



**Auditor of State
Betty Montgomery**

**East Cleveland City School District
Cuyahoga County, Ohio**

Report on Accounting Methods

Local Government Services Section

**East Cleveland City School District, Cuyahoga County
Report on Accounting Methods**

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CERTIFICATION

Section 3316.10(A), Revised Code, requires that within ninety days after the declaration of the existence of a fiscal emergency condition pursuant to Section 3316.03(B), Revised Code, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports of the East Cleveland City School District. This report states whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

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

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 18, 2003

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Purpose

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

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

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

East Cleveland City School District Cuyahoga County

Financial Accounting Report

Governance Overview

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

On March 12, 2003, the School District was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. Commission membership is as follows:

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

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

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

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

**East Cleveland City School District
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Financial Accounting Report

Governance Overview

(continued)

As of the date of this report, the Commission has assumed the power to approve contracts entered into by the East Cleveland City School District for personal services, purchases in excess of \$10,000, and employment contracts for all positions other than temporary positions. The Commission also requires purchase orders under \$10,000 to be approved by the Finance and Management Services consultant of the Ohio Department of Education.

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

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

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

Auditor of State Comments

The Commission has not yet fully defined the level of fiscal management and control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06 (A)(2) of the Ohio Revised Code. The complete role of the Commission and the School Board are to be addressed in the financial recovery plan. The financial recovery plan is due August 4, 2003.

**East Cleveland City School District
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Financial Accounting Report

Budgetary Process

Description of an Effective Budgetary System

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

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

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

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 fund balance and the estimated revenue of each fund. Prior to June 30, the school district must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year; however, any reserve balance account and the principal of any nonexpendable trust fund is to be excluded. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the school district treasurer.

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

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Financial Accounting Report

Budgetary Process

(continued)

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

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

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

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

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

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

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Financial Accounting Report

Budgetary Process

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Five-year Financial Forecast: Section 5705.391, Revised Code, requires school districts to include five-year projections of revenues and expenditures in a spending plan. Under Section 3301-92-04 of the Ohio Administrative Code, school districts are to submit to the Department of Education a five-year projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. The projection contains information and is in a format prescribed by the Department of Education and Auditor of State. The annual projection is filed upon the adoption of an annual appropriation measure, but no later than October 31.

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

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

The certification under Section 5705.412 of the Revised Code shall be based on the current five-year projection. If the revenue assumptions or the revenue estimates used as a basis for the certificate differ from the current five-year projection, the projection needs to be updated to reflect the new information. If the certificate is associated with a contract or obligation that results in additional costs or changes in the expenditure assumptions in the current five-year projection, the projection must be updated to reflect the new information. Any change to the five year projection must be approved by the board of education. Each school district shall maintain sufficient documentation to support these changes.

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

School District's Budgetary Process:

Prior to January 15, the Board of Education adopts a tax budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing the expenditures for all funds other than agency funds. Public hearings are conducted to obtain taxpayer comments. The Board-adopted budget is filed with the Cuyahoga County Budget Commission no later than January 20. The treasurer, with input from the superintendent, prepares the current year operating budget (tax budget) and presents the proposed budget to the Board of Education for adoption.

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Financial Accounting Report

Budgetary Process

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Prior to April 1, the Board of Education accepts, by resolution, the tax rates as determined by the county budget commission and receives the commission's certificate of estimated resources. The resolution may be delayed until a later date approved by the State Tax Commissioner.

After the close of the fiscal year, the treasurer certifies fiscal year-end fund balances to the budget commission and requests an amended official certificate of estimated resources that includes unencumbered cash balances from the preceding year.

The School District 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 estimated resources available for each fund. A permanent appropriation measure is adopted by October 1, each year. The treasurer submits appropriations at the fund, special cost center, and function level for the Board to review and discuss; however, the Board adopts the appropriations at the fund level. Upon passage, the treasurer allocates the appropriations to the various accounts within each fund based on prior year actual amounts and any anticipated changes for the current fiscal year. Building principals and department heads may request adjustments to appropriation amounts under their control by submitting a request to the treasurer. The treasurer reviews the request and, if the amounts are reasonable, and will not adversely affect other appropriation amounts, will approve and post the changes.

The treasurer reviews estimated revenues and appropriations quarterly. A request for an amended certificate is prepared, if needed, and a supplemental appropriation measure is prepared for Board approval. The supplemental appropriation measure adjusts appropriations to the total estimated resources by fund anticipated in the new amended certificate. After approval of the supplemental appropriation measure, both the request for an amended certificate and the supplemental appropriation measure are sent to the county budget commission.

Appropriations for all student activities are set at the fund level in the appropriation measure; however, the Board, by policy, is to authorize those student activity programs it wishes to be operational by approving the budget and purpose statements each year. The student activity budget forms are prepared by the activity sponsor and approved by the building principal. The form identifies the activity, building, purpose, estimated balance at the start of the fiscal year, projected sources of income, major disbursements, and estimated fund balance at the end of the fiscal year.

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

Auditor of State Comments

1. The School District certified the fiscal year-end 2002 balances to the budget commission in September 2002. The Cuyahoga County Budget Commission has requested the Certificate of the Total Amount from All Sources Available for Expenditures and Balances be submitted within 15 day after the end of the fiscal year.

