



Mary Taylor, CPA
Auditor of State

**Federal Hocking Local School District
Athens County, Ohio**

Financial Accounting Report

Local Government Services Section

Federal Hocking Local School District - Athens County

Financial Accounting Report

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CERTIFICATION

On May 21, 2007, the Federal Hocking Local School District was declared to be in fiscal emergency. Section 3316.10(A), Revised Code, requires that after the declaration of a fiscal emergency, the Auditor of State issue a report assessing the methods, accuracy, and legality of the accounts, records, files, and reports of the School District. 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 3316A) 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 Federal Hocking Local School District.

Section 3316.10(A), Revised Code requires that the Board of Education of the Federal Hocking 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 28, 2007

Federal Hocking Local School District - Athens 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 Federal Hocking 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 Federal Hocking 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.

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Governance Overview

Federal Hocking 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 as mandated by State and Federal agencies.

On May 21, 2007, 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 Federal Hocking 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 shall enumerate respectively the powers and duties of the Commission and the duties of the School Board during that period.

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

1. 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 auditor;
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.

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Financial Accounting Report

Governance Overview

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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. A financial recovery plan was adopted on September 27, 2007. The recovery plan addresses the roles of the Commission and the Board and includes the power to approve contracts entered into by the Federal Hocking Local School District for personal services and employment contracts for all positions other than temporary positions.

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

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The School District Board has prepared and approved 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 operation 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.

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Budgetary Process

Description of an Effective Budgetary System

The legally adopted annual budget plays a unique and central role in determining the amount and the type of financial resources that shall be raised, and how those financial resources will 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 Board, 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 fiscal 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. Section 5705.281, Revised Code, permits a county budget commission to waive the tax budget requirement for any taxing authority. However, the commission may require the taxing authority to provide information needed by the commission to perform its duties.

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

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Financial Accounting Report

Budgetary Process

(continued)

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.

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

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

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

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

A certificate of adequate revenues is also to be attached to each appropriation measure. 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.

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Budgetary Process

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

The Ohio Administrative Code links the ability to certify under section 5705.412 of the Revised Code to the five-year forecast. Under Section 3301-92-05(E) of the Ohio Administrative Code, each school district shall maintain sufficient documentation to justify each certification made under section 5705.412 of the Revised Code, and must identify the actual date of certification. Each school district shall maintain a continuing record of the contracts which have been certified. The 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 forecast 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 forecast. 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 forecast. 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 forecast, the forecast 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 forecast, the forecast must be updated to reflect the new information. If adding the new expenditure created by an obligation or contract causes a fiscal year-end deficit in the forecast, then the obligation or contract may not be certified. Any change to the five-year forecast 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 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.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Budgetary Process

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School District's Budgetary Process

The Athens County Budget Commission has adopted an alternative tax budget. The alternative tax budget includes five schedules to be completed by the School District and returned to the County Auditor. They include a schedule of all levies of the School District, a statement of fund activity for the General Fund, Bond Retirement Fund, and any other funds requesting general property tax revenue, a statement of fund activity for all funds with revenue other than local taxes, a schedule of voted and unvoted debt, and a schedule to identify tax anticipation notes and the principal and interest payments due within the budgeted year.

Prior to April 1, the Board accepts, by resolution, the tax rates as determined by the Athens County Budget Commission and receives the Commission's certificate of estimated resources. The resolution may be delayed until a later date if approved by the State Tax Commissioner.

After the close of the fiscal year, the Treasurer submits the fiscal year-end balances to the county auditor. The county auditor issues an amended official certificate of estimated resources that includes the actual unencumbered cash balances from the preceding year.

The Board adopts a temporary appropriation measure prior to the start of the new fiscal year. The temporary appropriations measure is limited to 25 percent of the total amount from sources available for expenditure from any fund during the preceding fiscal year. The School District operates under the temporary appropriation measure until a permanent appropriation measure is adopted prior to October 1 of the fiscal year. If by October 1 the county budget commission has not certified all amended certificates of estimated resources to the Board of Education, the Board can delay action on the annual appropriations measure until such time as the certificates are received. Fiscal year 2007 and 2008 temporary and permanent appropriations were approved at the fund level for all funds. The Treasurer files the adopted appropriation resolution with the county auditor. Both estimated revenues and appropriations are posted to the accounting system after each amendment to the budget and are agreed to amended certificates and appropriation resolutions by the Treasurer. The Treasurer reviews estimated revenues and appropriations monthly to verify that receipts and disbursements are within these estimates.

Each year the Treasurer prepares a five-year forecast, including assumptions, that is approved by resolution of the Board of Education and filed with the State Department of Education by October 31. The forecast is updated and filed again by May 31. The Treasurer keeps the five-year forecast on file in the office with the documentation that was used to prepare the forecast.

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Budgetary Process

(continued)

Auditor of State Comments

1. The School District should update its policy manual regarding its budgetary process. The manual should include policies that are designed to comply with Ohio Budgetary Law including the level at which the Board adopts appropriations. In addition, the process by which the initial allocation and subsequent re-allocations of appropriations are approved and documented should be addressed by the Board. The policies should also address the five-year forecast and the circumstances under which the Board wants the forecast updated in addition to the dates it is to be filed with Department of Education. The policies need not restate the statutory requirements. The policies should require the Treasurer to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the Treasurer's monthly report to the Board.
2. The Treasurer should reconcile appropriations as passed by the Board to the appropriations posted to the accounting system. The appropriations should be posted upon receipt of a certificate from the county auditor indicating appropriations are within estimated resources.
3. In fiscal years 2006 and 2007, the School District had deficit fund cash balances contrary to Section 5705.10, Revised Code.
4. Permanent appropriations for fiscal years 2006 and 2007 exceeded estimated resources in several funds contrary to Section 5705.39, Revised Code. The Treasurer compares appropriations to estimated resources monthly; however, this comparison is not documented by the Treasurer. The comparison should be presented to the Board when a request for appropriations or supplemental appropriations are presented for adoption, which demonstrates the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.
5. Actual expenditures exceeded appropriations at year end contrary to Section 5705.41(B). The Treasurer should regularly compare actual expenditures plus outstanding encumbrances to total appropriations. If the unencumbered balance of the appropriations is determined to be insufficient for the remainder of the fiscal year, the appropriations should be adjusted to the extent it can be within the legal level of control, or a supplemental appropriation resolution should be presented for Board approval before expenditures plus encumbrances exceed the appropriations.
6. Board policy states, "Modification of funds between line item appropriations within each major fund and any transfers permitted by law from major fund to major fund require Board approval on a semi-annual basis." This policy is contrary to Ohio Budgetary Law and the School District needs to revise the policy to state the level at which the appropriations are to be approved by the School Board and that appropriation amendments and transfers are to be presented to the Board before additional expenditures are incurred or transfers are made.

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Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded, and deposited at least daily. 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 school district 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 school district, 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 monies 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

Per Board policy, monies collected are receipted, accounted for, and deposited every 24 hours, if possible. If not possible and the amount is under \$1,000, the money is placed in a safe for no longer than three business days.

The School District receives revenue from both internal and external sources in the form of wire transfers, cash, money orders, and checks. External sources of revenue include amounts received from the State Department of Education, Athens and Morgan Counties, and various other State and Federal agencies. Internal sources of revenue include money collected for lunches served in the cafeteria, student activities, athletic events, and miscellaneous receipts collected at the various School District buildings. All employees who handle money are bonded by a blanket policy with the School District paying the cost of the coverage.

