



Dave Yost • Auditor of State

**East Knox Local School District
Knox County, Ohio**

Report on Accounting Methods

Local Government Services Section

**East Knox Local School District, Knox County
Report on Accounting Methods**

Table of Contents

Certification	3
Purpose	5
Governance Overview	6
Analysis of School District’s Methods:	
Budgetary Process.....	8
Revenue Activity	13
Purchasing Process.....	19
Cash Disbursements.....	25
Payroll Processing.....	28
Debt Administration.....	37
Capital Assets and Supplies Inventory	39
Cash Management and Investing	42
Financial Reporting.....	46
Recording Official Proceedings.....	48
Conclusion	49

(This Page Intentionally Left Blank)



Dave Yost • Auditor of State

CERTIFICATION

On February 5, 2015, the East Knox Local School District was declared to be in fiscal emergency. Section 3316.10(A), Revised Code, requires that after the declaration of the existence of a fiscal emergency, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports. This report shall indicate whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

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

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

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

DAVE YOST
Auditor of State

August 2, 2016

(This Page Intentionally Left Blank)

East Knox Local School District – Knox County

Financial Accounting Report

Purpose

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

Accordingly, this report addresses the following: (1) whether the current accounting system fulfills the needs of the East Knox Local School District, and (2) whether the current accounting system is in compliance with Section 117.43 of the Revised Code and the requirements of the Auditor of State.

This report presents in narrative form the major transaction cycles of the School District and certain other key activities that affect the accounting and reporting functions. Each section of the report identifies the key elements necessary for an effective system, the related requirements from the Ohio Revised Code and the Ohio Administrative Code, the School District's process, and the Auditor of State's comments for correction or improvement. Information for this report was obtained by interviewing School District personnel, observing operations, and reviewing pertinent accounting, financial and budgetary records.

This report is intended solely for the use of the Financial Planning and Supervision Commission of the East Knox Local School District. We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the adequacy of the accounting system. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

East Knox Local School District – Knox County

Financial Accounting Report

Governance Overview

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

On February 5, 2015, the School District was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. Commission membership is as follows:

1. The director of budget and management or a designee;
2. The superintendent of public instruction or a designee;
3. A resident of the School District with knowledge and experience in financial matters and whose principal place of professional or business activity is situated within the School District, appointed by the County Auditor;
4. A resident of the School District with knowledge and experience in financial matters and whose principal place of professional or business activity is situated within the School District, appointed by the Governor; and
5. A parent with a child enrolled in the School District appointed by the State superintendent of public instruction.

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

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

1. Reviewing or assuming responsibility for the development of all tax budgets, tax levies and bond and note resolutions, appropriation measures, and certificates of estimated resources, to ensure they are consistent with the financial recovery plan;
2. Inspecting and securing pertinent documents;
3. Reviewing, revising and approving determinations and certifications affecting the School District made by the County Budget Commission or the county fiscal officer;
4. Bringing civil actions to enforce fiscal emergency provisions;
5. Implementing steps necessary to bring accounting records, accounting systems and financial procedures and reports into compliance with the Auditor of State's rules;
6. Assuming responsibility for all debt issues;
7. Making and entering into all contracts necessary or incidental to the performance of its duties;
8. Implementing cost reductions and revenue increases; and,
9. Developing a financial recovery plan

The Commission has defined the level of fiscal management and control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06(A)(2) of the Ohio Revised Code. The complete role of the Commission has been addressed in the financial recovery

East Knox Local School District – Knox County

Financial Accounting Report

plan adopted on June 29, 2015, and includes the power to approve contracts entered into by the East Knox Local School District for personal services and employment contracts for all positions other than temporary positions and all purchases in excess of \$5,000.

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

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

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

East Knox Local School District – Knox County

Financial Accounting Report

Budgetary Process

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and type of financial resources that shall be raised, and how those financial resources shall be spent. Annually, a budget consisting of estimated revenues and expenditures for each fund for the next fiscal year should be presented to the governing body with sufficient time for review and public input. The budget should identify the major sources of revenues and the programs, activities and major objects of expenditures. The budget should encompass current operations and maintenance, capital acquisition and replacement, and debt retirement. The budget, once approved by the governing body, should be the basis for the appropriation measure. The appropriation measure should identify by fund the amount of resources authorized to be expended for the various governmental functions and programs. The amount appropriated for each fund should not exceed the estimated resources available in that fund for the year. The estimated revenues and appropriations should be integrated with the accounting system to ensure and demonstrate compliance with the budget and allow for ongoing and timely information on unrealized revenues and balances available for expenditure.

Statutory Requirements

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

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

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

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

East Knox Local School District – Knox County

Financial Accounting Report

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

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

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

Certification of Adequate Revenue: Certification of adequate revenues involves two types of certifications. Certification of routine items under Section 5705.41, Revised Code, is addressed in the Purchasing Process section of this report. Section 5705.412, Revised Code, requires the school district to certify, prior to entering into a qualifying contract, that payment of the obligation will not affect the school district's ability to maintain all personnel and programs for the term of the contract. The certificate is to be attached to the qualifying contract and signed by the Treasurer, Superintendent, and President of the Board. If the school district is in a state of fiscal emergency, the certificate shall be signed by a member of the school district's Financial Planning and Supervision Commission who is designated by the Commission for this purpose. The certificate is to be attached to any qualifying contract.

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

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

Five-year Financial Forecast: Section 5705.391, Revised Code, requires school districts to include five-year projections of operational revenues and expenditures in a five-year forecast. Under Section 3301-92-04 of the Ohio Administrative Code, school districts are to submit the projections to the Ohio Department of Education. The projection must contain the information and be in a format prescribed by the Ohio 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

East Knox Local School District – Knox County

Financial Accounting Report

school district is required to update its five-year projection between April 1 and May 31 and submit it to the Ohio Department of Education. Nothing precludes a school district from filing other updates to its five-year projection at any time in addition to the required filings.

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

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

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

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

School District's Budgetary Process

The School District's Board approved policies regarding the budgetary process provide that annual appropriations shall be developed, approved and filed according to State statute and the requirements of the Auditor of State. The Treasurer is to present the tax budget for the general fund and other funds receiving tax revenues to the Board before January 15th each year. The Board must have at least one public hearing for the budget, giving public notice not less than ten days prior to the hearing. The Board adopts as part of its annual appropriation measure a spending plan setting forth a five-year projection of revenues and expenditures of the general fund. The appropriation measure shall be adopted at the fund level for all funds. According to policy, the Treasurer is required to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the Treasurer's monthly report to the Board.

East Knox Local School District – Knox County

Financial Accounting Report

Prior to January 15, the Board must adopt a tax budget for the fiscal year commencing the following July 1. The Treasurer prepares the tax budget and presents it to the Board for adoption. This budget includes proposed expenditures and the means of financing the expenditures for funds receiving tax revenues (general, debt service, and capital projects funds). The Board meeting in which the Treasurer presents the tax budget to the Board for approval also functions as a public hearing to obtain taxpayer comments. Once the budget is adopted, it is filed with the Knox County Budget Commission no later than January 20. The tax budget for fiscal year 2017 was adopted by the Board on January 7, 2016, and filed with the Budget Commission the following day. The Budget Commission determines the amount of millage and calculates the estimated revenue by levy.

On March 10, 2016, the Board accepted, by resolution, the tax rates as determined by the Budget Commission and received the Budget Commission's certificate of estimated resources for fiscal year 2017.

After the close of the fiscal year, the Treasurer takes the fiscal year-end balances from the Financial Summary report and creates a spreadsheet for the amended certificate showing the beginning available balances and estimated amounts to be received and sends it to the County Auditor for the next fiscal year. The County Auditor will review the amended certificate and sign it. If there are any changes in estimated revenues, the Treasurer will send a request to the County Auditor, and the County Auditor will issue a new amended certificate. When the request is sent to the County Auditor, adjustments to the amended certificate are entered into the accounting system.

On June 23, 2016, the Board adopted the permanent appropriation measure for fiscal year 2017, at the fund level for all funds, prior to the start of the new fiscal year. Both the amended certificate request and the permanent appropriation measure were submitted to the County Auditor on July 1, 2016.

The Treasurer prepares appropriations based upon prior years' history and currently known facts. The Treasurer keeps spreadsheets that track estimated resources and appropriations. The Treasurer compares the spreadsheet of appropriations to the spreadsheet of estimated resources to make sure that the total appropriations do not exceed total estimated resources. The Treasurer submits permanent appropriations to the Budget Commission and requests a corresponding amended certificate of estimated resources for any new or additional estimated revenue available for appropriation. Throughout the year, the Board approves additional appropriations as needed. However, additional amended certificates are requested periodically as needed, either before a change in appropriations or at the same time as the change in appropriations is requested. Each time changes to appropriations or estimated resources are requested, the Treasurer sends the spreadsheets showing the total estimated resources and the total appropriations to the County Auditor along with the requested adjustments. Before the end of the fiscal year, the Treasurer submits the final appropriation measure to the Budget Commission and at the same time submits a request for a final amended certificate of estimated resources. The Treasurer receives a certificate from the County Auditor certifying that appropriations from each fund do not exceed the official estimate of resources. This certificate and the amended certificate are filed in the Treasurer's office. The Treasurer regularly prepares 412 Certificates to certify that the School District has sufficient revenue to support those appropriations.

At the beginning of the year, the Board approves the student activity accounts for programs it wishes to be operational. Appropriations for all student activities are set at the fund level in the appropriation measure, with the Treasurer budgeting for student activities based on historical information. Student activity budget forms are completed by the activity advisors shortly after the beginning of the school year. The form identifies the activity, purpose, planned fundraisers, fund balance at the start of the fiscal year, total estimated revenues, total estimated expenditures and estimated fund balance at the end of the fiscal year. The Treasurer makes modifications as needed throughout the year.

East Knox Local School District – Knox County

Financial Accounting Report

Permanent appropriations are entered into the accounting system after they are approved by the Board. If additional or new appropriations are determined to be necessary, the amounts are entered into the system by the Treasurer and then presented to the Board for approval before submitting the request to the County Auditor.

Once a month, the Treasurer uses Revenue Account Summary (REVSUM) and Appropriation Account Summary (APPSUM) system reports to compare actual amounts to estimated revenues and appropriations. If actual revenues indicate that an increase to the certificate is warranted, the Treasurer will make the necessary adjustments in the system, update the spreadsheet, and request an amended certificate from the County. Actual expenditures may warrant a reallocation of the appropriations among functions within a fund. In this case the Treasurer will simply make the appropriate adjustments in the system. Sometimes actual expenditures require an increase in appropriations, in which case the Treasurer will adjust the system, update the spreadsheet, and give the changes to the Executive Secretary to put in the Board agenda for the next meeting. Each time estimated revenues or appropriations are changed in the system, the Treasurer will again run the REVSUM and APPSUM reports and check that the budgeted amounts in the system tie to the amounts on the spreadsheets for estimated resources and for appropriations. A comparison of grant funds is done when the Treasurer receives notifications of needed budget adjustments for Ohio Department of Education grants. A comparison of other funds is done as needed. Although the Board receives REVSUM and APPSUM reports in the monthly financial packet, the Board is not supplied with a comparison of estimated resources and appropriations when budgets change.