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Budgetary Process

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2. The legal level of control, the level at which spending in excess of the budgeted amounts is a violation of law, should be established in the first appropriation measure adopted by the Board. Supplemental appropriation measures should be consistent with this level throughout the year. The Board of Education should define the legal level of control, by board policy. The policy should also require management to explain and justify why amendments to existing appropriations are needed.
3. Expenditures plus encumbrances are not to exceed appropriations; however, management allows this to occur at the legal level of control and in the various accounts that receive allocations by the treasurer. The allocation of Board approved appropriations is at the discretion of the treasurer. There is no Board policy identifying, establishing, or requiring the establishment of controls over this process. The Board should consider adopting appropriations at the fund, function, and major object level.
4. The treasurer should submit, on a timely basis, any supplemental appropriation measure to the county budget commission. By statute, an appropriation measure is not effective until the county auditor files with the appropriating authority and the superintendent of public instruction, a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the official estimate or amended official estimate. Spending prior to the effective date of an appropriation is a violation of law.
5. The Board has adopted appropriations in funds that do not appear on the amended certificate. As part of the budgetary process, fund appropriations should be compared to the estimated resources on the amended official certificate.
6. By statute, appropriations are limited to the estimated resources in the existing amended official certificate of estimated resources. The School District routinely adopts supplemental appropriation measures and then requests an amended official certificate that equals the new appropriation amounts. If new or additional revenue is anticipated and the Board desires to spend it, an amended certificate should be requested before the appropriations are passed.
7. The treasurer should request a reduced amended certificate from the county budget commission when it is determined the actual revenues will be less than the amount included in the current amended official certificate. Corresponding reductions to appropriations should be made if necessary to limit appropriations to amended certificate amounts.
8. Documents received from the county budget commission do not always agree with information submitted by the School District. The documents received from the county budget commission should be reviewed upon receipt and corrections requested if needed.
9. Official budgetary documents are difficult to locate and, if located, they do not indicate the dates prepared and filed. The School District should properly maintain a file of these records.

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Financial Accounting Report

Budgetary Process

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10. The Board, by policy, is to authorize those student activity programs it wishes to be operational by approving the budget and purpose statements each year. The Board minutes and student activity budget forms do not indicate Board approval of the student activity programs or budgets. In addition, appropriations are to be set with the approval of the budget and purpose statement and the appropriation resolution. The Board needs to revise its policies so that it is clear which amounts are to be used for budget purposes.
11. Budgeted revenues and appropriations in the accounting system do not agree with the most current supporting documents. Amendments should be posted to the accounting system after approval by the board for appropriations and the budget commission. The treasurer should compare budgeted amounts in the accounting system to the current amended certificate and appropriations measures as passed by the board to ensure that recorded amounts are accurate.
12. The Board has adopted a policy that authorizes the treasurer to reallocate appropriations during the fourth quarter of the fiscal year. The board may not delegate its authority to establish appropriations. The appropriation process is a function of the legislative authority that must be performed by those specific individuals elected to fulfill that responsibility; therefore, the board should eliminate this policy. If there is a need to amended appropriations, the treasurer should prepare the necessary documents and request appropriate action by the Board.
13. The Board-adopted appropriation measures did not have a certification of available revenues attached as required by Section 5705.412, Revised Code. Section 5705.412, Revised Code requires a certificate of available revenue be attached to each appropriation, except a temporary appropriation measure meeting certain criteria. 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.
14. The treasurer should maintain a continuing record of the contracts which have been certified. This record includes, but is not limited to, vendor name, contract amount, contract amount allocated by year, purchase order number, and date. There is no list for fiscal year 2003.
15. The forecast required to be submitted by October 31, 2002 was not approved by the Board of Education until November 18, 2002. The forecast presented to the Board and the Financial Planning and Supervision Commission on May 12, 2003, did not include assumptions. The School District should adopt a five-year forecast and submit it to the State Department of Education by October 31, each year. The School District should update its forecast, including the assumptions, as circumstances change and resubmit it to the State Department of Education during the year. The treasurer should maintain and attach adequate documentation to support each forecast.
16. The School District is accounting for the proceeds of a .5 mill Classroom Facilities Maintenance Levy in the Classroom Facility capital projects fund. The School District should establish fund 034, Classroom Facilities Maintenance special revenue fund, to account for the proceeds from the voted tax levy and restate the beginning fund balances for the prior years accumulated levy proceeds.

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Financial Accounting Report

Revenue Activity

Description of an Effective Method for Recording Receipts

The receipting process should allow for the consistent classification and identification of each receipt. All receipts should be promptly recorded, safeguarded and deposited at least daily. The receipt or pay-in-order form should be a consecutively pre-numbered multi-part form. The receipt should bear the name of the entity and reflect the date received, the payee, amount, the purpose or nature of the receipt, account code, and the signature of the person preparing the receipt. Supporting documents should be attached to a copy of the receipt and filed numerically or by payee. All receipts should be deposited and posted in a timely manner.

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

School District's Receipt Process

The School District receives money in the form of wire transfers, cash, money orders and checks. The revenues received by wire transfer are state foundation monies, grants, Medicaid funds, ROTC funds, and property taxes. The remittance forms are received in the mail from the payor. The purchasing agent receives and sorts the mail for the treasurer's office daily. The purchasing agent codes wire transfers and grant receipts with the fund and receipt code. The treasurer's secretary prepares the receipts for the electronic deposits. The treasurer and purchasing agent verify receipts for correctness. All receipts are posted by the treasurer's secretary.

The treasurer's secretary also receives from the bank the yellow copy of the deposit slips, which are date stamped and verified to the content of the deposit bag. These deposit slips are matched to the white copy of the receipts used in the various buildings and sent to the treasurer's office via inter-office mail. The treasurer's secretary also posts these receipts. The building secretaries, student activity coordinator, purchasing agent, and treasurer's secretary code receipts following guidance provided by the treasurer.

All deposits are taken to the bank by a courier in a sealed deposit bag. The deposit bags are pre-numbered, single use bags provided by the bank. Each bag has a space to record the date, amount, and name of the individual preparing the deposit and placing the contents into the bag. This deposit information is written on a tear off strip which is retained by the preparer and attached to the pink copy of the deposit slip which remains in the deposit book. When the information is written on the strip, a carbonless copy of the information is transferred to the actual bag that goes to the bank.

