them and gives them to the Treasurer's secretary to put in envelopes and disburses to the different offices. While the Interim Treasurer is presiding, upon receipt of the payroll checks from the Assistant Treasurer, the Administrative Assistant separates the checks by department and gives

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**Payroll Processing**

(continued)

then to the Treasurer's secretary. The Treasurer's secretary stamps the checks with the signature stamp, puts the checks in envelopes and sends them to the respective buildings and offices to be distributed by the building secretaries.

Unless otherwise notified, all employees pick up their checks from the building in which they work. Payroll checks for the substitute teachers are mailed out on Wednesday.

If an employee is absent on a payday, unless other arrangements have been made, the check will be returned to the Treasurer's secretary to be mailed to the employee or kept at the building where the employee works until they return to work.

**Auditor of State Comments**

1. The procedures used to process payroll should be documented and on file in the treasurer's office. It should also address the segregation of duties of staff involving the payroll process.
2. The supply of blank checks for the payroll should be properly safeguarded.
3. The School District should ensure that absence sheets are prepared by employees, approved by the proper supervisor, and sent to the treasurer's office by the principal or department heads in a timely manner.
4. Personnel files for substitute teachers should be kept in the superintendent's office rather than in the receptionist's office of the administrative building to ensure the safekeeping of all employee records.
5. The only employee in the School District that can process payroll is the Assistant Treasurer. The School District should have another employee trained to perform the entire payroll process.
6. The School District should ensure that each employee sign his/her own time sheet.

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**Report on Accounting Methods**

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**Debt Administration**

**Description of an Effective Method of Debt Administration**

The issuance of debt is strictly controlled by State statute. Before any debt is issued, a resolution authorizing the issuance of debt should be passed by the School Board. The statute authorizing the issuance should be identified in the resolution as well as the purpose of the debt, the principal amount, the maturity, interest rate, and the source of revenue to be used for repayment. Debt instruments should be signed by the president or vice president of the Board of Education and the Treasurer. Debt proceeds should be receipted into a separate fund when appropriated and used only for the purpose specified in the authorizing resolution. Money to be used for debt payment may be receipted in a separate fund created specifically for debt retirement. Care should be taken to insure the timely payment of both principal and interest.

**Statutory Requirements:** General statutory guidelines regarding the issuance of debt are found in Chapters 133 and 5705 of the Revised Code. Specific statutes relating to school districts are found in Title 33. The statutory requirements vary depending on the nature of the debt being issued.

**School District's Debt:** The School District's outstanding debt at February 29, 2004 was \$9,971,232 and consists of the following:

	<u>Interest Rate</u>	<u>Principal Outstanding 2/29/2004</u>
<b>General Obligation Bonds</b>		
2003 Permanent Improvement Bonds	0.00%	\$7,900,000
<b>Loans</b>		
1997 Honey Well	5.00%	356,740
2004 Solvency Assistance	0.00%	1,694,072
<b>Capital Lease</b>		
2002 Ikon	4.36%	<u>20,420</u>
Total		<u><u>\$9,971,232</u></u>

The payment of principal and interest on the bonds is provided by property taxes accounted for in the Debt Service Fund. The lease is paid out of the debt service fund with resources transferred from the general fund.

During fiscal year 2004, the School District received a Solvency Assistance Fund advance from the State. The Solvency Assistance Fund advances money to school districts that are in fiscal emergency or that meet one or more of the nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance is repaid over two years with State foundation revenues.

**Auditor of State Comments**

All debt agreements and amortization schedules should be kept current and located in the Treasurer's office.

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**Report on Accounting Methods**

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**Capital Assets and Supplies Inventory**

**Description of an Effective Inventory of Capital Assets and Supplies**

Capital assets of the School District should be adequately safeguarded against loss or theft. The School District should have a policy that defines capital assets, establishes capitalization thresholds, minimum useful lives, policies relating to the system, methods to be used in tracking capital assets, how to assign assets to programs and the recording of depreciation. An inventory should be maintained including a description of each item, its cost, serial and/or model numbers, date of purchase, location, useful life, salvage value, the annual depreciation amount, fund and account purchased from, tag number, whether the item is leased, current year depreciation and the accumulated depreciation. The inventory should be updated throughout the year for purchases and disposals. Verification of the listed assets should be performed periodically. The disposal of an asset should be properly authorized and reported to the Treasurer so that any proceeds from the disposal can be properly recorded, the asset can be removed from the capital asset listing, and insurance coverage can be discontinued.