Each year the Treasurer prepares a five-year forecast, including assumptions, that is approved by the Board, the Commission and the Ohio Department of Education Consultant, and filed with the State Department of Education by October 31. An updated five-year forecast is approved in the same manner and filed by May 31. The forecast is filed electronically through State software. The Treasurer keeps the five-year forecast on file in the computer with the documentation that was used to prepare the forecast.

Auditor of State Comments

1. The Treasurer compares appropriations to estimated resources; however, this comparison is not documented or presented to the Board. The Treasurer should document the comparison of appropriations to estimated resources and present the comparison to the Board upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.
2. The Board adopts appropriations and at the same time the Treasurer amends the certificate to support appropriations. Appropriations should be limited to the estimated resources reflected on the amended certificate at the time of adoption. Prior to appropriating the additional or new resources, the Treasurer should request an amended certificate based on reasonable estimates and/or actual receipts.
3. Throughout the year, additional appropriations are entered into the system before approval by the Board. The Treasurer should enter appropriations into the system only after the appropriations are approved by the Board.

East Knox Local School District – Knox County

Financial Accounting Report

Revenue Activity

Description of an Effective Method for Recording Receipts

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

Statutory Requirements

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

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

School District's Receipt Process

The School District's primary sources of revenues include property taxes collected and remitted by the County Auditor and Treasurer, State Foundation program revenues, and Federal and State grants (both of which are remitted to the School District from the Ohio Department of Education). The School District also collects student fees and admissions for athletic events at the various school buildings and charges for school lunches served in their cafeterias. Monies are received by the School District via electronic transfer, in the mail, and through various cash collection sites throughout the School District. The Board policy on the deposit of public funds states that monies collected must be deposited with the Treasurer on the business day following the date of receipt if the monies exceed \$1,000. If monies collected do not exceed \$1,000, they must be deposited with the Treasurer within three business days. Monies need to be safeguarded until deposited. The Board policy on bonding states that the School District shall bond certain employees as determined by the Board and that all other employees handling money shall be covered under a blanket bond. All employees that handle money are covered through the School District's liability insurance. The Treasurer is individually bonded.

East Knox Local School District – Knox County

Financial Accounting Report

The process in the Treasurer's Department for the recording of receipts varies, depending on if the receipt is being directly received by the Treasurer's Department, received via the EZ Pay system, or if it has been received in another department. The Treasurer's Department directly receives some miscellaneous payments. Typically, these payments are received through the mail or by individuals coming into the Treasurer's Department. If cash or a check is received directly by the Treasurer, either in person or by mail, the Treasurer fills out the manual receipt form. The receipt form is pre-numbered and has three copies, white, pink and yellow. The white copy is given to the payee, the yellow copy is used to key the receipt into the system and then stapled to the system receipt form, and the pink copy stays in the receipt book. The Treasurer or Assistant Treasurer prepares a deposit slip and a receipt and locks the deposit in a bank bag. The Treasurer takes the locked bag to the bank, along with the locked bags from the building secretaries and the head cooks, at the end of each day.

At this time, the Treasurer also picks up the previous day's bags and the bank deposit tickets for each deposit from the prior day. The deposit tickets are filed with the corresponding receipt documentation in the Treasurer's office. Each department (Treasurer, building secretaries, cafeterias, and athletics) has at least three bank bags available, so that while one is at the bank, there are others still available for use.

The School District utilizes an online system called EZ Pay. Parents can log in to the EZ Pay website to pay student fees or prepay for student lunches. At the end of each day, EZ Pay deposits the monies received directly into the School District's bank account and sends the Treasurer a listing of payments via email. The Treasurer uses this listing to post receipts to the appropriate accounts and files the listing with the system receipt form.

If a receipt originates in another department, the supporting documentation submitted with the deposit (as described below) is used to key the receipt into the system and this documentation is then attached to the system receipt form. Typically once a week, the Treasurer keys all receipts for the week into the system.

System receipt numbers are assigned automatically. After keying in the receipts for the week, the Treasurer prints each system receipt, matches it to the supporting documentation, and signs it. The system receipts, with supporting documentation including bank deposit tickets, are filed in the Treasurer's Department. The Treasurer also reviews monthly REVSUM reports for all funds.

Building Receipts: The building secretaries handle receipts at the two school buildings. Student activity receipts and school fees/fines are turned in by student activity advisors and students to the building secretaries. The daily receipts are typically deposited the same day, but if they are received late in the day, they will be secured in each school's safe overnight. Once a day, the building secretary fills out a deposit form for monies received. The deposit form lists the most commonly used revenue account codes for the school building, as well as a description of each receipt type. The building secretary writes the total amount received for each receipt type on the appropriate line. The form also includes the date and the amount of the total deposit. The building secretary also prepares a bank deposit slip and places the monies and deposit slip in a bank bag. The building secretary locks the bank bag but has a key to unlock the bag if necessary. The building secretary takes the bank bag to the Treasurer each afternoon, along with the deposit form and other supporting documentation. The Treasurer does not have a key to the bag and takes it to the bank at the end of the day. The bank places the bank deposit ticket in the bags. The Treasurer picks up the bags from the bank the next afternoon, and the receipt process described above is followed.

There is a school safe in the main office of each school. Those School District employees who would need access to the safe have the combination. This includes building secretaries, head cooks, the Athletic Director, and game managers.

East Knox Local School District – Knox County

Financial Accounting Report

Student Activity Receipts: The Board policy on student activities states that the School District shall implement administrative guidelines related to student activity funds. The Treasurer has written guidelines for student activities advisors which are distributed each year, along with the forms needed for student activity recordkeeping.

For student fundraisers, the student activity advisor fills out the Fund Raising Activity Request form and signs the form. The form includes the date, activity group name, account number, purpose of fund raiser, product and method of sale, name and address of company the products will be ordered from, quantity to be ordered, cost per unit, and the proposed profit. If approved, the form is signed by the school principal and the Superintendent. A copy of this form is then sent to the Treasurer's Department and a purchase order for the products is issued.

The student activity advisor collects money from the club members participating in the activity and counts the money. The student activity advisor turns in the money to the building secretary along with a pay-in form on the same day the money is collected. The pay-in form has two copies, white and yellow. The building secretary re-counts the money and includes the monies and pay-in form with the daily building deposit. The Treasurer completes the bottom of the pay-in form when receipting the monies and sends the yellow copy and a copy of the system receipt to the student activity advisor. The white copy of the pay-in form is filed in the Treasurer's office with the system receipt.

Once the fundraiser is completed and all monies have been deposited, the student activity advisor fills out a Sales Summary form which lists the activity group name, account number, purchase order number, type of items sold, vendor name, sale dates, projected income, actual receipts by pay-in date and amount, and actual costs.

Each student activity advisor keeps a folder or binder so that all financial records are on file. The Treasurer sends monthly financial reports to the advisor so that any discrepancies between records can be investigated and resolved.

Receipts from Student Fees and Fines: Student fees include a school fee for the year, participation fees for extracurricular activities, and iPad insurance. All students pay a flat fee that is used to offset the costs of paper and other consumable instructional supplies. The Board sets the fee prior to each school year; for fiscal year 2017, this fee was \$40. Participation fees are charged for students participating in extracurricular athletics or band. All students are charged fines for lost or damaged books.

Student fees and/or fines, other than iPad insurance, may be paid to the building secretaries or through the EZ Pay system. Upon receiving the payment for fees or fines, the building secretary fills out a three-copy handwritten receipt. The white copy of the receipt is given to the student, and the yellow copy is attached to the daily deposit form and the pink copy remains in the receipt book. Each student in the School District is issued an iPad for use during the school day. If the student chooses to take the iPad home, rather than turn it in at the end of each day, they must purchase insurance on the iPad in case it is lost or damaged. The building secretaries maintain a spreadsheet listing each student and if they have declined to take the iPad home or if they paid insurance. The building secretaries also keep a printed copy of this spreadsheet in the office, which is used to write declined or paid, and the method of payment. If a student's fees have been paid through EZ Pay, the student's Power School account is automatically credited.

The School District uses the Power School software system to track each student's fees owed and paid. At the beginning of the school year, the EMIS coordinator uploads a list of students into Power School and the system assigns school fees to each student. The building secretaries then manually review the system and remove fees for students who are not to be charged, such as those that attend the Knox County Career Center or are eligible for free lunch. At the beginning of the school year and each sport season, the Treasurer

East Knox Local School District – Knox County

Financial Accounting Report

receives rosters of students participating in extracurricular activities from the Athletic Director. The Treasurer uses the rosters to enter participation fees into each student's account. The past due fees and fines are listed on student grade cards, which are issued every nine weeks. Students are not permitted to participate in graduation ceremonies unless all fees and fines are paid. A letter is sent during the spring semester to each senior who has past due fees. The letters are sent weekly through the end of the school year until all fees and fines have been paid.

The Board policy on student fees, fines, and charges defines fees and fines, addresses the handling of such monies, and indicates a general reasonableness for fines and fees.

Athletic Event Receipts:

The School District charges an admission fee for junior/senior high school athletic events. The ticket sellers are usually paid adults, who are employees of the School District. When a ticket is sold, a ticket is given to the buyer. The unsold tickets (tickets are pre-numbered) are kept in a locked cabinet in the Athletic Director's office.

The ticket seller is responsible for counting the money and completing the ticket sales form which is used to reconcile cash received to tickets sold. This form includes the type of event, date, ticket type (student, adult, or student athlete), ending ticket and beginning ticket numbers, ticket price, amount of ending change and the signature of the ticket seller. Beginning and ending tickets are attached to the report. The ticket sales form is checked and initialed by a second individual, generally the Game Manager. The Athletic Director also reviews and signs the form. The Game Manager or Athletic Director fills out a pay-in form and deposit slip and then puts the monies and deposit slip into a locked bank bag. Either the Game Manager or the Athletic Director then place the bank bag in the school safe overnight or they take it directly to the bank and use the night depository if the athletic event is on the weekend. If the bank bag is locked in the school safe overnight it is then delivered to the Treasurer the next day, along with the ticket sales form and pay-in form. If the night depository is used, then the ticket sales form and pay-in form are delivered to the Treasurer on the next business day. The Treasurer completes the bottom half of the pay-in form, sends the yellow copy of the pay-in and a copy of the system receipt to the Athletic Director, and the receipt process described above is followed.

Cafeteria Receipts:

Students pay for lunch with cash daily, or they may prepay. Breakfast is free of charge to the students because the School District qualifies under federal guidelines. Students can prepay by submitting cash or checks to the building secretaries or to the lunchroom cashiers. The building secretaries or the cashiers credit the student's account and include the money with their daily deposit.

The School District uses a point-of-sale system, NutriKids, for tracking student school breakfast and lunch sales. Each student in the School District is entered in the system. The system contains information including the student's name, grade, eligibility status (free, reduced or fully paid), pin number and a picture of the student. The system updates and tracks each student's lunchroom account balance.