All employees who handle money are bonded by position with the School District paying the cost of the position bond. All receipts prepared in the District use pre-numbered receipts.

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Revenue Activity

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Receipt of State Foundation: State foundation monies are wire transferred bi-monthly to the School District's general account from the Ohio Department of Education. The foundation settlement sheets which show the various sources of state aid are mailed to the School District. Generally, foundation settlements include restricted and unrestricted receipts, tuition receipts and various other payments to the School District. The foundation statement is given to the treasurer's secretary who posts the revenue at gross and the memo expenditures for the STRS, SERS, tuition, and other items. State foundation receipts are posted using the USAS codes provided on the settlement sheets.

Receipt of Property Taxes: Upon receipt of the EFT advice and tax settlement sheet from the Cuyahoga County Auditor, the treasurer prepares a sheet outlining the amounts and accounts for the gross taxes and the memo expenditures for the deductions. The treasurer's secretary prepares a receipt and posts the information.

Receipt of Grant Monies: The School District receives federal, state, and local revenue in the form of restricted and unrestricted grants. When monies are received by direct deposit, the purchasing agent is notified by letter that a deposit has been made to the School District's account. The purchasing agent identifies the payor, amount, and type of revenue being received. The treasurer's secretary prepares a receipt and posts it. When payments are received by check, the treasurer's secretary prepares a revenue sheet that indicates the amount and type of revenue, prepares a receipt and posts the transactions. The treasurer's secretary prepares the deposit slip and places the money in a sealed, numbered deposit bag.

Athletic Event Receipts: The School District requires payment for attendance at football and basketball games. The athletic director prepares a Ticket Accountability/Cash Accountability form for use with each game that includes the event, date, and beginning ticket number of each ticket roll being used. Persons buying tickets pay the ticket seller and receive their ticket. The ticket is given to a ticket taker at the entrance to the game, who tears the ticket in two. The ticket seller turns the unsold ticket rolls and money over to the athletic director. The athletic director enters the last ticket number sold and amount collected on a Ticket Accountability/Cash Accountability form. Ticket sellers are provided with a change fund from the athletic director's personal money. The change fund is returned to the athletic director at the end of each event separate from the ticket proceeds.

The athletic director computes the sales and compares the amount collected to the number of tickets at the ticket price for student and adult tickets. If there are discrepancies, they are resolved with the ticket seller the same day. The money and the Ticket Accountability/Cash Accountability form is locked overnight and turned in to the high school student activities coordinator the next school day. The high school student activities coordinator prepares a receipt giving a copy to the athletic director and prepares a deposit ticket. The deposit ticket and money are placed in a sealed, numbered deposit bag, which is delivered to the bank by courier. Copies of the receipt and deposit slip are sent to the treasurer's secretary, who posts the revenue.

The athletic director sells program advertising space for the fall sports programs. A list of advertisers is prepared that includes the size of the ad and the amount received. The receipts are periodically remitted to the high school student activities coordinator. The athletic director also receives money from an individual who operates the concession stand at athletic events. The athletic director turns in the net concession proceeds to the high school student activities coordinator the next school day. The high school student activities coordinator prepares the receipt and bank deposit slip.

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Financial Accounting Report

Revenue Activity

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Student Activity Receipts: When a student organization has a fund-raiser, a fundraising projection form must be completed and signed by the advisor. The top portion of the form provides information as to what will be purchased, proposed cost per unit, and proposed sales price per unit. The form requires approval of the building administrator (principal) prior to the start of any fund raising project. Upon completion of the fund-raiser, the bottom half of the fundraising projection form must be completed. The bottom portion is completed at the end of the project by the activity advisor and provides detailed information about purchases, sales, and total amount deposited with the treasurer. The activity advisor, building administrator (principal), and the treasurer are to sign and date the bottom portion of the form. When the form is completed it is given with the money collected to the high school student activities coordinator or building secretary at the elementary and middle school buildings, who verifies the form for accuracy, counts the money, prepares the deposit ticket and receipt report, and sends the money in a sealed, numbered deposit bag to the bank. The deposit slip, receipt copy and receipt report are sent to the treasurers' secretary, who posts the revenue.

Receipt of Cafeteria Monies: Money is collected in the individual building lunchrooms. A food service sales form which documents the daily collections per the register tapes, number of meals sold, and other information is completed by the cafeteria manager. The money is counted and checked against the food service sales form by the cafeteria manager and assistant manager and a deposit slip is prepared. The money and deposit slip are placed in a sealed bank deposit bag by the cafeteria manager, picked up by courier, and taken to the bank each day. A copy of the food service sales form and register tapes are retained by the cafeteria manager. The food service secretary collects a copy of the food service sales forms from the managers daily. The food service secretary enters the information onto a spreadsheet. The report is sent to the treasurer's office weekly for posting. The bank deposit slips are compared to the food service secretary's reports and spreadsheet by the treasurer during the monthly reconciliation. The food service supervisor is notified of any differences and resolves them.

Miscellaneous Receipts: Money for fees, overdue book fines, damaged equipment, and student ID cards is brought to the building secretary. The secretary counts the money and completes a pre-numbered receipt and deposit ticket. The money and white and yellow deposit slips are placed in a sealed, numbered deposit bag. The bag is picked up by a courier and taken to the bank. The bank counts the contents of the bag and verifies the amount. The yellow copy of the deposit slip is sent to the treasurer's office to be matched with the receipt information. The adult education department collects fees from the adult students and processes collections in the same manner as the building secretaries. The adult education department has a petty cash fund it uses as a change fund.

The treasurer's office prepares and mails invoices for several activities. The School District is currently invoicing for tuition, an employee's salary and an after-school program. The invoices are maintained in a folder until the payment is received and posted. The treasurer reviews the folder on a regular basis. When payments are received, the treasurer writes the fund and receipt code on a copy of the invoice and gives the check and payment information to the treasurers' secretary who prepares a receipt and the deposit slip. The money and deposit slip are placed in a sealed bank deposit bag. The treasurer's secretary then posts the receipt.