Consumable materials and supplies lose their original shape or appearance with use. Examples include office supplies, gasoline, cafeteria supplies, food and donated commodities. A physical inventory of materials and supplies should be performed periodically to insure that items purchased are on hand or have been used. In addition, a physical inventory of all material items should be conducted for reporting in the School District's financial statements.

**Administrative Code Requirements**

Section 117-2-02 (D)(4)(c) of the Ohio Administrative Code requires that the school district maintain Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location and tag number.

**School District's Method of Accounting for Capital Assets:**

The Board has adopted a policy which states that the Board will maintain an inventory of all School District owned equipment and supplies, annually. 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 School District's last overall update to the capital assets list was done by Industrial Appraisals Inc. in 2001.

All capital assets are purchased from an object code of 600 or 700. When the capital assets are received, it is delivered to the ordering school building. Capital assets are disposed of by each school building.

**School District's Method of Accounting for Supplies:**

The building Food Service Supervisors complete inventory reports and provide them to the Food Service Supervisor. The inventory is maintained by the Food Service Supervisor using an excel spreadsheet. The Food Service Supervisor uses the spreadsheet information to complete the State Child Nutrition reports online which are submitted to the State Department of Education.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Capital Assets and Supplies Inventory**

(continued)

**Auditor of State Comments**

1. The School District should revise its policies for school owned equipment to include a definition of a capital asset, the capitalization threshold, the value assigned to donated assets, salvage values, private property (items belonging to staff and students), disposal of assets, and how accountability should be maintained. The policy should be approved, signed and dated by the Board.
2. The School District should utilize standard forms for capital asset purchases, transfers and deletions.
3. The School District should have all capital asset additions delivered to a central location so that the capital asset may be tagged and identified before distribution to the individual school buildings.
4. The School District's consumable inventory policy should be updated to include the counting of inventory at fiscal year end. The policy should include a standard form for counting fiscal year inventory.
5. The School District should use one person to purchaser consumable inventory and store the items purchased in a central location for distribution to the various school buildings as needed.
6. The School District should update the capital asset list at least annually to include current year additions and deletions and to support the amounts reported in the financial statements. In addition, any disposals, auctions, sales or trade-ins should have Board approval.
7. The School District should use the USAS capital asset system to track capital assets.

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**Cash Management and Investing**

**Description of an Effective Method of Cash Management**

Cash received by a school district should be deposited in a central bank account. Monies for all funds should be maintained in the account or temporarily used to purchase investments. Reconciliations should be completed for all accounts on a monthly basis. The books should be closed at the end of the last business day of the month and processing of transactions for the new month should commence the following business day.

The reconciliations should be completed immediately upon receipt of the bank statement. Reconciling items should be specifically identified and listed with supporting documentation attached. Reconciling items such as unrecorded deposits and bank charges should be posted upon completion of the bank reconciliation.

**Statutory Requirements:** Interim cash should be invested according to Section 135.14 of the Revised Code. The deposits of public money should be insured and/or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes. Cash management and investment activities of a school district are additionally governed by Sections 135.01 to 135.22, 3313.31 and 3315.01 of the Ohio Revised Code.

Section 135.14(O)(1), Revised Code, states, "Except as otherwise provided in divisions (O)(2) and (3) of this section, no Treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the Treasurer or governing board. The policy shall require that all entities conducting investment business with the Treasurer or governing board shall sign the investment policy of that subdivision."

Section 135.14(O)(2), Revised Code, states, "if a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Treasurer or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits pursuant to division (B)(3) of this section, no-load money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section."

Section 135.14(O)(3), Revised Code, states, "Divisions (O)(1) and (2) of this section do not apply to a Treasurer or governing board of a subdivision whose average annual portfolio of investments held pursuant to this section is one hundred thousand dollars or less, provided that the Treasurer or governing board certifies, on a form prescribed by the Auditor of State, that the Treasurer or governing board will comply and is in compliance with the provisions of sections 135.01 to 135.21 of the Revised Code."

Section 135.22, Revised Code, requires the treasurer to attend annual training programs of continuing education for treasurers provided by the treasurer of State.

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

The School District's treasury activities are the responsibility of the Treasurer. These activities include the acquisition and sale of investments and the transfer of cash assets among the various bank accounts. The School District maintains several checking accounts and investments.