All students are given an identification number that when entered into the pin pad brings up their account for the Head Cook, who serves as the cashier. If the Head Cook is absent, one of the cooks can serve as cashier. The cashier enters either a regular lunch or ala carte items and then the total is shown as paid if the student has a prepaid balance on their account or if they are eligible for free lunch. If the student has not prepaid and is not eligible for a free lunch, the student gives their lunch money to the cashier.

East Knox Local School District – Knox County

Financial Accounting Report

At the beginning of the school year, the Treasurer issues each school cafeteria change and it is placed in the cash register of each cafeteria. The NutriKids system generates lunchroom reports which total meals served and monies collected. The employee serving as cashier for each register counts the money and closes out and balances the cash register at the end of each lunch period. Two people count the money from each register and the Head Cook prepares a deposit slip. The Head Cook places the deposit slip and the monies into a bank bag and locks the bag. The Head Cook has a key to unlock the bag if necessary but the Treasurer does not. The bank bag and the Day End report are taken to the Treasurer and the procedure described above to deposit the money with the bank and record receipts in the system is followed. The change money stays in the locked cash register throughout the school year. At the end of the school year, the change money is removed from the cash registers and is returned to the Treasurer to be counted, receipted in, and is then re-issued the following fiscal year.

The NutriKids system automatically posts the amounts from the Day End reports into a monthly Period End report. The Head Cook at the junior/senior high school also has access to the NutriKids reports from the elementary school cafeteria. The Head Cook at the junior/senior high school uses the Period End reports for both schools and current month enrollment figures obtained from the EMIS coordinator to complete the Site Claim Form reports. The Head Cook submits the Site Claim Form reports electronically through NutriKids to the Ohio Department of Education for Federal and State meal subsidies. The subsidies are received via wire transfer and a system receipt is posted by the Treasurer, in the same manner as other payments from the Ohio Department of Education, as described below.

Treasurer's Department:

The Treasurer's Department receives State foundation, property taxes and allocations, and most Federal and State grants by electronic transfer. Typically once a week, the Treasurer reviews the Ohio Department of Education (ODE) website for online payments and then matches those to the online activity reports for the bank account where wire transfers are received. Supporting documentation, such as the foundation settlement sheet, property tax settlement sheet, or ODE payment detail report is printed and the Treasurer uses them to determine the proper account codes for posting the receipt. The Treasurer enters a system receipt for posting gross receipts and books any deductions, such as administrative fees, as memo expenditures.

Receipt of State Foundation: State Foundation monies are wire-transferred bi-monthly from the ODE. The State Foundation settlement sheets which identify the various sources of State aid are printed from the ODE's web page by the Treasurer. Generally, foundation settlements include restricted and unrestricted receipts and tuition payments from other school districts. ODE also deducts from each settlement the pension contributions and tuition payments due to other school districts and community schools. The Treasurer identifies the proper accounts for posting the revenue and deductions based upon the State Foundation settlement sheet. The Treasurer attaches the State Foundation settlement sheet and a pension contribution distribution report to the system receipt and files them in the Treasurer's office.

Receipt of Property Taxes: The Treasurer identifies the proper account codes for gross property tax receipts and deductions based upon the tax settlement sheet received from the County Auditor and keys the receipts into the system.

Receipt of Property Tax Allocations: Homestead and rollbacks are wire-transferred twice a year. The Treasurer identifies the account codes based upon the tax settlement sheet received from the County Auditor and keys the receipts into the system.

East Knox Local School District – Knox County

Financial Accounting Report

Receipt of Grant Monies: The School District participates in various Federal and State grant programs. The Treasurer enters the budget for each grant into the ODE website under the Comprehensive Continuous Improvement Planning (CCIP) System. The CCIP System is a unified grants application and verification system provided by the ODE. When cash is needed from a particular grant the Treasurer completes an on-line CCIP Project Cash Request.

After submitting project cash requests, the Treasurer checks the ODE website to view the CCIP grant monies that were wire-transferred to the School District's bank account. The ODE website has a "Details" button that can be clicked for each payment that provides detailed receipt information for that specific ODE payment. By reviewing the detailed information, the Treasurer can identify the grant. The Treasurer prints the web page showing the project cash request, compares it to the transfer activity per the bank to verify that the money was received, writes a receipt for the grant proceeds, and staples the printed system receipt to the printout of the project cash request.

Local grant monies are received in check form by the Treasurer. Upon arrival at the Treasurer's office, the process for receipts received in the mail described above is followed.

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

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

Statutory Requirements

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

Certification of the Fiscal Officer: Pursuant to Revised Code Section 5705.41(D), 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. 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 fiscal officer's certification be secured at the time a purchase order is issued or a contract is executed. If timely certification was not obtained, contracts or purchase orders may be certified at the time of payment but the certification must indicate that both at the time the order was placed (then) and at the current time (now) a sufficient sum was appropriated for the purpose of such a contract and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. Payments greater than \$3,000 are to be approved by resolution of the Board.

East Knox Local School District – Knox County

Financial Accounting Report

Major Contracts: Section 5705.412, Revised Code, provides definitions for qualifying contracts and states that no school district shall make any qualifying contract or increase any wage or salary schedule unless there is a signed certificate attached thereto that the school district has sufficient revenue to enable the school district to both pay the contract and maintain all personnel and programs for a specified number of days. A certificate attached to any qualifying contract shall cover the term of the contract; a certificate attached to a wage or salary schedule shall cover the term of the schedule. The certificate shall be signed by the Treasurer, and president of the Board 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 school district's financial planning and supervision commission.

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

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

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

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

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

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

Section 9.231(A)(1), Revised Code, provides that a governmental entity shall not disburse money totaling \$25,000 or more to any person for the provision of services for the primary benefit of individuals or the public and not for the primary benefit of a governmental entity or the employees of a governmental entity, unless the contracting authority of the governmental entity first enters into a written contract with the person that is signed by the person or by an officer or agent of the person authorized to legally bind the person and that embodies all of the requirements and conditions set forth in Sections 9.23 to 9.236 of the Revised Code. If the disbursement of money occurs over the course of a governmental entity's fiscal year, rather than in a lump sum, the contracting authority of the governmental entity shall enter into the written contract with the person at the point during the governmental entity's fiscal year that at least \$75,000 has been disbursed by the governmental entity to the person. Thereafter, the contracting authority of the governmental entity shall enter into the written contract with the person at the beginning of the governmental entity's fiscal year, if, during the immediately preceding fiscal year, the governmental entity disbursed to that person an aggregate amount totaling at least \$75,000.

East Knox Local School District – Knox County

Financial Accounting Report

Findings for Recovery Database: Ohio Law (ORC section 9.24) prohibits any state agency or political subdivision from awarding a contract as described in division (G)(1) of this section 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. Division (G)(1) states that this section applies only to contracts for goods, services, or construction that satisfy either of the following criteria: (a) the cost for the goods, services, or construction provided under the contract is estimated to exceed \$25,000 or (b) the aggregate cost for the goods, services, or construction provided under multiple contracts entered into by the particular state agency and a single person or the particular political subdivision and a single person within the fiscal year preceding the fiscal year within which a contract is being entered into by that same state agency and the same single person or the same political subdivision and the same single person, exceeded \$50,000.

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.

Delinquent Personal Property Taxes: Section 5719.042, Revised Code, provides that after the award by a taxing district of any contract let by competitive bid and prior to the time the contract is entered into, the person making a bid shall submit to the School District's fiscal officer a statement affirmed under oath that the person with whom the contract is to be made was not charged at the time the bid was submitted with any delinquent personal property taxes on the general tax list of personal property of any county in which the taxing district has territory or that such person was charged with delinquent personal property taxes on any such tax list, in which case the statement shall also set forth the amount of such due and unpaid delinquent taxes and any due and unpaid penalties and interest thereon. If the statement indicates that the taxpayer was charged with any such taxes, a copy of the statement shall be transmitted by the fiscal officer to the County Treasurer within thirty days of the date it is submitted. A copy of the statement shall also be incorporated into the contract, and no payment shall be made with respect to any contract to which this section applies unless such statements has been so incorporated as a part thereof.

Financial Planning and Supervision Commission - Under Section 3316.07, Revised Code, the Commission assumes the power to approve personal service, employment and collective bargaining contracts, approve all contracts above \$5,000, and have all purchase orders reviewed by the fiscal monitor.

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

The Board has adopted formal policies for the purchasing process. The policies address procedures for receiving quotations and bids, soliciting and awarding bids, issuing "Then and Now" purchase orders and issuing blanket and super blanket purchase orders.

When goods or services are needed at a school building, a requisition form can be obtained on the School District's website under the staff login area, from a building secretary or from the teachers' workroom. The employee fills out the requisition form, signs it, and submits it to the building secretary. The requisition

East Knox Local School District – Knox County

Financial Accounting Report

includes the date of request, the vendor name and number, the description and quantity of items requested, the price and any shipping costs, and the appropriate account codes to be charged. The building secretary gives the requisition to the school principal for approval. After the school principal signs the requisition form, the form is given back to the building secretary, who typically enters the requisition into the USASWEB (State software) system. If the address is missing, the building secretary places a sticky note on the requisition and the Assistant Treasurer later enters it into the system. When a building secretary enters the requisition into the system, a requisition number is written on the form. The requisition number is the building secretary's initials followed by a number assigned in sequence to that building's requisitions. Next, the building secretary marks on the requisition "BOE" and the date that it is sent to the Board Office. Then the building secretary makes a copy of the requisition and files the copy in the desk. The original requisition is placed in a box to be taken to the Board Office, where the requisition is given to the Superintendent to approve and sign. The Assistant Treasurer fills out the account codes upon receipt of the requisition, if the appropriate codes have not already been identified by a building secretary, and the Treasurer reviews the account codes. The Assistant Treasurer enters any requisitions that have not yet been entered into the system, or if necessary, changes account codes on a requisition already entered in the system.

Active vendors are maintained in the system. The Assistant Treasurer and the Treasurer are the only individuals who can add new vendors to the system, and the system automatically assigns the vendor a number. For new vendors, a building secretary calls the Treasurer's department to request a new vendor. When an order is placed with a new vendor, the vendor's W-9 is requested, and the invoice will not be paid until a W-9 is received. Hard copies of vendor W-9's are filed alphabetically in three-ring binders in the Assistant Treasurer's office. The Assistant Treasurer also has a spreadsheet logging which vendors have a W-9 on file, sorted by vendor name.

The Assistant Treasurer converts the requisition information that has been entered into the system to a purchase order. Purchase order numbers are assigned automatically by the system. The requisition form has space to write in the purchase order number once the requisition has been converted. The posting of the purchase order automatically records an encumbrance in the system. The purchase orders are printed out by the Assistant Treasurer. The purchase orders are printed with the signatures of the Treasurer and the Superintendent. The Treasurer initials the purchase orders. The Superintendent also initials any purchase orders for which the Superintendent did not sign the requisition (this occurs in situations such as when the Treasurer creates a purchase order for a Medicare payment). Purchase orders are used for all purchases and contracts of the School District.