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Financial Accounting Report

Revenue Activity

(continued)

Auditor of State Comments

1. The School District has been recording the homestead and rollback receipts in the General Fund instead of the various funds that receive property tax revenues. The homestead and rollback receipts were not recorded in the correct funds during fiscal years 2000, 2001, 2002 and 2003. The School District should restate fund balances for this error.
2. The School District has been recording property taxes based on the tax settlement sheets in the Classroom Facilities Fund (010) since collection of the revenue began. The Cuyahoga County Auditor should be notified of the error on the tax settlement sheets. The School District should record this revenue in the Classroom Facilities Fund (034) special revenue fund. The School District should restate fund balances for this error.
3. The athletic director uses personal money as a change fund at athletic events. The athletic department should have a change fund established for the sale of tickets.
4. The School District should have a formal contract with the individual operating the concession stands at athletic events.
5. The adult education department should request the establishment of a change fund and not use their petty cash fund to make change for the payment of student fees.
6. The School District should use a night depository for money collected at athletic events when the amount exceeds the limits specified in Board Policies.
7. The student activity advisor and building administrator should ensure that the bottom half of the fund raising projection form is completed immediately at the end of the project and immediately filed in the treasurer's office.
8. All forms used to account for the collection of monies should be initialed by the preparer and include supervisory review.
9. The posting of receipts should be reviewed daily rather than at the time bank accounts are reconciled.
10. The School District should record the \$10,000 personal property tax exemption using receipt code 3130, property tax allocation, rather than 1120, tangible person property tax.
11. The treasurer should review the collection of receipts for cafeterias sales and athletic events to ensure there is a segregation of duties and/or compensating controls to ensure the accuracy of the collections and the deposit of all moneys.

**East Cleveland City School District
Cuyahoga 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 and the purchasing process should be integrated with the budget. The process should include selection of the vendor with the best price as well as authorization by an appropriate individual. In addition, authorization must include the fiscal officer's certification of the availability of funds stating that the amount has been appropriated and is 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 obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of 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 over a three month period, not extending beyond the end of the fiscal year. A general certification of up to \$5,000 may be established for any appropriation line item and need not identify a specific vendor. This type of purchase order is used for routine recurring items or for unanticipated emergencies.

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

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

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

**East Cleveland City School District
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Financial Accounting Report

Purchasing Process

(continued)

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

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. Motor vehicles, except school uses (ORC sections 3313.172, 3327.08);
2. Services;
3. Insurance;
4. Fuel;
5. Textbooks;
6. Computer hardware and software used for instructional purposes;
7. Educational materials used in teaching;
8. 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,
9. Energy conservation measures (with certain restrictions provided by statute).

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.

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."

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Purchasing Process

(continued)

School District's Purchasing Process:

The Board has established several policies pertaining to purchasing and competitive bidding. The School District has also published a Purchasing Manual which amplifies the policies and explains purchasing procedures for administrators and administrative staff involved in the purchasing process. Contracts for construction or demolition of buildings or for any improvements or repairs which exceed \$25,000 are let only after bids are solicited and received. The business manager assembles the proper specifications and makes the necessary arrangements for public bidding and price quotations. The treasurer receives the bids and price quotations and records them. The business manager makes recommendations to the Board. Upon approval by the Board, the business manager processes purchase orders to those bidders awarded contracts and notifies the other bidders of the results of the bidding. Purchases over \$500 but under \$25,000 are based on price quotations submitted by at least three vendors. Generally, purchase quotes are retained in files by the individual department for smaller purchases of \$250 or less per item and the purchase quotes for more than \$250 per item are retained by the Purchasing Agent. Bids and quotes for the facility improvement construction projects are maintained in files by the School District's construction project liaison.

When goods or services are required, an employee completes a manual requisition form with the vendor name and address, items to be ordered, including quantity, description, unit price, and total cost, as well as any required shipping information. The requisition is given to the building principal or department supervisor for approval and assignment of account codes. Once the supervisor approves the requisition, it is sent to the building or department secretary to be entered in the computer. If a vendor is new the secretary notifies the treasurer's office and a vendor number is assigned. Once the secretary has entered the information, the requisition is printed and the original hand written document is attached and the supervisor's signature is obtained. The printed requisition and the original hand written documents are sent to the Purchasing Agent in the treasurer's office. The requisition is automatically numbered when they are entered in the system. The number is stored in the computer for future reference.

The purchasing agent, a functional employee of the treasurer's office, receives the requisitions for review of appropriateness and coding. The purchasing agent initials and approves the forms as the superintendent's representative and forwards the requisitions to the accounts payable clerks. Requisitions that are not approved, incomplete, or missing documentation are returned to the building/department supervisor. The treasurer's office employs three clerks who handle purchasing and accounts payable. The clerks also review availability of appropriations. The clerks process approved requisitions and purchase orders are printed. The purchase orders are given a sequential number by the accounting system. They are always loaded on a designated printer in the treasurer's office. The white copy goes to the vendor. The yellow copy and pink copy are kept until an invoice is received. The green copy and onion skin copy is returned to the building/department supervisor. The supporting documentation is attached to the purchase order and returned to the purchasing agent for signature. The purchase order is then sent to the treasurer, who verifies the availability of appropriated funds at the fund level and account codes.

If funds are not available, the treasurer sends the requisition back to the employee initiating the requisition and the purchase order is cancelled. If funds are available the treasurer signs the purchase orders and returns them to the clerks for distribution and filing. A purchase order that is not needed, or can not be filled by the vendor is voided in the system and the physical copy of the purchase order is marked "cancelled" and filed numerically.