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

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**Cash Management and Investing**

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Bank and Account Number

1 <sup>st</sup> National Community Bank	This checking account is used for the general operation of the School District.
National City Bank	This checking account is used for the general operation of the School District.
National City Bank Account #2	This account is used for the accumulation and distribution of funds for payroll of the School District.
National City Bank Account #3	This account is used for the accumulation and distribution of funds for debt of the School District.
National City Bank Account #4	This was used by the Athletics department to pay the referees of the games. This account is off of the School District's books. This account is no longer utilized.
National City Bank Account #5	This account was established for construction activity.
National City Investments	This account is used as an investment of the School District. It contains two components; a cash portion and an investment portion which includes governmental agencies.
STAROhio	This account is used as an investment of the School District.
Home Savings	This is a certificate of deposit of the School District.
Sky Bank	This is a certificate of deposit of the School District.

The 1<sup>st</sup> National Community Bank account receives most of the wire transfers directed to and deposits of the School District. The National City Bank checking account is a deposit account for the receipts of food service, student activities, and athletics. Transfers are periodically made into the general checking account at 1<sup>st</sup> National Community Bank. Checks are written against this account for the daily operation of the School District.

The Treasurer's office reconciles the bank accounts each month. The Treasurer's office clears the cancelled checks for both payroll and accounts payable on the system. The cancelled checks are entered in the system by the actual check number and amount, which allows the Treasurer's Office to review the check for altered amounts. Any discrepancies are noted on the reconciliation report. The reconciled payroll checks are placed in a box in numeric order for storage. The School District only receives a photocopy of the general account's checks. These are kept with the reconciliations.

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**Cash Management and Investing**

(continued)

Voided payroll checks are given to the Administrative Assistant to the Treasurer to be filed. The Assistant Treasurer uses a rubber stamp to mark the check void. The voided check is filed in numeric order with the carbon copies of checks that have been used. The Budgetary Clerk uses the general operations checks for accounts payable. If a mistake is made and a check must be voided she staples the check to a blank piece of paper, marks the check void with a rubber stamp and then files it with the carbon copies of the paid checks in numerical order.

The Treasurer's Office reviews the account coding and verifies the receipt postings to the bank deposits during the monthly bank reconciliation process. Any discrepancies are noted on the bank statement and the receipt report and adjustments are posted upon completion of the reconciliation. The payroll transfers are verified to the transfer statements from 1<sup>st</sup> National Community Bank. Interest is received in the next month.

The investment policy addresses authorized investments and liquidity. The purpose of the investments is to maximize the returns on the School District's excess cash balances consistent with the safety of those monies and with the desired liquidity of the investments. The East Liverpool School Board of Education authorizes the Treasurer to make investments of available monies from the funds of the School District in securities authorized by State Law. Investments made by the Treasurer must mature within five years, unless they are matched to a specific obligation or debt of the School District.

The Board requires the Treasurer to report to the Board monthly a summary of the bank reconciliation and a listing of the investments showing the ending balance, face amount, yield, purchase date, maturity date, purchase price and the earnings at maturity.

The Treasurer, acting in accord with the law, may withdraw funds from approved public depositories or sell negotiable instruments prior to maturity.

**Auditor of State Comments**

1. The Treasurer should review and sign off on bank reconciliations.
2. The National City Bank account for the Athletic department no longer in use should be closed.
3. The Investment Policy should be signed by the Treasurer, dated, and should be updated to address interest allocation.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Financial Reporting**

**Description of Effective Method of Financial Reporting**

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

**Statutory Requirements**

Section 117.38, Revised Code, requires an annual financial report to be certified by the Treasurer and filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year. At the time the report is filed with the Auditor of State, the fiscal officer should publish notice in a newspaper published within the school district. The notice should state that the financial report has been completed and is available for public inspection at the office of the treasurer.

Section 3313.29, Revised Code, requires the treasurer to render a statement to the board and to the superintendent of the school district, monthly, or more often if required, showing the revenues and receipts from whatever sources derived, the various appropriations made by the board, the expenditures and disbursements therefrom, the purposes thereof, the balances remaining in each appropriation, and the assets and liabilities of the school district. At the end of the fiscal year such statement shall be a complete exhibit of the financial affairs of the school district which may be published and distributed with the approval of the board.