The Ohio Department of Education Fiscal Consultant must also approve purchase orders since the School District is in fiscal emergency. Each week, the Treasurer emails the Ohio Department of Education Fiscal Consultant a Purchase Order Detail report listing in numerical sequence the new purchase orders created that week, and the Fiscal Consultant responds with approval by email. If a purchase order is more than \$5,000 from the general fund, it must be approved by the Financial Planning and Supervision Commission.

If a requisition is entered for an amount which exceeds appropriations, the computer system gives a warning when the Assistant Treasurer runs a validation before creating a purchase order. If the warning is due to negative balances in the grant accounts, the Assistant Treasurer will go ahead and create the purchase order, since the Treasurer requests grant money after the money is spent. If the warning was due to a legitimate lack of appropriations, the Assistant Treasurer would not create the purchase order and would give the requisition to the Treasurer to resolve with the building secretary. If the warning is due to a mistake in entering the purchase order, the Assistant Treasurer can simply cancel the purchase order and create a new purchase order.

East Knox Local School District – Knox County

Financial Accounting Report

The Assistant Treasurer prints three copies of the purchase order form. The green copy is attached to the requisition form and placed on the appropriate shelf with other open purchase orders. The white copy can be returned to the requisitioner or mailed or faxed directly to the vendor at the instruction of the requisitioner. (The requisition form has options for the purchase order to be returned to the requisitioner, if they intend to place the order, or for the purchase order to be mailed or faxed to the vendor.) The yellow copy is sent to the appropriate building to be used as a receiving order. For items shipped to the Board Office, the Assistant Treasurer keeps the yellow copy of the purchase order in his office.

The School District purchases goods and services with blanket and super blanket purchase orders as needed. For the School District, such purchase orders are used in areas such as food service, utilities, custodial supplies, and transportation. Expenditures made against blanket purchase orders are tracked by the Assistant Treasurer. The system also tracks blankets, showing the remaining encumbrance and the total amount paid to date. If remaining funds on a blanket purchase order are not sufficient to cover an invoice, the Treasurer creates a “Then and Now” purchase order before paying the invoice. The Board policy identifies a maximum amount of \$3,000 for a blanket purchase order, and no maximum amount for a super blanket purchase order.

“Then and Now” purchase orders are prepared for purchases without prior approval. The employee responsible for the order is notified and requested to process a requisition or take responsibility to pay for the purchase. Usually the building secretary creates the requisition; otherwise, the Treasurer’s Department will create the requisition. Upon approval of the requisition, a “Then and Now” purchase order is created for the invoice and approved by the Treasurer. However, the use of “Then and Now” purchase orders are only approved if the purchase was necessary and appropriations were available at the time of purchase and are available now, and the Treasurer indicates approval by initialing and dating the purchase order and writing “Then Now”. If not, the amount is not approved and the employee who initiated the purchase is responsible for the payment. “Then and Now” purchase orders are typically used only on occasion for situations in which immediate maintenance or repairs are needed, or for situations in which the requisitioner forgot to include an allowance for shipping costs on the requisition, if the amount is \$10 or more over the purchase order.

About every other month, and more frequently near the end of the fiscal year, the Treasurer reviews a list of the open purchase orders (Purchase Order Detail report) to determine whether a purchase order should be closed or whether invoices still exist against the purchase order. The Treasurer checks with the people who initiated requisitions about open purchase orders that they may not need anymore. Any unneeded purchase orders are closed along with the corresponding encumbrances. At fiscal year end, if invoices still exist against an existing purchase order, that purchase order will be carried over to the following fiscal year.

It is the Board policy that purchases or contracts over \$10,000 but under \$25,000 generally are based on at least two price quotations. Contracts which exceed \$25,000 are given to the Treasurer to make the necessary arrangements for public bidding. The Board authorizes the School District to advertise for bids. First, the Treasurer works with someone closely related to the project, such as the bus mechanic for bidding buses, to determine the specifications. The Treasurer also checks with the Superintendent and anyone else who is working closely with the contract about setting a date for the bid opening. The Treasurer puts a legal notice in the newspaper advertising the bid opportunity for at least two weeks. Interested vendors can contact the Treasurer for information about a contract that is up for bid. Bids are received by a set date for a bid opening. The Treasurer prepares a bid tabulation sheet in advance based on the interested vendors who contacted the Treasurer for information. The bids are opened and the vendors and bid amounts are recorded. The Treasurer and the Superintendent and anyone else who is working closely with the contract review and discuss the information. The Superintendent makes a recommendation to the Board. The Board, by resolution, awards the contract. The Treasurer notifies by phone call the vendor awarded the contract. Vendors who are not awarded the contract are notified by phone call or by email. Bidders submit as part of the bid packet a statement affirmed under oath that the person with whom the contract is to be made was not charged at the time the bid was submitted with any delinquent personal property taxes on the general tax list of personal

East Knox Local School District – Knox County

Financial Accounting Report

property of any county in which the School District has territory. Bidders for capital projects are not asked to certify that they are aware of and in compliance with Revised Code Section 3517.13 regarding campaign contributions. The Treasurer performs a search of the Findings for Recovery Database for all contracts that are bid out. The Treasurer also prepares a 412 Certificate for contracts, certifying that the School District has sufficient revenue to support those contracts. Contracts are reviewed and signed by the Treasurer.

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

Cash Disbursements

Description of an Effective Method for Accounts Payable and Cash Disbursements

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

Statutory Requirements

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

Restrictions - Money is drawn from the school district treasury only on appropriations enacted by the Board. Appropriations from each fund may be used only for the purposes of such fund. Under Section 3313.51, Revised Code, no monies of a school district shall be paid out except on a check signed by the Treasurer. The Treasurer shall preserve all vouchers for payment for a period of ten years (Section 3313.29, Revised Code) unless copied or reproduced according to the procedure prescribed in Section 9.01 of the Ohio Revised Code.

No Certification - If no certificate of available funds was furnished as required, upon receipt by the Board of a certificate of the Treasurer stating that there was at the time of the making of such contract or order and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances, the Board may authorize the drawing of a warrant in payment of amounts due upon such contract, but such resolution shall be passed within thirty days from the receipt of such certificate; provided that, if the amount involved is less than \$3,000, the Treasurer may authorize it to be paid without such affirmation of the Board if such expenditure is otherwise valid.

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

East Knox Local School District – Knox County

Financial Accounting Report

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. The local office should also attach supporting documentation to the voucher, such as vendor invoices.”

School District’s Cash Disbursement Process

Invoices are generally received directly by the Treasurer’s Department. Upon receiving the invoice, the Assistant Treasurer looks up the vendor on the State software system (USASWEB) and matches the description on the invoice to the corresponding purchase order. Next, the Assistant Treasurer places the invoice with the corresponding green copy of the purchase order and requisition and files it with the stack of invoices waiting on the yellow copy of the purchase order.

If no purchase order exists for an invoice or if the invoice date is before the purchase order date, the Assistant Treasurer sets it aside until a “Then and Now” purchase order is approved. The Treasurer reviews and approves the “Then and Now” purchase orders prior to the processing of checks.

When the goods or services have been received, the building secretary or teacher who receives the shipment of goods verifies the contents. If not all goods are received or incorrect items are received, the employee contacts the vendor to resolve the issue. Upon receipt of a verified packing slip or other confirmation, the building secretary writes “OK to pay” and the date on the yellow copy of the purchase order, which is sent to the Assistant Treasurer. Upon receipt of this yellow copy of the purchase order, the Assistant Treasurer files it with the corresponding requisition and green copy of the purchase order.

For shipments received at the Board Office, the Executive Secretary verifies the contents of the shipment, marks “ok to pay” on the packing slip, and gives the packing slip to the Assistant Treasurer. The Assistant Treasurer matches the verified packing slip to the yellow copy of the purchase order kept in his office and files them with the corresponding requisition and green copy of the purchase order.

If the purchase order was for a membership renewal or other item that would not be physically received, then upon receiving the invoice, the Assistant Treasurer emails the teacher to check if it is okay to pay the invoice. If proper receipt is verified by the teacher, the Assistant Treasurer prints the email and attaches it to the green copy of the purchase order, invoice, and requisition.

If the Assistant Treasurer has any invoices for more than a week that still need a yellow copy of the purchase order indicating receipt, an email is sent to the teacher who made the request to check if the items have been received. If the teacher indicates that it is okay to pay the invoice, the Assistant Treasurer forwards the email to the building secretary who marks and dates the yellow copy of the purchase order and sends it to the Assistant Treasurer.

Once the Assistant Treasurer has received the green and yellow copies of the purchase order, invoice and requisition, these documents are placed on a shelf on the Assistant Treasurer’s desk to be paid at the next check run.

Typically, payment is not made on an order until all goods have been received. Once the remainder of the order is received, the receiving order is sent to the Assistant Treasurer who compares it to the invoice. In some instances, a partial payment will be made if all the goods are not received at the same time. Usually this is for blanket purchase orders. In this case, the Assistant Treasurer writes “pd partial” on the purchase order along with the check number and amount.

East Knox Local School District – Knox County

Financial Accounting Report

The Assistant Treasurer enters the data that creates a voucher into USASWEB by entering the invoice number and amount for the purchase order. Next, the Assistant Treasurer logs in to E-term (non-web State software), creates an invoice list, and prints it. Then the Assistant Treasurer runs a tape of actual invoices to be paid and matches the tape total to the total on the invoice list. The Treasurer reviews the invoice list and initials and dates it. The approved invoice list is filed in the Treasurer's office.

Checks are normally printed once every week. The blank check stock paper is kept in a cabinet in the Assistant Treasurer's office and in a closet in the Board Office. The check stock paper is completely blank and does not contain the school name, account number, check number or any other information. This information is printed on the check through the check printing process. Once the Treasurer has approved the invoice list, the Assistant Treasurer runs the "check process" command in the system and enters the date and starting check number. The system gives the ending check number and the total amount of checks, which should match the approved invoice listing, and the file is saved in a folder labeled "checks" on the Assistant Treasurer's computer. Next, the Assistant Treasurer logs in to the check printing software program (EDGE) in order to print the checks. The checks are electronically signed with the Treasurer's name. The check printing program is password protected; the Treasurer and the Assistant Treasurer have access to the check printing program. For each check run, the Treasurer reviews a report listing all checks paid and then initials and dates the report. After the Treasurer's review of the checks, the Assistant Treasurer mails them.

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

1. The original copy of the check is sent to the vendor for payment.
2. The white copy of the check is attached to the voucher packet and filed in the Assistant Treasurer's office. (If it is only a partial payment on a purchase order, the invoice and copy of the check are stapled together and filed, but the purchase order is returned to the stack of active purchase orders.)

At the end of each month, the Treasurer prints a list of all checks paid in the month (CHEKPY report). This is included in the financial packet emailed to the Board and is approved by the Board at the following month's meeting. The Board policy for the payment of claims deals with the prompt payment of legitimate claims and proper verification of vouchers prior to the payment of invoices.

The voucher packet includes the green copy of the purchase order, the white copy of the check, the invoice, the requisition and the receiving order (yellow copy of the purchase order). All voucher packets are kept in a filing drawer in the Assistant Treasurer's office and are filed by vendor name.