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Financial Accounting Report

Purchasing Process

(continued)

The treasurer, superintendent, and president of the Board of Education sign a certification that adequate revenues are available to maintain all personnel and programs and attach it to negotiated agreements, increased salary or wage schedules, construction contracts, and purchases over \$10,000.

The computer system flags vendors that may require an IRS Form 1099 at the time the vendor is entered into the system. Vendor information needed for the 1099 is obtained by the requisitioner and the accounts payable clerks. The computer system will generate a listing of all 1099 vendors at year-end. It will include those unincorporated service vendors who receive \$600 or more during the calendar year. The treasurer and purchasing agent review the 1099 report and print the 1099s, which are then mailed by January 31. The treasurer files all reports with the Ohio Department of Taxation and the Internal Revenue Service.

The School District bidding policy requires that the treasurer receive the bids and price quotations and record them. Board policy requires that upon approval of bids by the Board, purchase orders are issued those bidders awarded contracts and notification is made to other bidders of the results of the bidding. The treasurer receives the bids and bids are opened by the purchasing agent, the department head responsible for the purchase, and, or, the construction project manager. Notification is generally made only to the successful bidder with the award of the contract and issuance of a purchase order.

The Financial Planning and Supervision Commission has limited the School Districts purchasing activities by reserving to itself the approval of the legal firms doing business with the Board of Education and defining the scope of the legal counsels' responsibilities and the hourly rates to be charged; requiring the establishment of a policy identifying the occasions for which legal representation shall be required; the procedures to be followed when exceptions occur; and that a purchase order be issued for each legal counsel, by the treasurer, estimating the total legal fees for the year.

Auditor of State Comments:

1. Board of Education policies and the purchasing manual require price quotes for various levels of purchases. These documents are not always in the voucher packets. The School District should obtain quotes from vendors and attach quote documentation to the requisition that goes with the purchase order in the voucher packet, or attach the documentation to the pink copy of the purchase order and file it by purchase order number.
2. Contracts have been encumbered based on Board resolutions rather than signed and certified contracts. The treasurer should ensure that signed contracts are in place prior to encumbering funds, allowing work to be performed, and making payments to vendors.
3. The School District maintains a file of the certificate of adequate revenues but does not always attach them to the contracts. The School District should ensure that the certification of adequate revenues ("412" certificate) is signed and attached to all qualifying contracts at the time the contract is authorized by the Board.

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Financial Accounting Report

Purchasing Process

(continued)

4. The bid openings for some of the construction projects were conducted by the project manager and general contractor without the presence of the treasurer. The treasurer should attend all bid opening proceedings, retain formal minutes of bid opening proceedings, and should have all original bid documents and contracts on file in a central location.
5. Contracts or agreements should not be signed prior to the date the Board authorizes the contract or agreement.
6. The School District should keep blank purchase order forms in a locked area overnight.
7. The School District should clearly mark all blanket and super-blanket purchase orders as blanket and super-blanket purchase orders.
8. Purchase orders have been issued and approved after the date of the invoice rather than a Then and Now Certificate. The School District should sign the Then and Now Certification on the purchase order.
9. The School District should provide “412” certificates signed by the treasurer, superintendent and Board president for all negotiated agreements, salary schedules and construction contracts. The “412” certificates should be signed at the time the contract was approved by the Board or no later than the time the contract is signed.
10. The School District should revise the “412” certificate currently in use to comply with current law. The School District’s current form covers the current plus two fiscal years as required by the prior versions of the statute while current statute requires that the certificate cover the term of the contract.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Cash Disbursements

Description of an Effective Method for Accounts Payable and Cash Disbursements

The processing of invoices should ensure that each payment represents goods or services that were properly authorized and received by the School District. The processing should include a comparison of the invoiced items and quantities to the purchase order and billing slips, a comparison of the prices on the invoice to the purchase order, and the signature of the individual who made the comparisons. All invoices should be recomputed ensuring accurate extensions and totals. A voucher should be prepared reflecting the proper payee, invoice amount and accounts codes, and should include a copy of the purchase order, invoice, and receiving report or a signed billing slip. A check should be prepared based on the completed voucher, the existence of appropriate vendor information (I.R.S. Form 1099 data) and a properly executed certification by the treasurer. All checks should be promptly signed by the treasurer, posted in the appropriate accounting records, and mailed to the vendor. Vouchers should be filed numerically or by vendor.

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

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

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

School District's Cash Disbursement Process:

The treasurer's Office has the responsibility to ensure that goods and services are received prior to payment. The individual that receives the shipment of goods verifies the contents to the packing slip. The building or department supervisor compares the packing slip to the copies of the purchase order, signs the receiving copy (onion skin) of the purchase order and files the green copy in the office. The purchase order and packing slip are sent to the accounts payable clerks in the treasurer's office.

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Financial Accounting Report

Cash Disbursements

(continued)

Upon receipt of the packing slips and the receiving copy of the purchase orders from the various departments or buildings, the accounts payable clerks match the documents to the yellow copy of the purchase order and place the documents in the an open invoice file by fund and purchase order number.

The accounts payable clerks daily match the invoices received to the copies of the purchase order and packing slips. If the invoice amount does not exceed twenty percent of the original purchase order amount, it is entered into the payables system and filed in an open invoice file. If the invoice amount is over the twenty percent limit, the treasurer is notified. The treasurer may approve the amount with adequate explanation or the responsible department or building is requested to obtain a second purchase order for the excess amount. All invoices are recomputed for accuracy.

Invoices are processed for payment on a bi-weekly basis. The accounts payable software generates an edit report which is given to the treasurer along with the purchase orders, invoices, and any other supporting documents. The treasurer reviews the report and supporting documentation and authorizes payment. The edit report reflecting the treasurer's signature is filed by the accounts payable clerk.