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Revenue Activity

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Building Receipts: Monies are receipted in the various School District buildings from various sources for which a prenumbered, duplicate receipt is prepared by the building Secretary and given to the payer. The Coolville Elementary, Middle School, and High School building Secretaries count the money, prepare a three part deposit slip (including writing the correct account code for each receipt category on the slip), and takes the money and deposit slips to the Assistant Treasurer. At the Amesville Elementary school, the pink and white deposit slips and the money are taken directly to the bank and the yellow duplicate deposit slip and bank stamped pink copy is sent to the Treasurer's office. Student Activity Advisors, on the other hand, collect the money, fill out the deposit slip, and turn in the money and deposit slip to the building Secretary to forward to the Treasurer's office. Once the Assistant Treasurer receives the money (Coolville Elementary, Middle, and High Schools) and deposit slips from buildings, she gives two copies of the deposit slip and the deposit to the "runner" to take to the bank and keeps the third copy (yellow). The bank keeps the top deposit slip (white) and stamps the second copy (pink) as verified. The "runner" returns the pink copy to the Assistant Treasurer who verifies that the bank stamped the slip as correct. The Assistant Treasurer uses the coded deposit slip to enter the receipt information into the computer system. Once the information is entered, two system receipts are generated. One receipt is stapled to the deposit slip and filed in the receipts binder and the other is returned to the building Secretary for their records.

When monies are received directly by the Treasurer's office, a deposit slip is prepared for the entire day's receipts and the deposit is taken to the bank by a Treasurer's Office staff member for deposit. Upon returning to the office, the deposit information is entered into the computer system by Assistant Treasurer and a system receipt is generated for the amount of the deposit.

Wire Transfers: Revenues received by wire transfers include State foundation and State and local grants. The remittance forms for electronic fund transfers are received either by e-mail or in the mail from the payer to the Treasurer or Assistant Treasurer.

Receipt of State Foundation: State foundation monies are received by wire transfer bi-monthly into the School District's general account from the Ohio Department of Education. Foundation settlements include restricted and unrestricted receipts, tuition payments from other districts, and various other State payments to the School District. The foundation settlement sheets which show the various sources of State aid are printed from the Ohio Department of Education's web page by the Assistant Treasurer. The Assistant Treasurer verifies that the net amount shown on the bank website corresponds to the net amount on the settlement sheet. Once the amount is verified, the Assistant Treasurer posts the revenue to the accounting system at gross. State foundation revenues are posted using a State Foundation Payment spreadsheet developed by the Treasurer using USAS codes provided on the settlement sheets. Memo expenditures are also posted for the State pension payments, tuition, and other items deducted from the foundation settlement sheet at month end by the Assistant Treasurer. Once the Assistant Treasurer has completed posting the transaction, then the system receipt number is written on the State Foundation Payment spreadsheet which is then attached to a copy of the Foundation Settlement Report and SF-3 report printed off the Ohio Department of Education's web page and filed in a binder with the previous Settlements.

Receipt of Property Taxes: Upon receipt of the check and tax settlement sheets from the Athens and Morgan County Auditors, the Assistant Treasurer prepares a spreadsheet outlining the amounts and account codes for the gross amount of the settlement and the deductions. The Assistant Treasurer then posts the transactions to the accounting system. Once the Assistant Treasurer has posted the transaction, a system generated receipt is printed and filed in the receipts binder. Advances on property taxes are handled in the same manner.

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Revenue Activity

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Receipt of Grant Monies: The School District receives Federal, State, and local revenue in the form of restricted and unrestricted grants. All grant applications are authorized by the Board. The School District receives Federal and State grant monies by wire transfer from the Ohio Department of Education based on an electronic funds request completed by the Assistant Treasurer. For most other grants, the Assistant Treasurer completes an electronic cash request monthly until the yearly allotment of money is received. The requests that are submitted electronically also include the awarded amount and the amount that has been requested to date. For the lunch/breakfast program, the Cafeteria Fiscal Manager submits a Site Claim Form (CN-6 and CN-7 reports) which identifies reimbursable amounts due to the School District. Upon receipt of the wire transfer through notification received from the grantor (usually the Ohio Department of Education) and bank activity, the Assistant Treasurer codes the receipt and posts the transaction to the system, generates a system receipt, and files it in a receipts binder. When monies are received by check, the Assistant Treasurer prepares a deposit slip, codes and prints the receipt, and files it in the receipt's binder. At the end of each month, in order for the reconciliation to be completed, the Assistant Treasurer compares the monthly receipts report to the email notices from the Ohio Department of Education and to the general bank account to verify that all receipts have been posted. The Treasurer also does a cursory review of the other receipts at the same time the month-end bank reconciliations are reviewed.

Athletic Event Receipts: In August, the Athletic Director is given a check for \$800 to be used as a change fund. In June, the change fund money is returned to the Treasurer's office by the Athletic Director. The School District charges admission to various athletic events. The tickets sellers include the Superintendent's secretary, the Athletic Director, and a representative from the athletic booster club. These individuals are not paid for their time of service. The Superintendent's Secretary (the Ticket Manager) prepares a Ticket Report form for use with each game that includes the event, date, and the sales prices of the tickets. The ticket seller is responsible for entering the beginning ticket number on the Ticket Report form. Individuals buying tickets pay the ticket seller and receive their ticket. The Ticket Seller enters the last ticket number sold on a Ticket Report form after the event is over. The Ticket Seller then computes the total sales by multiplying the number of tickets sold times the ticket price for students and the number of tickets sold for adults. The Ticket Seller then counts the money received and compares the cash received to the total ticket sales. If there are discrepancies in the amount received and the calculated ticket sales, an explanation is written on the Ticket Report form.

Upon reviewing the ticket sales at an event, the Ticket Manager/Superintendent's Secretary prepares a three part deposit slip and places the money in a deposit bag. If the athletic event is on a Friday or Saturday evening, the deposit bag and the white and pink copies of the deposit slip are then taken to the bank by either the Ticket Manager or the Athletic Director and placed in the overnight box; if the event is held during the week, the deposit bag and deposit slip are locked in the Superintendent's desk by either the Ticket Manager or the Athletic Director and given to the Treasurer's office the next day. On the next day of school, the Ticket Manager gives the Treasurer's office the Ticket Report form and the yellow duplicate of the deposit slip. The Treasurer's office verifies that the cash accountability section of the Ticket Report form and the deposit slip agree. When the Treasurer's office receives the pink deposit slip from the bank, a comparison is made between the Ticket Report form and yellow deposit slip. The Assistant Treasurer then posts the transaction to the system and generates a receipt. A copy of the system receipt, the yellow duplicate deposit slip, and Ticket Report form are given to the Athletic Director to file.

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Revenue Activity

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Student Activity Receipts: Throughout the school year, the Assistant Treasurer works with all Student Advisors to determine budget amounts for the various student activities.

Prior to the commencement of a fundraiser, the Student Activity Advisor prepares an additional form titled "Sales Project Potential Form" which is used to estimate the fundraiser's revenues and expenditures. The completed form provides detailed information about fundraiser dates, project, and vendor.