**Administrative Code Requirements**

By July 31 of every year, the treasurer shall complete a Form 4502 Annual Financial Report, for the Ohio Department of Education. The report is generated by the system and is transmitted to the Department of Education. School districts are required by Section 117-2-03(B) of the Ohio Administrative Code to prepare and publish an annual financial report in accordance with generally accepted accounting principles (GAAP).

**The School District's Financial Reporting Process**

The School District uses State software through ACCESS; therefore, multiple standard and customized month-and year-to-date reports can be generated. The School District prepares month-and year-to-date reports to use as an audit trail, places them in binders and stores them in file cabinets in the Treasurer's office.

Throughout the year various payroll reports are kept on file in the Treasurer's office. The Cash Basis Annual Financial Report, 4502, is completed by July 20 each year and is transmitted to the State Department of Education.

The Treasurer's office provides the Board with Treasurer's notes, the Superintendent's report, the agenda for the meeting, monthly minutes that need approval, financial reports given according to request of the Board members, resolution copies and exhibit copies. Treasurer's notes are to inform the Board on any financial updates, upcoming meetings and other reports requested by the Board.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Financial Reporting**

(continued)

The School District accounts for its daily operations on a cash basis of accounting. The School District prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The unaudited financial statements are filed with the Auditor of State, Local Government Services Section within 150 days of the end of the fiscal year end.

**Auditor of State Comments**

1. The School 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 duties and responsibilities of the Treasurer in the Policies Manual should be updated to include the filing of GAAP basis financial statements within 150 days after the fiscal year end.
3. The treasurer should provide to the Board and the Financial Planning and Supervision Commission a summary that highlights the monthly budget and actual data, any anticipated amendments to the estimated revenues and appropriations, anticipated cash advances to avoid deficit cash fund balances, and any other events that affect the revenues or expenditures of the School District.

**East Liverpool City School District  
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**Report on Accounting Methods**

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**Recording Official Proceedings**

**Description of an Effective Method of Recording Official Proceedings**

The School District's minutes should reflect full and accurate information to permit the public's understanding and appreciation of the rationale behind the Board's decisions. Minutes of proceedings should be approved at the subsequent meeting. A resolution should be limited to one subject, which should be clearly expressed in its title. Proposed legislation should be drafted and available for all members to read and vote upon. In the adoption or passage of a bylaw or resolution, the yeas and nays should be entered into the minutes and the bylaw or resolution should be signed by the presiding officer and the treasurer. All Board minutes and resolutions should be maintained as a permanent record of the Board.

**Statutory Requirements**

Section 3313.26, Revised Code, requires the Treasurer of the board of education to record the proceedings of each meeting in a book to be provided by the board for that purpose, which shall be a public record. The record of proceedings for each meeting of the board shall be read at its next succeeding meeting, corrected, and approved, which approval shall be noted in the proceedings. After such approval, the president shall sign the record and the Treasurer shall attest to it.

By resolution, a board of education may waive the reading of the record of any of its proceedings, provided that such record has been distributed to the members of the board of education at least two days prior to the date of the next succeeding meeting and that copies of such record are made available to the public and news media. Such regulation shall be in full force and effect until such time as amended or rescinded by said board of education.

Section 122.22, Revised Code, requires the minutes to provide a full and accurate disclosure of the proceedings of Board meetings, except for legally conducted executive session discussions.

**Auditor of State Comments**

1. Minutes of all regular and special meetings should always be read and approved and signed, unless corrections are needed, at the next regular meeting of the Board. The minutes should be completed and signed immediately by the Treasurer and Board President following the meeting at which they are approved. The Board minutes are not approved at each meeting nor are they signed when approved.
2. Minutes are still being revised late into the year even though they have been approved by the Board.
3. The minutes should be bound with sequentially number pages. The Board minutes are missing pages.
4. Attachments to minutes are not kept.
5. Several versions of the same meeting are found with no indication of a revision.

**East Liverpool City School District  
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**Report on Accounting Methods**

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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.

It is our opinion that the current methods of accounting and financial reporting of the East Liverpool City Local School District are not completely in compliance with Chapter 117 of the Ohio Revised Code and the requirements of the Auditor of State as disclosed throughout this report.



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**EAST LIVERPOOL CITY SCHOOL DISTRICT**

**COLUMBIANA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 1, 2004**