In order to void a check, the Assistant Treasurer runs the software program to void the check number; or, if the check had a mistake, the Assistant Treasurer can edit the check in the system and re-print a new check with the same check number. If voiding a check that has not yet been sent out or a the check that has been returned to the Treasurer's Department, the Assistant Treasurer writes "VOID" on the check and cuts out and shreds the signature block. If the physical check is not at the Treasurer's Department, the Assistant Treasurer calls the bank to stop payment on the check. The Assistant Treasurer writes on the voided check an explanation as to why the check was voided. The new check and the old voided check are given to the Treasurer to look over and then returned to the Assistant Treasurer. The voided check is attached to the voucher packet and filed in the Assistant Treasurer's office with the paid voucher packets.

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

Payroll Processing

Description of an Effective Method of Payroll Processing

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

Statutory Requirements

The following State statutes apply:

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

Chapter 3307, Revised Code, for the State Teachers Retirement System (STRS) and Chapter 3309, Revised Code, for the School Employees Retirement System (SERS), require school districts to enroll most of their employees in the appropriate retirement system, withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate retirement system the amounts withheld, matched with an appropriate percentage for employer contributions.

Section 3317.12, Revised Code, for nonteaching school employees and Section 3317.14, Revised Code, for teachers, require school districts participating in the school foundation program to annually adopt a salary schedule for nonteaching school employees and a salary schedule for teachers.

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

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

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

East Knox Local School District – Knox County

Financial Accounting Report

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

School District's Payroll Processing Procedures

The Board has adopted formal policies for the payroll process regarding Board authorization for each person hired (including the position title, the compensation to be paid, and the effective date of employment) and payroll deductions. The employment of all School District personnel must be approved by the Board. Deductions are made from an employee's paycheck upon proper authorization on the appropriate form.

Certified position applicants typically send in a resume at the beginning of the hiring process. The school principal has the first level of interviewing and the Superintendent makes the final decision on hiring. If offered the job, the applicant must fill out an application, which is kept in a personnel file in the Treasurer's office. General applications received in case of job openings are filed in the Board Office according to the job classification. Recommendations for employment are made to the Board by the Superintendent and are recorded in the minutes. Copies of employee records, such as transcripts, licenses, and evaluations, are kept in personnel files in the Board Office. Financial information forms, such as withholding forms and other payroll related data, are kept in the Assistant Treasurer's office; all forms of the same type are filed alphabetically in their own box or binder.

All full and part-time employees are compensated twice a month, except Board members, who are compensated quarterly. There are 112 full-time and part-time employees within the School District. The School District's two pay periods for each month run from the 11th day of the month to the 25th day of the month, and from the 26th day of the month to the 10th day of the following month, and are paid on the 5th day and the 20th day of the following month, respectively. If the 5th or the 20th is a Saturday, Sunday, or holiday, then the pay occurs on the preceding business day. Any overtime or extra time earned during the pay period is paid with the regular pay.

In addition to their normal pay, employees may receive additional amounts along with their regular compensation for supplemental contracts or extra time for tutoring or detention. Cell phone reimbursements for administrators are paid quarterly, and payments in lieu of benefits are paid in June. Direct deposit is required for all full-time employees of the School District. Substitutes and some other part-time employees may receive physical checks. Employees receive a pay stub which includes an earnings statement portion that indicates gross and net earnings, withholdings (year-to-date and for the pay period), leave usage during the pay period, and leave balances as of the end of the pay period. Certified employees are required to receive pay stubs by email, and other employees are strongly encouraged to do so. Paper copies are delivered to the appropriate building for bus drivers and employees who do not have email. Substitutes may have the pay stub mailed to them.

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

East Knox Local School District – Knox County

Financial Accounting Report

Administrators: Administrators include the Superintendent, Treasurer, and ten and eleven month administrators. Individual administrative contracts are prepared based upon contract provisions approved by the Board. The contract provisions establish the annual rate of pay, annual vacation days and personal days to be credited, the accrual of sick days, insurance benefits, and job duties and expectations for each employee. The contracts are reviewed and approved by the Board. The contracts for the Superintendent and the Treasurer run from August through July five years later. Contracts for department supervisors typically run from August through July of the subsequent year or years. Contracts are paid over twenty-four pays. Contracts are signed by the Board President and the Treasurer and are kept on file in the Treasurer's office.

Certified: Teachers' salaries and benefits are governed by a negotiated agreement between the Board and the East Knox Education Association. The contract was valid through June 30, 2016. In May of 2016, the Board and the East Knox Education Association entered into a Memorandum of Agreement that is in effect through June 30, 2017. The Memorandum of Agreement allows for the continuation of the 2013-2016 negotiated agreement, except as amended by the Memorandum of Agreement to provide for step increases in salaries and one-time pay adjustments for qualifying employees for the 2017 fiscal year. The negotiated agreement establishes salary schedules that reflect annual rates of pay based upon years of experience and education. In addition, the negotiated agreement identifies the annual amount of personal leave to be credited and sick leave accrual amounts for certified employees. Certified employees do not earn vacation. Per the negotiated agreement, all certified employees are paid over twenty-four pay periods.

The Treasurer prepares individual teacher contracts. Full-time certified staff begin with a limited contract of one year for the first four contracts, followed by three-year contracts in subsequent years. Individual teacher contracts are approved by the Board before the Treasurer distributes them to employees, usually in May for continuing. If an employee disagrees with the contract amount, that employee can contact the Treasurer to resolve the issue. The employee receives two copies of the contract; one copy is to be signed by the employee and returned to the Board Office and the other copy is for the employee's records. The contract is also signed by the Board President and the Treasurer, and the contract is kept on file in the Treasurer's office. The Treasurer distributes salary notices around the beginning of June for all certified employees except those newly hired over the summer. The Treasurer prepares payroll calculations for new contracts, and the Assistant Treasurer enters new contract amounts into the payroll system. The Treasurer runs a New Contract report, which includes new contract information by employee, and the Treasurer reviews the report on the computer, verifying appropriate account codes and positions for new contracts.

For any change that results in a pay schedule adjustment, the teacher is required to notify the Treasurer in writing so contract changes can be processed. Employees can provide a copy of their transcript to support the change to have their pay scale adjusted only at the beginning of the school year and at the beginning of the second semester. After receiving support for the pay schedule adjustment, the Treasurer verifies whether the employee meets all qualifications and presents the change to the Board for approval. Once the pay schedule adjustment is approved, the Treasurer provides a written notice to the employee of the new salary and semi-monthly pay, and the Treasurer places a copy of the notice in the personnel file. The Assistant Treasurer updates the employee's contract amount in the payroll system, based on information prepared by the Treasurer. The Treasurer generally reviews such adjustments in the system after they have been made.

Classified Employees: Salaries and benefits for custodians, bus drivers, cafeteria workers, secretaries, aides, and the Assistant Treasurer are governed by a Board-determined salary schedule and benefits as set forth in the Classified Staff Handbook.

The salary schedule sets forth the hourly rates for classified positions. The handbook sets forth the vacation and sick leave accrual amounts, and the amount of personal leave to be credited annually. Employees are considered full time if they work thirty or more hours per week. All classified employees are paid over twenty-four pay periods.

East Knox Local School District – Knox County

Financial Accounting Report

Classified employees receive salary notices each year. They also receive an individual contract when hired and again at the start of a new contract period. Salary notices are prepared by the Treasurer and are distributed to employees around the beginning of June. If employees disagree with the amount on the salary notice, they can contact the Treasurer to resolve the issue. The Assistant Treasurer updates the employees' salaries in the payroll system.

The annual salary amount is spread over twenty-four pays for classified employees. Timesheets and various other forms are used for any irregular pay adjustments. Timesheets are prepared for some bus drivers driving irregular routes, for student workers, and for teachers overseeing tutoring and detention. Each timesheet includes the employee's name, and the hours worked each day in the pay period or in the month. The timesheets are signed by the supervisor or school principal to indicate approval. Bus Trip Ticket and Mileage Reports are signed by the Transportation Director. Ticket Taker Forms are signed by the Athletic Director and the Treasurer (the game manager and the ticket taker are paid). The timesheets and other forms are sent to the Assistant Treasurer at the end of each pay period. The Transportation Director sends reports daily, and the Assistant Treasurer files them until the pay period end.

Overtime: Overtime earned is paid with the payroll following the pay period in which it was earned. Overtime is paid at a rate of one and a half times the employee's regular rate. All overtime is recorded on timesheets. All overtime has to be approved by the employee's supervisor each pay period. Overtime is only earned by the Transportation Supervisor for training drivers.

Extra time earned, such as when a cook works more hours than regularly scheduled because another cook is absent or when bus drivers cover an extra route, is recorded on timesheets. This is approved by the supervisor.

Board Members: The President of the Board takes roll call at every Board meeting and the board members in attendance are recorded in the minutes. The Treasurer enters the Board attendance from the meeting minutes into a spreadsheet to calculate payroll for the board members. This spreadsheet is given to the Assistant Treasurer, who enters the information into the payroll system. Board members are paid quarterly at a rate of \$125 per meeting.

Supplemental: The Treasurer is responsible for preparing supplemental contracts. These contracts are issued as the Treasurer receives the assignments for each supplemental position. The Board approves the supplemental contracts before they are distributed to employees. Most supplemental contracts are paid at the end of the sport season (fall, winter, and spring, paid in the last pay of December, March, and June, respectively). The Assistant Treasurer uses a spreadsheet prepared by the Treasurer for supplemental pays.

Substitutes: The School District uses the Renhill Company for obtaining substitutes. Teachers can call the Renhill system or go to the Renhill website to request a substitute. If a teacher contacts a substitute directly, the teacher also notifies the building secretary of the absence and the substitute. The building secretaries access the Renhill website to see which teachers are taking leave and to check whether substitutes have been found. The building secretaries get paperwork ready for the substitutes before they arrive. The Absent/Leave Form has two sections: the upper section is for the teacher taking leave and the lower section is for the substitute. The substitute fills out the lower section and signs the form. Occasionally, a substitute may use a timesheet instead of the Absent/Leave Form. The substitute pay rate has been set by the Board and is used for all substitutes; Board approval is necessary for any changes to the rate. Substitutes are paid on the pay date following the pay period in which they worked.

East Knox Local School District – Knox County

Financial Accounting Report

Withholdings: An application form, new employee packet, and staff handbook are given to new employees with various documents that are to be completed, signed, and returned to the Treasurer. The application packet includes a payroll information form, direct deposit authorization form and various tax and retirement forms. The Assistant Treasurer enters the payroll information into the system. If employees need to change any of the information on these forms they can obtain the appropriate form from the Treasurer. Withholding and various deduction forms are maintained in the Assistant Treasurer's office. Federal and State employee withholding deductions are submitted by Automated Clearing House (ACH) payments. The Assistant Treasurer calls the Internal Revenue Service (IRS) and uses a passcode to authorize the payment of federal taxes and Medicare withheld, which are due three days after the payroll date. State taxes withheld and deferred compensation payments are paid electronically after each payroll through Ohio Business Gateway. School District taxes withheld are paid through Ohio Business Gateway once a month. City taxes withheld are paid quarterly by check and are submitted with a remittance form.