Upon completion of the fundraiser, the remaining section of the Sales Project Potential form must be completed to show the actual amount of money received, amount of product received, sold, and returned, and any related expenses. The summary of the Sales Project Potential report form is reviewed for completeness and signed by the building Principal. The Sales Project Potential form is then returned to the originator for retention with all other paperwork associated with the fundraiser. The Advisor is responsible for keeping track of the amounts turned in by each student. Student Activity Advisors fill out the deposit slip, including the amount of the receipts and the account codes, and then gives the money and deposit slip to the building Secretary. The Secretary then takes the money and deposit slips to the Treasurer's office. Once the Assistant Treasurer receives the money and deposit slips from buildings, she gives two copies of the deposit slip and the deposit to the "runner" to take to the bank and keeps the third copy (yellow). The bank keeps the original deposit slip (white) and stamps the second copy (pink) as verified. The "runner" returns the pink copy to the Assistant Treasurer who verifies that the bank stamped the slip as correct. The Assistant Treasurer uses the coded deposit slip to enter the receipt information into the computer system. Once the information is inputted, two system receipts are generated. One receipt is stapled to the deposit slip and filed in the receipts binder and the other is returned to the Student Activity Advisor for their records.

Receipt of Cafeteria Monies: A food service computer program is used to account for the sale of lunches at the two elementary school buildings, a middle school, and a high school. In all of the buildings, the food service cashier is the only individual who collects money directly from the students.

At each building, personal identification numbers (PINS) are set up for each student upon enrolling at the School District. Each student enters a PIN when purchasing breakfast, lunch, or ala carte items. The PIN identifies whether or not the student is to receive a free or reduced priced lunch. If a student would like to prepay an amount, the cashier will enter the amount of the advance payment into the register after the student has entered their PIN into the system. The system will automatically increase the student's account by the amount. As each student reaches the end of the food line, they enter their PIN into a keypad at the register. The cashier enters what the student has purchased, and the total is deducted from the student's amount available. All students are allowed to charge up to five dollars at any given time. On Friday of each week, the system prints a letter for any student with a balance due to take home requesting payment.

At the elementary school buildings, there is only one food service cashier. At the middle school and high school building, there are two food service cashiers. At the end of the day, the cashier pushes a button on the computer to begin the closing process. The cashier must then count the cash collected for the day and enter the amount into the register. The cashier verifies the amount of cash collected with the daily tabulation report printed from the register. The cashier then fills out the deposit slip and takes the cash and the deposit slip to the Treasurer's office (at the Coolville Elementary and the Middle/High School). At the Amesville Elementary school, the pink and white deposit slips and the money are taken directly to the bank and the yellow duplicate deposit slip and bank stamped pink copy is sent to the Treasurer's office. The Assistant Treasurer posts the transaction to the system and generates a system receipt and sends that along with the yellow deposit slip back to the cashiers for their records.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Revenue Activity

(continued)

At the end of the month, the entire month of deposit slips are compared to the monthly bank statement by the Assistant Treasurer during the bank reconciliation process.

The cashier at each building print the breakfast CN-6 and lunch CN-7 monthly reports from the food service computer program and sends the reports to the Cafeteria Fiscal Manager for verification. Once the reports are reviewed, the Manager submits them to the Ohio Department of Education for reimbursement.

Miscellaneous Receipts: The Board has a policy for setting student and classroom fees for materials used in the course of instruction and fines and charges 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.

As necessary, teachers remit a list of names, amounts owed, and description of the activity (monies owed for fees, overdue book fines, or damaged equipment) to the appropriate building Secretary if miscellaneous monies are owed from students. The building Secretaries have created spreadsheets which detail the information provided by the teachers. As fees are collected, each building Secretary counts the money, prepares the deposit slip, and updates the spreadsheet to credit the student for the payment. The money and deposit slips are then sent to the Assistant Treasurer and the aforementioned processes are followed. At the end of the school year, each building Secretary fills out a US 1 Account Report detailing the student fees collected, the amounts still uncollected, and the action taken to collect the remaining fees. The uncollected amounts are then rolled to the student's next school year unless the student is a senior, in which case the diploma is held until payment is made.

Throughout the fiscal year, the school facilities are rented to various individuals and organizations. The Treasurer's office prepares and mails invoices for use of the school facilities. The Treasurer's office reviews the outstanding invoices on a monthly basis. When payments are received, they follow the aforementioned processes.

Auditor of State Comments

1. Currently, the Treasurer's office does not receive a copy of Sales Project Potential form. Sales Project Potential forms should be filled out for all student activity fundraisers and a copy forwarded to the Treasurer's office upon the building principal's approval.
2. The School District should document the procedures for receipts including the staff positions involved and their functions. The document should be kept on file in the Treasurer's office, reviewed annually and updated if needed.
3. The School District does not currently have a prescribed pay-in form that is issued by the Treasurer's office to the various buildings/individuals that deposit collections to the fiscal office. The School District should develop a pay-in form that conforms to the recommended format described in the effective method for recording receipts section.
4. Although the School District utilizes a Ticket Report Form for Athletic Events, it is not being used at its full potential. The Ticket seller does not complete the unused ticket line on the form which could lead to possible theft. The Athletic Director should identify the starting ticket number, verify the ending ticket number, and review the Report form when turned in by the Ticket seller. The Athletic Director should verify that all unused tickets are returned and are locked up for future use.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Revenue Activity

(continued)

5. For athletic events, the Ticket Manager (Superintendent's Secretary) has control over the ticket sales form, sells tickets, counts the cash, prepares the deposit slip, and takes the deposit to the bank. These functions should not all be the responsibility of the Superintendent's Secretary. Segregation of duties is not being utilized by the School District, and steps need to be taken to eliminate this significant internal control issue.
6. The School District should adopt an NSF check policy. The School District currently deals with this situation as it occurs. The frequency of receiving NSF checks is very limited, which is why no formal policy currently exists.
7. The School District is not securing deposits and deposit slips during the school day at the various buildings. The School District should take actions to assure that all deposits and deposit slips are locked up until they are taken to the bank.
8. The School District should develop a supervisory function to oversee the amounts collected in the lunchroom lines versus the amounts deposited daily.
9. The School District should establish procedures that require cross-training and the periodic rotation of duties for revenue activity and the Treasurer should document his review and approval process.

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

Statutory Requirements

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

Certification of the Fiscal Officer: Each contract or order for the expenditure of money must be accompanied by a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the portion of the obligation to be performed in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrance. This certificate need be signed only by the subdivision's fiscal officer. Additionally, the subdivision may utilize blanket purchase orders for authorizing obligations for a particular purpose that do not extend beyond fiscal year end in an amount established by the Board. 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.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Purchasing Process

(continued)

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

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, 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 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).

Federal Hocking Local School District - Athens County

Financial Accounting Report

Purchasing Process

(continued)

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

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

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

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

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.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Purchasing Process

(continued)

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

Section 3301-92-05(A) of the Ohio Administrative Code States that the events for which each school district shall certify the availability of revenue pursuant to section 5705.412 of the Revised Code include, but are not limited to: (1) Negotiated agreements; (2) Appropriation measures; (3) Contracts for benefits; (4) Increased salary or wage schedules; and, (5) Construction contracts.