Upon approval of the treasurer, the accounts payable clerks prepare a check run for the payment of invoices. The checks are printed and then signed on a separate check signer. The purchasing agent maintains the key to the check signer and provides supervisory oversight to the accounts payable clerks. A check pay report is printed after the checks are printed and the transactions are posted to the expenditure accounts. The accounts payable checks are three-part checks, an original, yellow and white copy. The original is mailed to the vendor with the remittance advice and the yellow copy is attached to the supporting documents that becomes the voucher package and is filed by check number. The white copy is shredded. The vouchers are filed in the treasurer's office. Under special circumstances, a manual check is written and posted the same day, except for construction projects.

The invoices for construction projects are paid by a manual check issued against a construction project checking account. These checks are controlled and signed by the treasurer. The check number, amount, and date are written on the yellow copy of the purchase order. The supporting documentation is filed in the treasurer's office with the yellow copy of the purchase order. Payments are wired to the vendor's bank and the wire transfers and checks are periodically posted to the accounts by the treasurer.

Blank checks are kept in the vault across from the treasurer's office that is locked. Access to the vault is monitored by the treasurer's secretary and is locked when she is not at her work location. Only the treasurer, the treasurer's secretary and payroll clerks have access to the vault.

The School District maintains a Daily Check Log that reflects check numbers printed and the date. Voided checks are also noted on this log.

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Financial Accounting Report

Cash Disbursements

(continued)

Auditor of State Comments

1. The School District should have a written policy addressing the invoice amount exceeding the purchase order amount. The twenty percent overage allowed should be reduced or eliminated and a Then and Now Certification should be completed.
2. The treasurer should periodically review the Daily Check Log to ensure it is properly completed.
3. The School District should not use the Daily Check Log for voided checks. If management desires, a separate voided check log may be maintained
4. The treasurer should not pay invoices dated before the date of the purchase order and should not pay invoices that exceed the amount of the purchase order without a properly completed Then and Now Certificate or Board approval when the amount exceeds \$3,000.
5. The School District should ensure that the manual checks written against the several construction project checking accounts are entered into the computer system the same date the checks are written.
6. Access to the check signer key should be with the treasurer and not the purchasing agent.
7. The white copy of the check should be maintained in numerical order, or placed in a vendor file, or the treasurer should order two part checks.
8. The School District allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the treasurer should request, by resolution, Board approval of an advance from the general fund. The resolution should state how and when the advance will be repaid.

**East Cleveland City School District
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Financial Accounting Report

Payroll Processing

Description of an Effective Method of Payroll Processing

The processing of payroll should ensure that all employees are compensated on a regular basis for work performed and at the rate approved by the appointing authority. All compensation should be recorded in a permanent record reflecting the hourly rate and hours worked or salary, deductions, and the gross and net compensation for the pay period and the year. Standard deductions such as pension, Medicare, and Federal and State taxes should be computed at the applicable rates established by the regulatory agencies. Other deductions permitted by the employer should be authorized by the employee and the authorization should be maintained in a file. Payment of the net compensation should be by a check signed by the appropriate official or by direct deposit to a bank account of the employee. Payment of deductions and the related employer obligations should be made timely and reported in the format prescribed by the regulatory agency. Personnel files should contain relevant employee information and any other information required by Federal and/or State laws.

Statutory Requirements: The following State statutes apply:

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

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

Section 3319.141, Revised Code, for certified school employees and Section 3319.084, Revised Code, for classified employees, provide for minimum vacation and sick leave to be granted to affected employees, and indicates the procedures for paying the employees for leave balances credited to them upon separation from service.

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

School District's Payroll Processing Procedures:

The School District's pay period begins on Monday and ends on Sunday, fourteen days later. Payroll is processed on a biweekly basis for approximately 1,000 full and part time employees, including substitutes. Certified teachers who earn extra pay are paid in a separate check each pay. Classified employees receive a separate check for longevity and unused vacation, paid the first pay in July.

**East Cleveland City School District
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Financial Accounting Report

Payroll Processing

(continued)

The School District uses State software to process payroll. All checks are kept in the vault that is locked when the treasurer or treasurer's secretary is not present. The purchasing agent maintains the only key to the check signer. The School District employs a Payroll Supervisor and two payroll clerks, one for certified staff and one for classified staff. A zero balance checking account is used for payroll.

The personnel department prepares the teachers' contracts and normally mails them in early June prior to the end of the school year. The contracts must be signed and returned to the personnel department by July 10. All contracts are approved by the Board. The personnel secretary enters the contract amounts into the payroll system as they are returned. The payroll system calculates the amount to be paid each pay period. The contacts are kept in individual employee files in the personnel department. The treasurer spot checks the contract amounts entered by the personnel department and compares them to a list supplied by the personnel director and verified to the Board resolutions.

Payroll, tax, and retirement forms are given to new employees, to be completed, signed, and returned to the payroll department clerks, who then enter the information into the computer. If employees need to change their payroll tax or retirement information, they can obtain the appropriate forms from the payroll clerks, who then enter the changes into the computer. Withholding and various deduction forms are maintained in the payroll department by employee and all other employee forms are maintained in individual employee files in the personnel department.

Vacation, personal, and sick time used is posted in the payroll system by payroll clerks according to the amount of time on attendance and leave forms. The system updates the balances automatically.

Hourly employees such as substitutes, adult education tutors, and student workers complete a time sheet for each pay period. School building secretaries keep attendance and absence records for secretaries and aides. Time sheets list hours worked, days absent, and type of hours worked (regular or overtime). The supervisors review the time sheet and, if it is correct, approve it. The payroll clerks review all time sheets for accuracy. If a discrepancy is found, the payroll supervisor notifies the building secretary or supervisor that there was an error and resolves the discrepancies. The time sheets stay with the payroll department.