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

Leave: Vacation and personal leave is credited as indicated in the certified staff negotiated agreement, the classified staff handbook, or in each administrator's contract. All full-time employees receive fifteen sick days for each calendar year, accrued on a monthly basis. Vacation, personal, and sick leave usage is posted in the payroll system by the Assistant Treasurer every payroll according to the amount of time recorded on the appropriate leave forms. The system updates the balances automatically.

Vacation or personal leave is approved in advance. Employees may request personal leave by filling out and signing a Personal Leave Form. Employees can request vacation leave by filling out the top section on an Absent/Leave Form, including the employee's name, and date of absence. Employees requiring a substitute also fill out the top section of an Absent/Leave Form after the leave has been taken, and the substitute information is also included on this same form. All forms are approved by the supervisor/school principal and the Superintendent. Personal Leave Forms and Absent/Leave Forms are sent to the Assistant Treasurer for payroll processing.

Sick leave is not required to be requested in advance. Certified and classified employees use Renhill or contact the building secretary or their supervisor to report off sick. The employee must later fill out an Absent/Leave Form; the form is approved and signed by the supervisor/school principal. When a school principal takes leave, the Superintendent signs the Absent/Leave Form. The forms are sent to the Assistant Treasurer for payroll processing.

Severance: The School District offers severance pay upon retirement to its employees. Payments for certified and classified employees are 25 percent of their unused sick leave days, up to a maximum of 52.5 days (25 percent of 210 days), plus an additional 0.25 days for each year of service in the School District, to a maximum of 35 years of service, times the employee's daily rate. Administrative employees receive 25 percent of their unused sick days times the employee's daily rate. For administrators other than the Superintendent, the maximum number of sick days to be used in the calculation is 210 days. The Treasurer prepares a spreadsheet with the calculation of the severance payment and the account code to be charged. The Treasurer initials and dates the printed spreadsheet and gives it to the Assistant Treasurer for payroll processing.

STRS/SERS: Payroll deductions for STRS and SERS are processed through the payroll system and filed timely. The Board share of retirement is deducted from the State Foundation.

East Knox Local School District – Knox County

Financial Accounting Report

After each pay, the Assistant Treasurer prints the SERS retirement report (SERSREG). If it is the first pay of the month, the SERSREG numbers of service days are matched to the Pay Amount Summary report (PAYSUM), and the SERSREG is filed in the Assistant Treasurer's office. If it is the second pay of the month, the month to date SERSREG is compared to the SERSREG from the first pay of the month, and the difference is matched to the PAYSUM report for the second pay. The Assistant Treasurer adds the SERS deduction check amount and the amount of Board pick-up for SERS and matches this total to the total on the bottom of the SERSREG. Next, a tape file is created and printed, and the tape file number is written on the printout. The tape file is filed for payment after the second pay of the month. The Assistant Treasurer submits the tape file to SERS through State software and schedules the electronic payment on the SERS website.

STRS retirement (STRSREG) reports are run after each pay. The numbers of service days are matched to the PAYSUM report. Once the numbers of service days are verified, the STRS deduction check amount is added to the amount of the Board pick-up for STRS, and the total is matched to the total on the STRSREG report. Then the STRSREG report is run again to create a tape file. The report is printed and the tape file number is written on the report. The Assistant Treasurer submits the tape file to STRS through State software and sends a physical check in the mail.

Other Employee Benefits: The School District is self-insured for health insurance and provides health, dental, and vision insurance benefits to all full-time employees. The employee share of costs for single and family participation in the program is determined by the respective agreements. Health coverage is administered through the Jefferson Health Plan. Dental coverage and vision coverage are administered through CoreSource and Vision Service Plan, respectively.

Life insurance benefits are provided through Anthem Life Insurance Company. The Board provides all full-time and regular part-time certified and classified employees with term life insurance of \$40,000. The Board also provides term life insurance of \$500,000 for the Superintendent (the Superintendent must reimburse the Board for the cost of life insurance over the cost for \$200,000 worth of coverage) and \$50,000 for all other administrative staff.

Payroll Deductions: Payroll deductions for medical, prescription, dental, and vision insurance benefits are processed through the payroll system and then used as part of the payment to the insurance companies.

The Assistant Treasurer prints deduction checks for insurances and gives them to the Treasurer. At the beginning of the month, the Treasurer prepares purchase orders for the Board portion for each of the insurances. A spreadsheet is maintained on the Treasurer's computer for all insurances so that the Treasurer knows how much the purchase order should be. Once the deduction checks are received after the second pay and the invoice is received from the insurance companies, the Treasurer verifies that the purchase order amount plus the deduction check matches the total on the invoice. Discrepancies, typically due to timing differences and changes in employee coverage, are investigated and resolved.

For medical and prescription insurance, the Treasurer reconciles and posts the Board portion as a memo check. The deduction check is deposited into the general bank account and the total amount of the Board and employee portions is wired from the general bank account.

After verifying that purchase orders and deduction checks match the corresponding invoices for dental, vision, and life insurance, the Treasurer gives the purchase orders, invoices, and deduction checks back to the Assistant Treasurer and authorizes payment. The Assistant Treasurer processes checks for the Board portions and submits them along with the corresponding deduction checks to pay the insurance invoices.

East Knox Local School District – Knox County

Financial Accounting Report

Payroll Preparation: Access to the payroll system is password protected. The Treasurer has given authority to the Metropolitan Educational Technology Association (META) Solutions, the School District's information technology center, to grant access and supply a password, but only upon request by the Treasurer. The Treasurer and the Assistant Treasurer have full access to the payroll system.

The Assistant Treasurer has a checklist for running the payroll program. The checklist names the reports that need to be run and lists the steps to be taken to process payroll. The Assistant Treasurer also has a narrative of the payroll process that further explains each item on the checklist.

The Assistant Treasurer maintains a spreadsheet that tracks the total base (contract) pay for each payroll. If any change from the previous payroll is required, such as a new contract, the Treasurer approves the change. The Assistant Treasurer makes the change on the spreadsheet and in the payroll system, and the Treasurer reviews and initials the updated spreadsheet. The Treasurer also updates the payroll spreadsheets for certified employees, classified employees, and administrative employees; the spreadsheets list each employee and the base salaries and semi-monthly pay amounts.

At the start of the payroll process, the Initial Calculation (INICAL) report is created. Before printing the first INICAL report, the Assistant Treasurer matches the total from this report to the total on the spreadsheet. If they match, the INICAL report is printed. Any discrepancies are investigated and resolved. Next, the Assistant Treasurer creates the PAYSUM report, verifies the number of contract days for each employee, and checks that the total amount matches the total from the INICAL report. If any corrections to the number of days are needed, the Assistant Treasurer makes the adjustments and then re-runs the INICAL and PAYSUM reports and verifies that they are correct. The Treasurer reviews the PAYSUM report, matches it to her payroll spreadsheets, and initials it.

Each building secretary sends timesheets and the signed yellow copies of the Absent/Leave Forms to the Assistant Treasurer when the pay period ends. If the Absent/Leave Form has not yet been signed by the school principal, the building secretary sends the Assistant Treasurer the white copy of the form until the yellow copy is signed and sent to the Assistant Treasurer. The bus garage gives the Assistant Treasurer a pink copy of the same type of form. Separate forms are used for personal days and professional leave. The timesheets and leave forms detail absences, substitutes, and any other factors that would affect the normal pay of an employee. The Assistant Treasurer goes through the forms and timesheets and writes down the account codes. The Treasurer checks over the account codes and initials all timesheets and leave forms, checking to be sure all calculations are correct.

Next, the Assistant Treasurer enters miscellaneous payroll information from timesheets, Absent/Leave Forms, miscellaneous pay forms, and any supplementals, and runs the PAYSUM report a second time. When adding absences to the system, the Assistant Treasurer also writes leave dates on a printed table to track absences by employee and by leave type for each payroll. Then the Assistant Treasurer gives the first PAYSUM report, timesheets and other forms and the adjusted PAYSUM report to the Treasurer. The Treasurer adds all of the timesheets and miscellaneous pay amounts on a tape and adds that total to the base payroll amount, matching the total from the tape to the total of the updated PAYSUM report. If the totals do not match, the Assistant Treasurer corrects any errors made in entering timesheet information before moving on.

The Assistant Treasurer also runs some Staff Attendance (ABS) reports. First, the report is run for attendance days for all employees paid off of a timesheet for the payroll period. The days from this report are checked against the days on the timesheets. Then the ABS report is run again, but this time it is run for the total absences for the month by person and leave type. This is printed and compared to the printed table tracking absences. On the second pay of the month, the Treasurer adds absences from the first pay's absences table to the second pay's absences table and checks the month's total against the ABS report.

East Knox Local School District – Knox County

Financial Accounting Report

The next step is to run the Calculate Payroll program which generates six reports, the Error Summary Report (CALCERR), the Payroll Report (PAYRPT), the Projected Payroll Account Distribution Summary (BUDPRO), the Projected Payroll Account Distribution Detail (BUDDET), the Deduction Totals (DEDTOT), and the Deduction Detail (DEDDET). The CALCERR is printed to make sure there are no errors. Once any errors are corrected, all six reports are printed. The PAYRPT details the gross payroll and deductions by individual and pay group. This report is briefly reviewed, with particular attention given to employees who had changes made. The BUDPRO details the gross payroll by budget account. The BUDDET details the gross amounts paid to each employee by budget accounts. This report is checked by the Assistant Treasurer to ensure that employees were paid out of the correct accounts. The DEDTOT lists all employee payroll deductions including STRS and SERS deductions, as well as the Board share for SERS, STRS, Medicare, and employee insurance. The Assistant Treasurer checks for any obvious problems with deductions and verifies that the Medicare employee deductions total matches the Board share for Medicare. The DEDDET lists the same information as the DEDTOT, broken down by employee for each deduction type.

Next, the Assistant Treasurer runs the Current Leave Usage and Balances report that shows sick, vacation, and personal leave usage for the payroll period and the remaining balances for each employee that used leave in the payroll period. This report is checked against the printed table tracking absences.

The check print (CHKPRT) is run next; this sets up the checks and direct deposits. The Assistant Treasurer verifies the starting numbers for direct deposits and for printed checks and writes these beginning numbers and the ending numbers on the checklist. Then the Assistant Treasurer runs DIRCHK.DAT in FTP and prints check stubs in the EDGE software (for employees who do not get their direct deposit slips emailed to them). Then CHKPRT.DAT is run in FTP and the paper payroll checks are printed using the EDGE software. The Assistant Treasurer sets up emails with direct deposit notification and pay stub information to be sent in the early morning on the pay day to employees receiving direct deposits.

Next, the check upload (CHKUPD) is run. The Assistant Treasurer indicates the next budgetary check number in the system and writes it down on the checklist. Then both the Payroll Account Distribution Summary (BUDDIS) report and the budgetary check to be deposited in the payroll account are printed and clipped together. The BUDDIS report shows the accounts the payroll came from, the total amount of the payroll, and the date of the payroll. The last page has the Treasurer's certification, which both the Treasurer and the Superintendent sign, and the sheet is kept with the payroll. The check is typically given to the Treasurer who takes it to the bank for deposit in the payroll account.