School District’s Purchasing Process

Purchases less than \$25,000 are to be approved by the Superintendent and Treasurer and do not require Board approval. The Treasurer approves the requisition to verify that the Superintendent has given approval for the purchase and that the correct account code has been used. All contracts or purchases which exceed \$25,000 are given to the Treasurer to make the necessary arrangements for public bidding. At the bid opening, the Treasurer receives and records the bids. The Treasurer makes a recommendation to the Board of Education. Upon approval by the Board, the Treasurer prepares and signs a 412 Certificate, which certifies that the School District has sufficient revenue to support the contract. The 412 Certificate is also signed by the Superintendent and President of the Board. However, with the School District being in fiscal emergency, the Financial Planning and Supervision Commission of the Federal Hocking Local School District also signs the 412 Certificate. After all parties have signed the certificate, it is filed with the appropriate contract. The School District maintains all contracts that have been certified as required by Section 5705.412, Revised Code, attached to the contract in the Treasurer’s office.

When goods or services are required, an employee completes a manual purchase requisition form. The manual purchase requisition form details the vendor name, address, items to be ordered, quantity, description, unit price, and total cost, as well as any required shipping information necessary for the goods. The completed manual purchase requisition form is then given to the employee’s immediate supervisor for approval and assignment of account codes. If the requisition is approved by a building principal, then the building Secretary enters the purchase requisition into the accounting system and then notifies the Assistant Treasurer. The original manual purchase requisition is retained by the building Secretary. The Assistant Treasurer then prints off the requisition from the system to be approved by the Superintendent and Treasurer. If the requisition is approved by any one else, the requisition is given to the Assistant Treasurer, who then gives it to the Treasurer and Superintendent for approval.

New vendors will only be added if the purchase cannot be made from a current vendor. If a new vendor will be used, the requisitioner must call the Treasurer’s office and report all necessary information. The Treasurer’s office records the information into the accounting system and adds the new vendor to the existing vendor list. Once this process is complete, the Assistant Treasurer notifies the appropriate building Secretary, letting them know that the new vendor is in the system for them to use.

The Technology Director also reviews such requisitions for any technology purchases to determine if the equipment complies with Board policy.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Purchasing Process

(continued)

After the Treasurer and Superintendent's approval of the purchase requisitions, the Assistant Treasurer will create a purchase order using the information from the requisition and print the purchase order with the electronic signature of the Treasurer, as long as unencumbered appropriations exist (verified by Assistant Treasurer) within the applicable account codes. The purchase order form includes the purchase order number, the date, the vendor that the purchase order is issued to, the quantity, description, unit price, and amount of each item ordered, the account code charged, the School District's tax exempt number, and the Treasurer's signature. Upon receipt of the signed purchase order, the Assistant Treasurer makes a copy of the purchase order and files the copy in the Treasurer's office and either sends the original purchase order to the vendor, or faxes the vendor a copy. The original purchase order is then sent to the building Secretary to file with the written requisition. To maintain control over the approval of purchases, the Treasurer and two Assistant Treasurers (Purchasing and Payroll) are the only individuals with a password to print requisitions and purchase orders.

Blanket purchase orders are prepared from an approved requisition and are limited to three months if permanent appropriations have not been approved. When the permanent appropriation resolution is passed, blanket purchase orders will be issued for the remaining fiscal year. For the School District, blanket purchase orders are used in areas such as food service, transportation, and building maintenance. The Financial Planning and Supervision Commission approve all purchase orders.

"Then and Now" purchase orders are prepared for purchases made without prior approval. "Then and Now" purchase orders must be approved by the Board if greater than \$1,000. If they are less than \$1,000, the Treasurer has the authority to approve such purchase orders. However, the Treasurer only approves the use of "Then and Now" purchase orders if the purchase is in the normal course of business and appropriations are available. If not, the employee who initiated the purchase is responsible for the expense.

Towards the end of each fiscal year, the Assistant Treasurer reviews the open purchase orders to determine whether a purchase order should be closed or whether invoices still exist against the purchase order. If invoices still exist against an existing purchase order, that purchase order will be carried over to the following year. If the remaining encumbrance is not expected to be spent, the purchase order will be closed.

Auditor of State Comments

1. The School District should update the Board Policies for purchasing to address the role of the Superintendent, the use of purchase orders, and the consequences for failure to obtain the Treasurer's certification.
2. The School District should send an IRS Form W-9 to all new vendors, including sporting officials paid out of the athletic checking account, to complete and return.
3. The Treasurer's office should perform an internet search to verify that vendors being used by the School District have no unresolved findings for recovery issued by the Auditor of State and document that such a search was performed.
4. The School District should establish procedures that require cross-training and the periodic rotation of duties for purchasing and the Treasurer should document his review and approval in the process.

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

Statutory Requirements

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

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

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

Section 3313.18, R.C., states that "...whenever 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."

Federal Hocking Local School District - Athens County

Financial Accounting Report

Cash Disbursements

(continued)

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

School District’s Cash Disbursement Process

The employee who initiated the purchase requisition form and the Assistant Treasurer (Purchasing) has the responsibility to ensure that goods and services are received prior to payment. When the goods or services have been received, the employee at the building who receives the shipment of goods (normally the Secretary) compares the contents to the packing slip, if available, and the packing slip to the requisition and purchase order, and dates, initials, and indicates on the purchase order whether the order is complete.

All invoices are mailed to the Treasurer’s office and the Assistant Treasurer to compare the items, quantities, and unit price on the purchase order and packing slip to the invoice. If an invoice is incorrect, the Assistant Treasurer will investigate why there is a difference and resolve any discrepancies. If the invoice amount exceeds the purchase order amount and the overage is immaterial, the purchase order will be revised to reflect the appropriate amount. For blanket purchase orders, the Treasurer receives approval from the Board at the organizational meeting to pay such obligations as they come due. If the order is not complete, then one of two things could happen. Either the invoice and purchase order are held until the order is completed to the School District’s satisfaction or a partial payment may be made. If the purchase order is partially complete and an invoice is received for the partial shipment, the Assistant Treasurer will compare the invoice to the packaging slip, if available, or to the purchase order. The Assistant Treasurer then dates, initials, and indicates that the invoice is for partial payment. If a partial payment is to be made, the Assistant Treasurer will attach the invoice to the copy of the purchase order and hold the purchase order until it is completed.

Bills are normally paid daily by the School District. If no purchase order exists for an invoice, the employee responsible for the order is notified and requested to process a requisition. If the amount of the requisition is over \$1,000, Board approval is obtained. After the requisition is approved, a “Then and Now” purchase order is created and signed. If it is not approved, the employee is responsible for the purchase.

The Treasurer and two Assistant Treasurers (Purchasing and Payroll) are the only people with a password to print requisitions, purchase orders, and budgetary checks with the electronic signature. To process bills for payment, the Assistant Treasurer (Purchasing) flags the purchase orders to be processed for payment and enters the appropriate invoice data in the accounting system. After the checks are printed, the Assistant Treasurer compares the amount of the check to the invoices to ensure that no discrepancies exist. Since the District uses a laser printer for check writing, a check run will print on single sheet pre-numbered checks. A second and third check run is completed on blank paper. The original check is mailed with the remittance documents to the vendor. The second copy, which serves as part of the voucher, is attached to the supporting documents. The vouchers are filed numerically by check number in the Treasurer’s office. The third copy of the check is filed by vendor. A “Check Register by Vendor” report is printed at month end and maintained in the Treasurer’s office. The Check Register lists amounts under each fund and function of the School District that can be used to compare vouchers to amounts posted within the accounting system.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Cash Disbursements

(continued)

If an accounts payable check is voided, it will have void written on it by the Assistant Treasurer and the electronic signature has void written across it. These voided checks are kept in a cancelled check file in the Treasurer's office.