The purchasing agent and treasurer verify that all employees are coded to the proper funds, accounts, and sub-accounts. This process is performed throughout the school year and reviewed against the Board authorization, position assignment, and grant agreement for accuracy. If an error is found, it is corrected immediately so that the proper account is charged. Each payroll period, the purchasing agent receives and approves a Request for Payment form from the various grant program administrators. The form was developed and is utilized by the School District to monitor which employees are being paid from the various grant programs. The form includes the name of the grant program, fund and account code, board resolution number, employee hours worked, employee hourly rate, total wages, and supervisor approval. The form is supported by a daily sign-in sheet for each employee, indicating the date, time in, time out, total hours for the day and approvals by the building principal and superintendent. Once the form is reviewed and approved, grant employees are paid through the payroll system.

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Financial Accounting Report

Payroll Processing

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Supplemental contract employees must have a Supplemental Employment form completed in order to process their payroll. Preference for the award of supplemental contracts is given to teachers. Supplemental employees are paid in December, April and June, upon the completion of the contract. Some supplemental employees are paid on an hourly basis up to the contract maximum. Examples of supplemental employees are coaches, tutors, chaperones, and extended day employees. All supplemental contracts are approved by Board resolution. Once the Supplemental Employment form is approved by the personnel director, it is sent to the personnel secretary for processing. Supplemental employees complete a daily sign-in sheet. A payroll clerk reviews the form, checking dates and time totals for accuracy. The payroll supervisor resolves any discrepancies.

Substitute teachers sign in and out on a daily sign-in sheet. The building secretary reviews the time sheets and forwards them to the payroll department for processing after approval by the building principal. The payroll clerks review the form for date, time, total hours for accuracy, and compares the sign-in sheet to the daily absence log sheet received from personnel department. If any discrepancies are noted, the payroll supervisor resolves them with the school secretaries.

Overtime earned is paid in the pay period earned for hourly employees. An overtime sheet must be completed and the hours must be approved by the supervisor before being sent to the payroll clerks for processing. The payroll clerk reviews the form for accuracy. Any discrepancies are resolved between the payroll supervisor and the employee's supervisor prior to processing. The superintendent reviews all overtime.

The payroll clerks begin to organize payroll documents and time sheets on Fridays and continue until all documents are received. All payroll information must be received by the Monday following a pay date. If information is available, the payroll clerks enter payroll changes on Wednesday. Payroll information is entered into the payroll system throughout the first week of the payroll processing cycle. On Tuesday of the second week of the processing cycle, the clerks finish entering payroll information and prints checks that afternoon, dated for Friday. The payroll supervisor runs final payroll reports Tuesday afternoon or Wednesday morning.

The School District uses a three part Payroll Change Notice form to notify the payroll department of pay rate changes, leave, amounts to dock an employee, and other payroll actions. The personnel department retains the original for the individual's file, provides a copy to the individual, and forwards one part to the payroll department.

Once all payroll change information is entered, the payroll supervisor runs a bi-weekly report that is used to compare group totals to the prior bi-weekly report group totals to verify that new employees and rate changes agree with Board resolutions, new hire letters, and the information contained on the Payroll Change Notice forms agrees with the payroll system information.

The system calculates the payroll and prints a check for city taxes. The State, Federal, Medicare, and Social Security taxes are paid by wire transfer. A deduction report is printed using one of three options depending on the pay of the month. Option 1. is for the first pay of the month, option 2. is for the second pay of the month, and option 3. is for the third pay of the month, if there is one. This program creates reports for all deductions, taxes, retirement, contributions and wire transfers. The board distribution report, generated by the benefits

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Financial Accounting Report

Payroll Processing

(continued)

clerk, lists the Board's share of payroll taxes and benefits and is utilized to pay the Board's share of taxes, retirement, life insurance, hospitalization, and other benefits.

The STRS program prints two reports, an employees' share report and a Board share report. The Board share report lists the days paid for employees whose portion of STRS is picked up by the Board. The reports are printed alphabetically by employee name and used to reconcile the monthly payments with the amounts posted in the computer. An annual report is prepared by the payroll supervisor, reviewed and signed by the treasurer, and is filed with STRS in a timely manner.

SERS employee contributions are paid monthly and require a monthly report. The report is sorted alphabetically by employee name. The monthly check is mailed to SERS along with a cover sheet. The data center electronically forwards a listing of employees, the days worked, and earnings.

Payroll deductions for medical insurance, life insurance, STRS, SERS, employment services, retirement, and pickup reports are processed through the payroll system and completed and filed timely. The benefits clerk is responsible for balancing and completing the reports for hospitalization, life insurance, and all other benefits. The benefits clerk is also responsible for the payment of these benefits when due. Separate checks are issued for the board's share from the general account and the employee deductions from the payroll account. The payroll supervisor prepares the board's share distribution report and reviews all benefits reports.

Once all deduction checks are printed, the final payroll reports are run. The Auto Post program automatically posts the payroll information to all of the appropriate accounts and files within the payroll system and the accounting system. The treasurer reviews and signs the payroll distribution report.

Accounts payable must be closed each month 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.

Checks are printed and direct deposits are submitted by tape to the bank on Wednesday. The check register is then printed for all checks.

Checks are signed at the time of printing with a dual check signer and printer. The printer is locked and only the purchasing agent and payroll personnel have access to the codes that switch the printer to check signing mode.

Payroll checks are separated by department and delivered to the respective buildings and offices to be distributed by the supervisors and building secretaries, who sign for the checks. Each employee in the administrative offices signs for his or her check. Payroll checks to be mailed are put in the mail on Thursday morning and are delivered on Friday. Employees who work at night are given their checks Thursday night or they may pick them up Friday morning.

If an employee is absent on payday, the check will be mailed to their home unless the employee has made arrangements with their supervisor and the payroll department. If an employee needs to pick up a check early, arrangements must be made to pick the check up directly from the treasurer's office by completing a release form.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Payroll Processing

(continued)

If a check is lost, an immediate stop payment order is issued. The payroll check is voided and a new check is issued. The check is marked "void" in the check register. All information is given to the treasurer for processing the bank reconciliation.