The Direct Deposit Tape Listing (PAYDIR) is then run, and the report that shows direct deposits for the payroll is printed. The report is checked for anything unusual, and the PAYDIR file is encrypted with a passcode using Symantec software. The PAYDIR file and the passcode are sent to the bank, and a copy of the passcode is also sent to the Assistant Treasurer. The bank calls two days before the payroll date to verify the amount of the direct deposit, which the Assistant Treasurer checks against the PAYDIR total.

Next, the Assistant Treasurer runs the Paid Deduction Checks Listing (PAYDED), the Deduction Summary (DEDSUM), and the Deduction Report (DEDRPT). The DEDSUM and DEDRPT reports are archived on the computer, but the PAYDED is printed and checked to be sure the beginning check number and payroll date are correct. The beginning and ending deduction check numbers are written on the checklist. Then the Assistant Treasurer prints the deduction checks using the EDGE software.

The next step is to create the Board Distribution report, entering only the deduction code for Medicare. This report is printed and is used to create the budgetary check to be deposited for the Board share of Medicare. The check is printed and given to the Treasurer to be deposited into the payroll account.

East Knox Local School District – Knox County

Financial Accounting Report

Only on the second pay of the month, the Assistant Treasurer runs the Benefit Balance Report (BENRPT), which accumulates employees' sick and vacation (for full-year employees) leave balances. Although the system requires a number for the maximum number of sick days that may be accumulated, there is no actual maximum accrual of sick or vacation leave balances for School District employees. Therefore, the Assistant Treasurer checks each employee's leave balances on the BENRPT to be sure balances will be properly accumulated. If an employee's balance were to reach the maximum in the system, the Assistant Treasurer would adjust the system to correct this.

Also on the last pay of the month, the Assistant Treasurer runs the Check Status Report (CHKSTS), which shows all payroll checks. This report is kept to be used in reconciling the payroll account once the bank statement is available. After this, the PAYDED is run again, printing only the deductions still on the accumulator, which should be only the city taxes, since they are paid quarterly. This PAYDED is printed and filed with the CHKSTS to be used for reconciling the payroll account.

To post payroll, the Assistant Treasurer runs the AUTOPOST and selects validation to ensure no errors (this will generate an ERROR_PAYROLL report if there are any errors). The Assistant Treasurer verifies that the only errors are acceptable (such as grant funds showing negative balances) and posts to the system, which assigns a purchase order number. The purchase order number is written on the payroll checklist. The AUTOPOST program automatically posts the payroll and Board distribution information to the accounts from which the employees are charged within the payroll system and the budgetary system. The Automatic USAS Posting Summary (AUTOPOST) reports for payroll and for the Board distribution are printed.

IRS W-2 forms are processed in January of the new calendar year. The Assistant Treasurer sends a tape file to META Solutions, where the W-2's are printed. The School District picks up the W-2's and distributes them to the appropriate buildings or mails them to part-time or past employees around the middle of January. All W-2 information is submitted electronically to the IRS through META Solutions.

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

Debt Administration

Description of an Effective Method of Debt Administration

The issuance of debt is strictly controlled by State statute. Before debt is issued, a resolution authorizing the issuance of debt should be passed by the 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 and the Treasurer. Debt proceeds should be receipted into a separate fund when appropriate and used only for the purpose specified in the authorizing resolution. Money to be used for debt payment may be receipted in a separate fund created specifically for debt retirement. Care should be taken to ensure the timely payment of both principal and interest.

Statutory Requirements

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

School District's Debt

Board policy provides that the Treasurer will prepare the data and applications regarding the issuance of debt, upon the Board's initiative and in accordance with the laws of the State of Ohio. Debt issuances are approved by the Board by resolution. The Board resolution identifies the statute which allows for the issuance of the debt, the purpose, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment. Debt issuances are signed by the Treasurer.

The Treasurer keeps track of the debt schedules and prepares purchase orders ahead of time in accordance with the debt schedule. When the invoice is received, the Treasurer matches it to the purchase order to ensure that the correct debt payments are made. Debt payments are generally made by wire transfer by the Treasurer. All debt documents and amortization schedules are kept on file in the Treasurer's office.

The amount of the School District's outstanding debt at June 30, 2016, consists of the following:

	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2016</u>
General Obligation Bonds, Series 2004	1.5-4.42%	\$765,000
General Obligation Bonds, Series 2007	4-4.125%	9,527,724
School Facilities Construction and Improvement General Obligation Bonds, Series 2014	3.25-5.5	<u>740,000</u>
<i>Total Debt</i>		<u><u>\$11,032,724</u></u>

The Series 2004 General Obligation Bonds issuance consisted of serial bonds and capital appreciation bonds. The issuance included a premium of \$153,437. The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range from 1.5 percent to 4.42 percent. The capital appreciation bonds matured December 1, 2013 and 2014. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. The bonds are being retired through the bond retirement fund.

East Knox Local School District – Knox County

Financial Accounting Report

The Series 2007 General Obligation Bonds issuance consisted of serial bonds, term bonds, and capital appreciation bonds. This issuance included a premium of \$154,703. The serial bonds mature at varying amounts annually on December 1, beginning in 2007 and ending in 2028. The rates on these bonds range from 4 percent to 4.125 percent. The capital appreciation bonds mature December 1, 2015 and 2016. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. Total maturity of these capital appreciation bonds is \$730,000. The total estimated current accrued value of these bonds at June 30, 2016, is \$345,134. The term bonds mature December 1, 2030 and 2034. The bonds are being retired through the bond retirement fund.

The Series 2014 School Facilities Construction and Improvement Bonds issuance consisted of term bonds issued on January 22, 2014. The bonds mature at \$145,000, \$350,000 and \$255,000 on December 1, 2020, 2025 and 2028, respectively. The rates on these bonds range from 3.25 percent to 5.50 percent. The bonds are being retired through the bond retirement fund.

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

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

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

Statutory Requirements

Section 3313.41(A), Revised Code, requires that, except as provided in divisions (C),(D),(F), and (G) of this section and in Section 3313.412, Revised Code, when a Board decides to dispose of real or personal property that it owns in its corporate capacity, and that exceeds in value \$10,000, it shall sell the property at public auction, after giving at least thirty days' notice of the auction by publication in a newspaper of general circulation or by posting notices in five of the most public places in the school district in which the property, if it is real property, is situated, or, if it is personal property, in the school district of the Board that owns the property. The Board may offer real property for the sale as an entire tract or in parcels. Under division (B), when the Board has offered real or personal property for sale at public auction at least once pursuant to division (A) of this section, and the property has not been sold, the Board may sell it at a private sale. Regardless of how it was offered at public auction, at a private sale, the Board shall, as it considers best, sell real property as an entire tract or in parcels, and personal property in a single lot or in several lots. Real property is a permanent improvement and the proceeds are to be recorded into a permanent improvement fund as required by Section 5705.01 and 5705.10, Revised Code.

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

School District's Method of Accounting for Capital Assets

The Board has adopted formal policies regarding capital assets and inventory. The School District's capital asset policy states that the capitalization threshold is \$5,000. Currently, the School District tracks capital assets costing more than \$1,000 for insurance purposes. For items typically purchased in aggregate, the

East Knox Local School District – Knox County

Financial Accounting Report

Board policy states that the Treasurer should verify which items are to be classified as capital assets and recorded at the time of purchase or acquisition. Board policy defines capital assets as those tangible assets of the School District with a useful life in excess of one year, an initial cost equal to or exceeding the capitalization threshold, and which the School District intends to hold or continue in use over an extended period of time. Assets for which accountability is desired that have a value less than the capitalization threshold may, at the School District's discretion, be entered into the capital asset system for control purposes only but would not be reported on the financial statements. The classification of capital assets includes land, construction-in-progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. All assets are capitalized at cost, or if not determinable, estimated purchase price or fair market value at the time of acquisition. For all capital assets, the following information shall be maintained: description, asset classification, location, cost, date acquired, estimated useful life, estimated salvage value, replacement cost, accumulated depreciation, and manner of asset disposal. Board policy also requires the School District to conduct a complete inventory by physical count of all Board-owned equipment annually. Board policy also states that private property that belongs to employees of the School District is not to be included with the School District's capital assets, and the School District is not responsible for such items.

The policy further requires the School District to maintain a capital assets accounting system. The capital assets accounting system is to provide sufficient information to permit adequate insurance coverage, permit the preparation of year-end financial statements in accordance with generally accepted accounting principles, and provide control and accountability.

The School District uses an outside company, Industrial Appraisal Company, to track capital assets. The company performed a complete valuation of all School District assets in September of 2013 and provided an inventory listing spreadsheet to the Treasurer. The information provided in the inventory listing spreadsheet includes the asset tag number, asset class, acquisition year, useful life, description of asset, location of asset, original cost and the fund and function from which the asset was purchased. The inventory listing spreadsheet calculates annual depreciation on a straight line basis by dividing the original cost by the estimated useful life. The inventory listing spreadsheet also tracks accumulated depreciation and remaining book value. Salvage values are not listed.

Several times a year, the Treasurer reviews a detailed report of expenditures to date, in order to identify any asset purchases or improvements that have occurred. These items are entered on an Inventory Change Report form. This form includes the asset location, asset class, asset tag number, detailed description of the asset, acquisition cost, and acquisition date of all assets added, deleted, transferred, or corrected during the fiscal year. The Treasurer also double checks the form to a spreadsheet of technology assets that is maintained by the Technology Department. The technology spreadsheet includes item names, makes, models, serial numbers, asset tag numbers, room numbers where the items are located, employees using the items, and other miscellaneous notes. This spreadsheet is updated each time an asset is purchased, moved to a different location, or is disposed of.

The School District does not regularly dispose of assets, other than technology related items. When a technology item is recycled or disposed of, the Technology Department removes it from the technology spreadsheet, and completes a Request for Asset Disposal (Transfer) form. This form is used to request approval for the disposal or transfer of an asset. The form includes a description and the tag number of the asset being disposed of and, for transfers of assets, the department and location from which and to which the asset is to be transferred. The reason for disposal or transfer and the method of disposal and the date of the request are also included on the form. The request form is submitted to the Treasurer for approval. The Treasurer keeps a copy of the request form and returns the approved or disapproved form to the school principal or supervisor. If the request is approved, then upon disposal or transfer of the asset, the school principal or supervisor is to mark the date of the disposal or transfer, write down the amount received if the

East Knox Local School District – Knox County

Financial Accounting Report

asset was sold or the tag or identification number of the asset acquired if the disposed asset was traded in, and sign the form. Next, a copy of the completed form is sent to the Treasurer, and, if an asset is transferred, a copy is also sent to the school principal or supervisor receiving the asset. The Treasurer uses these completed forms to update the Inventory Change Report form.

At the end of each fiscal year, the Treasurer sends the completed Inventory Change Report form to Industrial Appraisal Company. The company uses the completed form to update the inventory listing spreadsheet, as well as an asset listing for insurance purposes.