Towards the end of each fiscal year, the Assistant Treasurer reviews the open purchase orders to determine whether a purchase order should be closed or whether invoices still exist against the purchase order. If invoices still exist against an existing purchase order, that purchase order will be carried over to the following fiscal year. If the remaining encumbrance is not expected to be spent, the purchase order will be closed.

Auditor of State Comments

1. The School District should document the procedures for cash disbursements including the staff positions involved and their functions. The document should also include procedures for invoices that exceed the purchase order amount. The document should be kept on file in the Treasurers' office.
2. The School District should assess adequate cross-training and the periodic rotation of duties for the entire cash disbursement process, most specifically the School District's computerized disbursement program, and the Treasurer should document his review and approval in the process.
3. The School District should develop and approve a "Then and Now" policy for invoices received that do not have a corresponding purchase order.
4. Per the School District's capital asset policy, capital assets should be identified, tagged and all information for an asset should be entered into the EIS software for reporting capital assets at the time of the payment for that asset.

Federal Hocking Local School District - Athens 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 Board. 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 school district should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain current contracts, information of the benefits that the employee has selected, withholding forms, and any other information required by federal and/or State laws. Safeguards should be in place to ensure that the same individual does not hire personnel, authorize pay rates, process payroll, generate and distribute pay checks, and reconcile the bank accounts.

Statutory Requirements

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

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

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

Section 3319.141, Revised Code, for certified school employees and Section 3319.84, Revised Code, for classified employees, provide for minimum vacation and sick leave to be granted to employees, and indicates the procedures for paying the employees for leave balances credited to them upon separation from service. However, bargaining agreements may grant more or less leave time and alter separation payments.

Section 3319.12 and 3319.082, Revised Code, requires each board of education to give notice annually, not later than the first day of July, to each teacher who holds a contract valid for the succeeding school year, of the salary to be paid during that year. The salary shall not be lower than the salary paid during the preceding school year unless such reduction is part of a uniform plan affecting the entire district.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Payroll Processing

(continued)

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 choosing. The classified employees of the Federal Hocking Local School District are represented by the Local 1292, Ohio Council #8, American Federation of State, County and Municipal Employees (AFSCME).

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 treasurer; Section 3319.01, Revised Code, for appointment and duties of the superintendent (including compensation); Section 3319.02, Revised Code, for appointment, evaluation, renewal, and vacation leave of other school administrators; Section 3319.08, Revised Code, for teacher employment and reemployment contracts; and Section 3319.10, Revised Code, for employment and status of substitute teachers.

School District's Payroll Processing Procedures

All employment applications are received and kept on file by the Superintendent's office. Recommendations for employment are made to the Board by the Superintendent and are recorded in the minutes by the Treasurer. Once employed, a copy of the license, transcript, evaluation, and other non-payroll related information for each employee is maintained in the Superintendent's office. The Treasurer's office maintains records for each employee relating to W-4, benefit deductions, leave usage, and balances.

Teachers and nine-month support staff employees earn their pay over nine months (roughly September through May) but are paid over twelve months. Twelve-month support staff employees and most administrators earn their pay over twelve months and are paid over twelve months. The School District's pay period begins on Sunday and ends on Saturday, fourteen days later. Employees are paid on Friday, six days after the pay period ending date. Payroll is processed for approximately 181 full and part-time employees. Most supplemental and extra pays (i.e., hours worked outside normal working hours) for classified and certified employees are included in their bi-weekly pay. All employees receive an earnings statement with each pay 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.

The two Assistant Treasurers are the only people with the password to print payroll documents and checks with the electronic signature. The School District's payroll software creates the payroll checks on blank check stock. Voided payroll checks have void written on them and the electronic signature is blacked out with a permanent marker. These voided checks are kept in the cancelled checks file in the Treasurer's office.

Administrators: Administrative contracts are prepared by the Superintendent based upon contract provisions approved by the Board. The contract establishes the annual salary and contract term for each administrative position, retirement contributions, annual vacation and personal leave days to be credited, sick leave accrual, and job duties and expectations for each employee. In addition, the contract states that the Board will provide each employee with health, dental, and term life insurance in the same manner and to the same extent as other employees. The contracts are reviewed and approved by the Board. The contract for the Superintendent runs from August 1 through July 31 of the subsequent year. Currently, the Treasurer's contract runs from January 1 through December 31, but will change to August 1 through July 31 in fiscal year 2009. Contracts are paid over twenty-six pays. The signed contracts are kept on file in the Superintendent's office.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Payroll Processing

(continued)

Certified: Teachers' salaries and benefits are governed by a negotiated agreement between the Federal Hocking Local School District and the Federal Hocking Teachers' Association. The present agreement covers the period of August 1, 2005, through July 31, 2008. The agreement establishes salary schedules that reflect annual rates of pay based upon years of experience and education. In addition, the agreement identifies the annual amount of personal leave to be credited and the sick leave accrual amount for certified employees. Certified employees do not earn vacation.

Contracts for the newly hired teachers and for the renewal teachers are prepared in a three step process. A potential hire's name or a current teacher's name up for renewal is added to the Board agenda. The Superintendent maintains a list of each teacher's years of service and education level in order to determine their annual salary based upon the negotiated agreement. Then the Superintendent recommends the list to the Board. Upon Board approval, as noted in the minutes, the Superintendent prepares a contract for each teacher. The contract is given to each teacher to be signed and returned within ten days to the Superintendent's office where it is kept. The renewal contracts for teachers are completed in April for the following school year. New teachers' contracts are completed during the summer once the School District determines if they need to fill teaching positions. The 182 day contracts become effective the first day of school and run through the last school day of the subsequent year.

Once the Assistant Treasurer (Payroll) receives the Board's approved list from the minutes, the Assistant Treasurer enters the contract amounts into the payroll system. The payroll system then calculates the amount to be paid to each individual over twenty-six pays. The Assistant Treasurer compares the data from the payroll system to the contract. These comparisons sheets are retained by the Assistant Treasurer for future reference in case of discrepancies. Certified employees receive a check every two weeks without the submission of a time sheet, as compared to the classified employees. This process remains unchanged throughout the certified employees' contract year unless modification is required for an unpaid leave of absence.

Supplemental contracts are issued at the same time contracts for certified employees are issued. All supplemental contracts are paid in two installments during the term of the contract. The final payment is made after all duties are completed and approval to pay has been received from the building Principal or Athletic Director.

Classified Employees: The classified employees' salaries and benefits are governed by a negotiated agreement between the Federal Hocking Local School District and the American Federation of State, County and Municipal Employees (AFSCME). The present AFSCME agreement is for the period of July 1, 2006, through June 30, 2009. The agreement sets forth hourly rates for all classified positions except classified supervisors and administrative positions which are paid based on annual salary amounts. The agreement sets forth the sick leave accrual amount and the amount of vacation and personal leave given to employees. In addition, the agreement defines overtime for each position and the rate of compensation for overtime. Classified employees are considered full-time if they work thirty-two or more hours per week.