Capital assets are physically tagged. The asset tag aids in identifying the existence of the asset, and the School District performs an annual physical inventory of capital assets. A complete physical inventory was last completed in June of 2016, and additions and deletions are added annually.

School District's Methods for Supplies

The School District does perform a monthly physical inventory of supplies and food inventory in the cafeterias to verify existence or non-existence. There is no physical inventory of other items such as office or instructional supplies, as the School District typically buys office and instructional supplies as needed and does not keep significant amounts of inventory on hand. For financial reporting purposes, the inventory of supplies is not reported.

The Head Cook at each school takes a monthly physical count of the inventory (monthly beginning in August before the first delivery and ending after school lets out for the summer) and tracks the quantities on a paper form. These forms are filed in the cafeteria office at each school.

Auditor of State Comments

1. The School District does not assign salvage values as assets are acquired. The School District should assign salvage values, per Board policy, and have these values included in the inventory listing spreadsheet.

East Knox Local School District – Knox County

Financial Accounting Report

Cash Management and Investing

Description of an Effective Method of Cash Management

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

Statutory Requirements

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

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

Section 135.14(O)(2), Revised Code, states, “If a written investment policy described in division (O)(1) of this section is not filed on behalf of the subdivision with the Auditor of State, the Treasurer or governing board of that subdivision shall invest the subdivision's interim moneys only in interim deposits pursuant to division (B)(3) of this section, or in interim deposits pursuant to Section 135.145 of the Revised Code and approved by the Treasurer of State, no-load money market mutual funds pursuant to division (B)(5) of this section, or the Ohio subdivision's fund pursuant to division (B)(6) of this section.”

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

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

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

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

East Knox Local School District – Knox County

Financial Accounting Report

Federal Requirements

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

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

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

The School District's Methods of Cash Management and Investing

The School District's treasury activities are the responsibility of the Treasurer. The Treasurer reconciles the treasury with the accounting records and transfers cash among the various bank accounts as needed. The Assistant Treasurer performs supporting reconciliations for the payroll account and for the Athletic Department account. The School District maintains a general checking account with the Peoples Bank, a money market account with the Killbuck Savings Bank, two STAR Ohio accounts (a general account and a bond refinancing account), a STAR Plus account, an account for the Jefferson Health Plan with US Bank, and a payroll checking account and an Athletic Department checking account with the Peoples Bank. All accounts except the Athletic Department account earn interest.

Most receipts go into the money market account at the Killbuck Savings Bank. STAR Ohio accounts are used for tax settlements. The Treasurer transfers funds from these accounts to the general checking account at the Peoples Bank and to other accounts as needed. Checks are written against the general checking account for the daily operations, other than payroll, of the School District. The Treasurer deposits a check for the full amount of the payroll in the payroll account at the Peoples Bank (the check is written against the general checking account). Deduction checks, direct deposits, payroll checks, and deductions for taxes are taken from the payroll account. Some wires are paid out of other accounts.

At the beginning of the month, the Treasurer goes through a checklist of procedures for closing out the preceding month. To identify outstanding checks, the Treasurer prints off bank statements from the bank websites and enters into the accounting system the check numbers that cleared the bank per the bank statement. To ensure that checks were cashed for the correct amounts, the Treasurer verifies that the amount of cleared checks on the system matches the amount shown as cashed on the bank statement. Next, a list of memo checks is run and the balances are matched to the Automated Clearing House (ACH) transactions shown on the bank statement. An outstanding check register report is also run. Any discrepancies are investigated and resolved or noted on the reconciliation.

The Assistant Treasurer completes the reconciliation of the payroll account on a separate spreadsheet. The minimum balance of the payroll account is \$2,500; this is the amount presented on the Treasurer's main reconciliation. To reconcile the account, the Assistant Treasurer starts with the month end bank balance and backs out the \$2,500 minimum balance amount and the interest earned on the account that month. (The interest is a reconciling item on the main reconciliation.) Next, the Assistant Treasurer reconciles the cleared checks, prints a list of outstanding payroll checks, and subtracts the amount of outstanding checks on the reconciliation. Often there are additional reconciling items such as electronic payments for withholdings that

East Knox Local School District – Knox County

Financial Accounting Report

may not clear until the following month. The Assistant Treasurer investigates and lists other reconciling items needed to get the payroll reconciliation spreadsheet total to \$0. The Treasurer reviews, initials, and dates the payroll reconciliation.

The Assistant Treasurer also reconciles the Athletic Department account on its own spreadsheet. To reconcile the account, the Assistant Treasurer starts with the ending balance from the bank statement. Next, the Assistant Treasurer marks off the checks in the checkbook that cleared the bank, listing on the reconciliation spreadsheet all outstanding checks. The Assistant Treasurer verifies that the bank statement balance less the outstanding checks equals the balance in the checkbook. The Treasurer reviews, initials, and dates the reconciliation. The account balance of the Athletic Department account used on the main reconciliation is always \$3,000, regardless of the checkbook balance, since the expenditures are posted upon replenishment of the account. The Athletic Director and the Treasurer can write checks out of this account, but the Athletic Director usually writes and signs checks to pay officials out of this account. To receive payment, the official fills out the lower section of a game official's pay form with the official's name, signature, and address. The top portion of the form has the date of the game, the opposing school district, the sport and level, and the payment amount due. The Athletic Director writes out the check to the official, writes the check number at the top of the form, and updates the checkbook. In order to replenish the account, the Athletic Director turns in all the supporting forms with a requisition. The Treasurer processes a purchase order and a check from the general checking account to the Athletic Department account, posting the expenditures to the appropriate accounts in the athletic fund.

The School District has a Board approved investment policy that is on file with the Auditor of State. The policy states that the Treasurer is authorized to make investments with available monies from the funds of the School District in securities authorized by State Law. Earnings on investments from the STAR Ohio bond refinancing account are receipted into the debt service fund. Earnings on all other investments are receipted into the general, food service, and athletic funds each month. Once per year, the Board passes a resolution stating which funds will receive an allocation of interest, and the interest is allocated to the funds it belongs in according to this resolution. The investments that the School District holds are two STAR Ohio accounts, a STAR Plus account, and a money market savings account with Killbuck Savings Bank. The Treasurer does not attend annual trainings on investing offered by the State Treasurer's office but does submit an exemption form.

Petty cash funds are maintained by the Board Office, the high school office, and the elementary school office. The School District has a Board approved policy in place for the use and replenishment of the petty cash funds. All petty cash is kept in a safe, with the building secretary and school principal having access. Petty cash funds are maintained throughout the year and replenished whenever they are low on cash. At the end of the school year, building secretaries replenish their petty cash funds so that they will start the next school year with the full amount of petty cash. To replenish petty cash, the building secretary adds up all of the receipts from purchases made out of the petty cash fund and counts the remaining cash. The total of the receipts and remaining cash should equal the full balance of the petty cash fund. Next, the building secretary fills out a requisition and turns in the requisition and the receipts to the Treasurer. The Treasurer posts the expenditures to the appropriate accounts based on the receipts and a purchase order is created. The Treasurer cashes the budgetary check at the bank and returns the cash to the petty cash fund.

The Board Office, the cafeterias, the Dog Pound Store, and the Athletic Department all maintain change funds. The School District has a Board approved policy in place for the use of change funds. Change funds are kept in a safe, except cafeteria change funds, which are kept in cash registers. Cafeteria change funds are turned in at the end of the school year, and the Treasurer keeps them in a safe during the summer. The Athletic Department change fund is used for the fall and winter sports seasons, but the change fund is deposited at the bank after the end of the winter season, since no admission is charged for spring sports.

East Knox Local School District – Knox County

Financial Accounting Report

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

Financial Reporting

Description of Effective Method of Financial Reporting

The Treasurer should periodically provide the Board with reports setting forth year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the school district. In addition, information concerning estimated and actual receipts, appropriations and disbursements plus encumbrances should be presented for the Board's review. On an annual basis, the Treasurer should prepare and publish within 150 days of fiscal year-end financial statements prepared in accordance with generally accepted accounting principles (GAAP) and Section 117-2-03(B).

Statutory Requirements

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

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

The School District's Method of Financial Reporting

The School District uses USAS software from the State of Ohio which allows for standard and customized month and year-to-date reports. The School District prepares month and year-to-date reports, including the cash position, revenue account summary, appropriation account summary, and check listing reports, which are kept on file in the Treasurer's Department.

The School District's financial report policy requires the Treasurer to submit a monthly financial report to the Board. This report should include the School District's financial position at the end of the prior month, obligations and expenditures incurred during the prior month and to date by account, and funds received during the prior month and to date by source. During the monthly Board meetings, the Board members receive a financial packet containing a number of reports. These include cash position by fund, historical balances by month of operating funds, a six year history of monthly and yearly revenues and expenses of the general fund, month- and year-to-date estimated revenue and appropriation reports, and a complete listing of all checks written for the month, as well as others that are provided according to requests of the Board members.

The School District does not prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). The School District instead files cash basis financial statements. The unaudited cash basis financial statements are filed with the Auditor of State within 60 days of the end of the fiscal year end. The School District filed a copy of its annual financial report to the office of the Auditor of State for the fiscal year ended June 30, 2015, on August 25, 2015. As soon as the financial audit is released by the Auditor of State, the audit is distributed to all Board members via email by the Treasurer.

East Knox Local School District – Knox County

Financial Accounting Report

The School District publishes a notice of the availability of the cash basis financial statements in the local newspaper as well as on their website. Copies of the financial statements are kept at the School District for the public and distributed when requested. All requests of financial information from the public are prepared and distributed by the Treasurer's Department.

Auditor of State Comments

1. The School District does not prepare its annual financial report in accordance with GAAP. Financial statements prepared in accordance with GAAP should be filed with the Auditor of State within 150 days of the fiscal year end.

East Knox Local School District – Knox County

Financial Accounting Report

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

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

Statutory Requirements

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

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

Section 121.22, Revised Code, requires the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and be open to public inspection. The Ohio Supreme Court has held that the minutes must be "full and accurate," which means that they must contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached. The minutes need only reflect the general subject matter of discussions in executive sessions.

The School District's Method of Recording Official Proceedings

The School District has a Board policy for minutes that indicates the persons responsible for taking minutes, the content that should be included in the minutes, and procedures for the approval and filing of minutes. The Board usually holds their regular monthly meetings on the second Thursday of each month. The Treasurer takes handwritten notes during the Board of Education meetings. From those notes, the Executive Secretary types up the minutes of the meeting; those minutes are proofed by the Treasurer. The minutes include who is in attendance, a summary of topics discussed, resolution numbers and a description of the resolution, votes on each resolution and any reports or materials handed out to support the resolutions. The minutes are approved by the Board at the following month's meeting and signed by the Treasurer and the Board President. Typed minutes are kept in books in the administration building. Board minutes are also available on the School District's website.

Auditor of State Comments

None

East Knox Local School District – Knox County

Financial Accounting Report

Conclusion

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

It is the opinion of the office of the Auditor of State that the current methods of the accounting and financial reporting of the East Knox 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.

East Knox Local School District – Knox County

Financial Accounting Report

(This Page Intentionally Left Blank)



Dave Yost • Auditor of State

EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 2, 2016**