Classified employees include the cafeteria workers, maintenance staff, educational and library aides, custodians, transportation staff, and secretaries. All classified employees complete and sign manual time sheets for all hours worked each pay period. The time sheet is submitted to the employee's immediate supervisor. After the employee's supervisor approves and signs the time sheet, it is forwarded to the Treasurer's office. The Assistant Treasurer (Payroll) re-computes the hours worked on the time sheets and compares leave usage to the approved leave sheets. Any discrepancies are resolved with the supervisor and/or the employee prior to processing.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Payroll Processing

(continued)

Overtime earned by hourly employees during a pay period is paid at the time the employees are paid for that pay period. For the School District, this means that overtime earned by an employee is paid six days after that pay period has ended. Overtime must be approved by the employee's supervisor prior to being worked. This approval is only verbal. The approved overtime is included on the employee's time sheet that is sent to the Treasurer's office. The Assistant Treasurer reviews the time sheets for the supervisor's signature and whether the overtime was earned on a holiday or other special situations. Any discrepancies are resolved with the supervisor and/or the employee prior to processing.

Leave: Vacation is credited monthly to each employee, while personal leave is credited annually at the beginning of the school year as indicated in the respective certified and classified negotiated agreements or in each administrator's contract. All full-time employees currently receive a monthly accrual of one and one-quarter days of sick leave.

A leave request form must be completed for all leave types. In the event that a substitute is needed, a building principal or the sub-line coordinator contacts a substitute.

Other types of leave available to employees are jury duty, bereavement leave, and assault leave. The type of leave desired, the hours to be used, and the date are entered on a leave form which is submitted to the employee's immediate supervisor. The supervisor, department head, or principal approves leave requests prior to the employee taking the leave, or if the leave is unplanned, the supervisor or principal will approve the leave upon the employee's return. Personal and vacation leave forms are forwarded to the Superintendent's office for final approval. Per the union contract agreement, the Superintendent can deny vacation leave if two or more employees desire the same vacation period and operational needs preclude granting all requests, in which case the leave is granted to the employee with the most seniority. Personal leave is limited also. No more than 10% of the classified employees by classification may use the same personal leave day. The Assistant Treasurer then checks the leave request forms to the Supervisor's biweekly employee absence cover sheet. The sheet summarizes leave for each pay period and includes the employees' names, dates of absences, types of leave, and the substitute's name.

Requests for leave without pay are approved by the Superintendent and the supervisor. The payroll system software subtracts the amount of leave without pay from the regular contract pay in the pay period or periods in which the leave is taken.

The Treasurer's office is responsible for keeping vacation, sick, personal, and other leave records for both certified and classified employees. A benefit balance report is run each month listing the outstanding balances for all leave types by employee. The approved leave sheets, for which actual leave was taken, are kept and used to verify balances in the event that an employee questions leave information as reflected on their earnings statements.

Other Employees: Annually, or upon request by a Board member, the Treasurer's office prepares a check for each Board member based upon the roll call recorded in the minutes of each meeting. Board members are paid \$125 per meeting for no more than fourteen meetings per year.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Payroll Processing

(continued)

Withholdings: Payroll, tax, and retirement forms are given to new employees to be completed, signed, and returned to the Treasurer's office, who then enters the information into the payroll system. If employees need to change their payroll tax, retirement, or annuity information, they can obtain the appropriate forms from the Treasurer's office, who then enters the changes into the payroll system. Withholding and various deduction forms are maintained in the Treasurer's office.

Payroll deductions for STRS and SERS are processed through the payroll system. The STRS report for payroll deductions is filed within five days after the pay period end date and SERS is filed within 15 days of month-end. The Board's share of retirement is paid by deductions from the State Foundation settlements. The Assistant Treasurer posts a memo check for the Board's share. The School District remits the employees' share of pension liability by check to STRS. On a bi-weekly basis, the School District transmits the payroll data to STRS. SERS employee contributions are paid monthly. A monthly report is generated that identifies the amount of the contributions to be paid, a listing of employees, the days worked, and gross earnings. The monthly contributions are remitted to SERS by check. The Assistant Treasurer verifies the employee contributions to be remitted through the SERS website. The monthly SERS report is then submitted electronically.

Payroll deductions for medical and life insurance benefits are processed through the payroll system. These deductions are remitted at the time payroll is processed.

The Assistant Treasurer runs a deduction listing once a month for health, dental, and life insurance contributions and tick marks it to the insurance roster to ensure that all changes in insurance benefits were processed correctly. Other deduction lists are forwarded to appropriate vendors/providers with the payment of employee deductions.

Payroll Processing: All payroll information must be received by the end of the day on Friday, one day prior to the end of the pay period. All payroll information is entered into the payroll system by the following Monday or Tuesday and a Test Calculation Report is run. The information is also entered into an excel spreadsheet and those totals compared to the test calculation report.

The Assistant Treasurer then prints the payroll checks and direct deposit data. A Check Register report is also run upon the completion of the printing of payroll checks. The Assistant Treasurer transmits the gross payroll and withholdings to the payroll account. The prior month must be closed before the first payroll of a new month can be posted. There can be a delay in posting payroll data due to the timing of the previous month's close-out.

Eighty percent of the School District's employees receive pay by direct deposit. The rest of the employees receive their payroll checks through interoffice mail sent to the building in which each works and either the principal or designee distributes the checks to each employee. During the summer, all paychecks are mailed.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Payroll Processing

(continued)

If mail delivery of a check is delayed by the mail service, the employee must wait seven days from the date the check is mailed before the Treasurer's office will issue a stop payment. If a check is lost or stolen, a stop payment is issued immediately. At that time, the payroll check is voided and a new check is issued. The check is marked as a "void" in the check register and a new check register report is printed and the bank is notified electronically of the new check issued. This information is used for processing the bank reconciliation. The payroll account is reconciled by the Assistant Treasurer (Budgetary).

Internal Revenue Service W-2 forms are processed after the last payroll for the calendar year. W-2 forms are mailed to all employees by the end of January. All W-2 information is submitted electronically to the IRS through the Social Security Administration website.

Auditor of State Comments

1. Board members should be paid on a regular basis with no exceptions. The School District's periodic or upon request system increases the likelihood of errors.
2. The School District should adopt a policy which requires all new employees to receive direct deposit.
3. The School District should establish procedures that require cross-training and the periodic rotation of duties for payroll processing and the Treasurer should document his review and approval in the process.

Federal Hocking Local School District - Athens 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 insure the timely payment of both principal and interest.

Statutory Requirements

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

School District's Debt

The amount of the School District's outstanding debt at June 30, 2007, was \$1,250,000 and consists of the following:

	Interest	Principal
	Rate	Outstanding
<u>General Obligation Bonds:</u>		<u>6/30/2007</u>
1986 Classroom Facilities Improvement Serial and Term Bonds	8.375%	\$520,000
1995 Classroom Facilities Construction and Improvement Bonds	6.500%	<u>730,000</u>
Total General Obligation Bonds		<u><u>\$1,250,000</u></u>

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

On December 18, 1986, the School District issued \$2,915,000 in voted general obligation bonds for school facilities improvements. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2011. The bonds are being retired through the Bond Retirement Debt Service Fund.

On May 8, 1995, the School District issued \$1,118,500 in voted general obligation bonds for building a new middle school. The bond issue included serial and term bonds in the amount of \$353,500 and \$765,000, respectively. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2018. The bonds are being retired through the Bond Retirement Debt Service Fund.

Auditor of State Comments

None

Federal Hocking Local School District - Athens 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 values. 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 the 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 board, reported to and promptly recorded by the Treasurer or Business Manager, and insurance records adjusted. The transfer or re-assignment of assets should be approved by an appropriate official and promptly recorded. Verification of the listed assets should be performed annually.

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 insure that items purchased are on hand or have been used. A physical inventory of all material items should be conducted at or near the fiscal year-end date.

Statutory 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.

Section 3313.41(A), Revised Code, requires that, except as provided in divisions (C), (D), (F), and (G) of this section, when a board of education decides to dispose of real or personal property that it owns in its corporate capacity, and that exceeds in value ten thousand dollars, it shall sell the property at public auction, after giving at least thirty days' notice of the auction by publication in a newspaper of general circulation or by posting notices in five of the most public places in the school district in which the property, if it is real property, is situated, or, if it is personal property, in the school district of the board of education that owns the property. The board may offer real property for sale as an entire tract or in parcels. Under division (B), when the board of education has offered real or personal property for sale at public auction at least once pursuant to division (A) of this section, and the property has not been sold, the board may sell it at a private sale. Regardless of how it was offered at public auction or 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.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Capital Assets and Supplies Inventory

(continued)

School District's Method of Accounting for Capital Assets

The Board of Education had adopted a formal policy regarding capital assets. The Board's policy states that the School District will conduct a complete inventory every five years, by physical count, of all District-owned equipment. The policy defines equipment as a unit of furniture or furnishings, an instrument, a machine, an apparatus, or articles which retain shape and appearance with use, is nonexpendable, and does not lose its identity when incorporated into a more complex unit. The policy requires the capitalization of capital assets valued over \$500 and with an estimated useful life of five years or more. All capital assets, regardless of the dollar amount, are recorded by the School District for insurance purposes. Improvements to capital assets, which increase the capacity or the operating efficiency of an asset; donated capital assets; useful lives; and depreciation are not addressed in the policy. Capital assets are recorded at historical cost. The School District contracted an appraisal firm to perform their first physical inventory for the year-ended June 30, 2000.

Updates have been made each fiscal year-end with additions and deletions identified by the School District and sent to the appraisal firm for processing. Transfers of assets have not been tracked. Depreciation is computed using the straight-line method with useful lives determined by the appraisal firm. The appraisal firm used a capitalization threshold of \$2,000, contrary to the \$500 threshold per Board policy.

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 the preparation of year-end financial statements in accordance with generally accepted accounting principals, determine adequate insurance coverage, and provide control and accountability. Board policy states that the Treasurer is assisted by the principals, directors, supervisors, and professional and support staff in the performance of these functions. The School District's most recent update from the appraisal firm was received January 4, 2007, for the year-ended June 30, 2006. The School District submitted additions on the transmittal form to the appraisal firm, but the appraisal firm did not record the additions since a \$2,000 threshold was used. The appraisal firm sends a tape to the School District's computer support consortium; however, the School District does not utilize the capital asset tracking system.

Per Board policy, audio-visual equipment is inventoried by the Librarian. The Librarian is also required keep an accurate record of textbooks, computer software, and library books. These items have not been updated since the original physical count of capital assets in 2000.

Computer equipment is inventoried by the Technology Coordinator per Board policy. This practice is followed. Leased equipment that the School District will eventually own must be inventoried, per Board policy. Movable equipment is inventoried by building, floor, and room number. Any item that has a model number or serial number has that number listed in the description for full identification. All items assigned to a building are the building administrator's responsibility. Land records are also not maintained by the School District and were not recorded by the appraisal firm.

The disposal of capital assets is not addressed in the capital asset policy. The Board of Education approves all disposals of capital assets; disposals are recorded in the Board minutes. Buses are sold to the highest offer; most other items are donated to individuals or other governmental agencies.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Capital Assets and Supplies Inventory

(continued)

The Board policy states the televisions, VCRs, computers, and any other items highly susceptible to theft have a permanent number engraved on them. It also states that a computer-generated listing of all equipment is supplied to each building and department. This listing is updated annually by the close of the school year, or not later than the second Friday in June of each year. This updated listing is then submitted to the Treasurer's office for computer update. None of these policies are followed by the School District.

School District's Methods of Accounting for Consumable Supplies

The School District currently does not have a separate consumable inventory policy. The capital asset policy states that a physical inventory of supplies should be taken at the building level at the close of the school year, or not later than the second Friday in June of each year. This updated listing is then submitted to the Treasurer's office for computer update. The School District does not completely follow this policy. Currently, each teacher, principal, and librarian submits a supplies and materials inventory sheet to the Superintendent's Secretary at the end of each school year which is kept on file. Actual or estimated values are not recorded on the sheets. The transportation department controls and tracks their inventory system separately. The head custodian of each building submits year-end inventory to the custodian supervisor. The Treasurer's office does not maintain supplies inventory.

As food is prepared, daily production sheets are completed by cafeteria staff. The production sheets detail how much food was made, how much was sold, and how much was left over. Excess food is frozen and used to supplement the amount of food made the next time that the menu item is offered. If food is not handled properly by the cafeteria staff and waste is generated, it is noted on the production sheet. If food purchases are received in a damaged condition it is noted in the food software system and the vendor is notified to receive a credit or a replacement.

The food service department performs a physical inventory of supplies at the end of each month. Each building's head cook completes a monthly inventory report and provides it to the Cafeteria Fiscal Manager. The Manager maintains these sheets that provide information such as food purchases, supply purchases, commodities received, commodity counts, food counts, non-food supply counts, and food usage. The Manager inputs the report totals into the food service software. The Manager uses this summarized report to complete the State Child Nutrition reports online which are submitted to the State Department of Education.

Auditor of State Comments

1. The capital assets policy should be updated to address the depreciation method used, the estimated useful lives for capital assets, disposal of capital assets, donated assets, and improvements to assets. The current policy is silent on these issues. Also, the policy should be amended for the verification of the existence of capitalized and non-capitalized assets to occur on a more frequent basis.
2. The School District should adopt procedures to track the transfers of assets.
3. The School District needs to account for land. Currently, information is available at the County Auditor's office providing the date the land was acquired by the School District along with its current value.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Capital Assets and Supplies Inventory

(continued)

4. The appraisal firm is not producing the capital assets information timely or in the format needed by the School District to report their capital assets in accordance with GAAP. The School District should use the EIS software for reporting capital assets provided by their A-site or modify the policy that requires the School District to maintain a capital assets accounting system.
5. The Librarian needs to update the physical count of textbooks, computer software and library books.
6. The School District should follow the Board policy of having permanent numbers engraved on items highly susceptible to theft.
7. The School District needs to ensure that their capitalization threshold is being followed or amend their policy.
8. The School District needs to maintain accountability for non-capitalized assets. The process for the verification of the existence of these assets should occur at least every two years.
9. The Board should amend the capital assets policy to include a process for the verification of the existence of School District capitalized assets at least annually.

Federal Hocking Local School District - Athens 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 or collateralized to insure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes. Cash management and investment activities of a school district are additionally governed by Sections 135.01 to 135.22, and 3313.31 and 3315.01 of the Ohio Revised Code.

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

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

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

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

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

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

Federal Hocking Local School District - Athens County

Financial Accounting Report

Cash Management and Investing

(continued)

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

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

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

The School District's Methods of Cash Management and Investing

The School District's treasury activities are the responsibility of the Treasurer, who receives all required continuing professional education attendance forms. These activities include transferring cash among the various bank accounts, investing, and reconciling the treasury with the accounting records. The School District maintains a general checking account, two payroll checking accounts, three checking accounts to maintain trust funds, an athletic checking account, and three Certificates of Deposit.

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

Bank and Account Description

Community Bank	General checking account used for the general operations of the School District.
Community Bank and Chase	Accounts used for the accumulation and distribution of funds for payroll of the School District.
Community Bank	Checking accounts used to account for three different trust funds for the purpose of awarding scholarships to students of the District.
Community Bank	Non-interest checking account for the purpose of paying sporting officials.
Community Bank	Certificates of Deposit used to account for a portion of the Hess and Christmann Trust Funds.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Cash Management and Investing

(continued)

All of the School District's depository agreements with the banks listed above are for periods of five years or less.

The School District receives a copy of all cancelled checks from Community Bank on a monthly basis. After receiving all bank statements, the Assistant Treasurer marks the checks as cleared and the current months deposit slips that have been turned into the office with the various bank statements each month. Upon completion of these verifications, the Assistant Treasurer will then prepare a reconciliation of all bank accounts of the School District with the School District's funds. Reconciling items are identified on the bank statement and are corrected and posted upon completion of the reconciliation process.

Voided accounts payable checks have void written on them by the account clerk and the electronic signature has void written across it. The voided check is then attached to the original voucher packet and filed in numeric order. Voided payroll checks have void written on them and the electronic signature is blacked out with a permanent marker. These voided checks are filed in numerical order with all other checks.

At the beginning of each fiscal year, the Board authorizes the creation of change funds throughout the School District. The food service department and athletic director maintain individual change funds. At the end of the school year, change funds are returned to the Treasurer's office.

The investment policy addresses authorized investments and liquidity. The Board has authorized the Treasurer to make investments of available monies from the funds of the School District in securities authorized by State law. Earnings on an investment may become part of the fund from which the investment was made, unless otherwise specified by law. Currently the School District has no investment earnings, other than the trust funds.

The funds that receive interest are the following:

- 001 General Fund
- 006 Food Service
- 007 College Scholarship Fund

Auditor of State Comments

1. The Board should update the School District's investment policy and submit it to the Auditor of State of Ohio. The latest revision of the policy is June 25, 2001.
2. The monthly bank reconciliation along with the monthly financial reports should be presented to and acknowledged as received by the Board of Education at the monthly Board meetings.
3. The School District does not have a formal interest allocation policy. The School District should establish a formal interest allocation policy by resolution. The policy should list the specific funds to receive interest and how the interest is to be allocated.
4. The Treasurer normally performs month end closing sometime between the last day of the month and the first four days of the next month. The Treasurer waits to close the month until all bank statements have been received and are reconciled. The Treasurer should close the month on the last business day of the month and any adjustments made during the reconciliation process posted in the subsequent month.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Cash Management and Investing

(continued)

5. The School District should establish procedures that require the cross-training of individuals in the Treasurer's office and the rotation among Treasurer's office employees of the reconciliation of school district accounts. The Treasurer should document his review and approval of the reconciliation process.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Financial Reporting

Description of Effective Method of Financial Reporting

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

Statutory Requirements

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

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

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

The School District's Method of Financial Reporting

The School District uses software provided by their A-Site, the South Eastern Ohio Voluntary Education Cooperative (SEOVEC). SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC provides both standard and customized month and year-to-date reports. SEOVEC also provides storage for all electronic information created by the School District using the SEOVEC software. The School District prepares month and year-to-date reports. Throughout the year, various payroll reports are kept on file in the Treasurer's office as well as on CD-ROM. The 4502, the unaudited cash basis annual financial report, is completed during the month of July and is submitted to the Ohio Department of Education electronically through SEOVEC.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Financial Reporting

(continued)

The School District prepares its external annual financial report on a modified cash basis of accounting. This is a comprehensive accounting basis other than generally accepted accounting principles.

The Board meets regularly once a month. At the regular Board meeting, the Treasurer provides Board members with the following:

1. A cash position report that summarizes by fund, total cash receipts and disbursements for the month and for the fiscal year as well as the cash balance and the outstanding encumbrances.
2. A cafeteria report which shows the monthly school lunches and breakfasts sold by school building and the cash receipts and disbursements for the month by school building.
3. The five-year forecast if updated from the previous month.

Auditor of State Comments

1. As soon as the financial audit is released, the audit report and the management letter should be distributed to all Board members that did not attend the post audit conference, rather than by request only.
2. The Treasurer should provide the Board with a report that identifies, by fund, the month and/or year-to-date revenues, expenditures and beginning and ending balances, the year-to-date estimated and actual revenues by major sources, the year-to-date appropriations, expenditures and encumbrances, and a monthly bank reconciliation that displays all reconciled bank balances equal to the total fund cash balances.
3. The School District prepares its annual financial report on a cash basis. Under Section 117.38, Revised Code, the Auditor of State has adopted rules that require school districts to report in accordance with generally accepted accounting principles and file an annual financial report within one hundred fifty days after the close of the fiscal year. A school district that does not file its financial report at the time required by this section shall pay to the Auditor of State twenty-five dollars for each day the report remains unfiled after the filing date up to a maximum of seven hundred fifty dollars. The School District should prepare its annual financial report in accordance with generally accepted accounting principles.
4. The Treasurer should provide to the Board and the Financial Planning and Supervision Commission a summary that highlights the monthly budget and actual data, any anticipated amendments to the estimated revenues and appropriations, anticipated cash advances to avoid deficit cash fund balances, and any other events that affect the revenues or expenditures of the School District.

Federal Hocking Local School District - Athens 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 that permits the public to understand and appreciate the rationale behind the Board's decisions. Minutes of proceedings should be approved at the subsequent meeting. A resolution should be limited to one subject, which should be clearly expressed in its title. Proposed legislation should be drafted and available for all 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 to 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 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

Regular meetings of the Board are scheduled once each month. Times and dates of regular meetings are set at the organizational meeting in January for the calendar year. The meetings are videotaped and a complete video tape and typed minutes of Board meetings are maintained in the Treasurer's office. The Board has waived the reading of minutes at meetings provided such minutes has been distributed to the Board members at least two days prior to the next meeting and that copies of such minutes are made available to the public and the news media at the time of the meeting. Minutes of proceedings are approved at subsequent meetings. The minutes contain sufficient facts and information to permit the public to understand and appreciate the rationale behind the relevant decision.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Recording Official Proceedings

(continued)

Per Board policy, minute records are retained permanently. An index of resolutions alphabetically by subject is kept. Resolutions are limited to one subject matter. In the adoption or passage of a resolution, the yeas and nays are entered into the minutes and the resolution is signed by the presiding officer and the Treasurer. The minutes only reflect the general subject matter of discussions in executive sessions.

Auditor of State Comments

1. The Treasurer should take steps to secure all video tapes that contain Board proceedings in a locked safe.

Federal Hocking Local School District - Athens County

Financial Accounting Report

Conclusion

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

It is our opinion that the current methods of the accounting and financial reporting of the Federal Hocking 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.



Mary Taylor, CPA
Auditor of State

FEDERAL HOCKING LOCAL SCHOOL DISTRICT

ATHENS 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
DECEMBER 28, 2007**