When an employee is absent from work, an absence form is completed and submitted to the employee's supervisor, department head, or principal upon the employee's return. If an absence form is not completed, the employee will not be compensated for the time off. The absence form is approved by the employee's supervisor and forwarded to the personnel secretary to account for time off and allow leave payments to be paid during the appropriate payroll.

The personnel department is responsible for keeping vacation, sick, personal, and other leave records for both certified and classified employees. The personnel secretary enters leave usage in the computer system. Other forms of leave available to employees are jury duty, bereavement leave, and assault leave. A report is run each pay listing the outstanding balances for all leave types. The balances can also be viewed on the computer. The manually kept records are used to verify balances in the event of an error.

Internal Revenue Service W-2 forms are processed after the last payroll for the calendar year. Calendar year reports are provided in addition to the W-2 forms, which are mailed by the end of January.

Auditor of State Comments

1. The School District does not have a policy that specifically addresses overtime pay for classified or hourly paid employees. The School District should have a policy that addresses eligibility, circumstances that justify authorization of overtime and approval of overtime.
2. The School District should ensure that Payroll Change Notice forms are always signed and dated by the employee and the employee's supervisor.
3. The School District should ensure that all information asked for on leave and absence forms is completed, that forms are approved or disapproved, and the appropriate supervisor signs the forms.
4. The purchasing agent should not have access to the check signer key and access codes that switch the check signer from report mode to payroll check signing mode in the treasurer's office.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Debt Administration

Description of an Effective Method of Debt Administration

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

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

School District's Debt: The School District's outstanding debt at April 30, 2003 is \$16,957,565 and consists of the following:

	<u>Principal Outstanding 4/30/03</u>
General Obligation Bonds: Series 1999 School Improvement Bonds variable rate	\$9,259,565
Solvency Assistance Fund Advance, April 2002 2 years, 0 percent	<u>7,698,000</u>
Grand Total	<u>\$16,957,565</u>

The funds for payment of principal and interest on the bonds are provided by property taxes accounted for and paid from the Debt Service Fund.

During fiscal year 2003, the School District received a Solvency Assistance Fund advance from the State. The Solvency Assistance Fund advances money to school districts that are in fiscal emergency or that meet one or more of the nine reasons identified in Section 3301-92-03 of the Ohio Administrative Code. The advance is repaid over two years with State foundation revenues.

Auditor of State Comments

1. The 1999 School Improvement Bonds include serial, term, and capital appreciation bonds. The capital appreciation bonds are deep-discount bonds that pay no interest while outstanding and pay face value at maturity. The School District has not reported the accreted interest in the financial statements or the notes to the financial statements. The accreted interest should be presented as an increase in the outstanding balance of the bond issue and in the table for future debt service requirements.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Debt Administration

(continued)

2. The School District reports in the notes to the financial statements the future debt service requirements on a calendar year basis. The debt service requirements presented in this disclosure should be presented on a fiscal year basis.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Fixed Assets and Supplies Inventory

Description of an Effective Inventory of Fixed Assets and Supplies

Fixed assets of the School District should be adequately safeguarded against loss or theft. An inventory should be maintained include a description of each item, its cost, serial and/or model numbers, date of purchase, location, useful life, salvage value, the annual depreciation amount and the accumulated depreciation. The inventory should be updated throughout the year for purchases and disposals. Verification of the listed assets should be performed at least annually. The disposal of an asset should be properly authorized and reported to the treasurer. The fixed asset accounting system should include useful lives, salvage value, and depreciation.

Administrative Code Requirements: Section 17-2-02 (D)(4)(c) of the Ohio Administrative Code requires that the school district maintain "fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location and tag number.

School District's Method of Accounting for Fixed Assets:

The Board of Education has adopted policies regarding fixed assets. In general, these policies require the maintenance of a fixed asset accounting system, all assets valued at \$500 or more be capitalized, and a physical inventory every five years.

The last physical inventory was performed by Industrial Appraisal as of June 2000. The treasurer will present a contract to the Board in June 2003 to have the inventory revised to comply with Governmental Accounting Standard Board Statement No. 34.

Fixed asset additions are determined annually in June by a review of the purchases in the 600 and 700 objects. The year-end value for fixed assets is computed by adding the additions to the prior year values. No disposals have been reported for the last three years.

The technology department maintains a listing of all technology equipment in the School District. The technology department tags all computer equipment prior to being located in the buildings or departments.

The curriculum department maintains an inventory of all textbooks. The curriculum specialist in each building physically counts each textbook, and completes an inventory form. The completed forms are sent to the curriculum supervisor who reviews the completed forms. The curriculum supervisor then sends the completed forms to the director of curriculum who maintains a master list.

An inventory of musical instruments is maintained in a similar manner. Parents and students sign a contract upon receipt of the instruments. The building music specialists maintain the inventory listing. A fee is collected from the students to offset repair costs of damaged instruments.

The School District is undergoing a \$107 million building renovation project. Project completion is anticipated in 2007.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Fixed Assets and Supplies Inventory

(continued)

School District's Method of Accounting for Supplies:

The Board has adopted a policy that requires that a physical inventory of supplies be taken at the building level at the close of the school year. The listing is submitted to the business manager's office for computer update. The treasurer is assisted by the principals, directors, supervisors and professional and support staffs in the performance of the inventory. A year-end physical inventory of supplies is also performed in the food service and buildings and grounds departments.

The building food service supervisors complete inventory reports and provide them to the food service supervisor. The inventory is maintained by the food service secretary using an Excel spreadsheet. The food service supervisor uses the spreadsheet information to complete the State Child Nutrition reports online which are submitted to the State Department of Education.

Janitorial and maintenance supplies inventories are maintained at the Building and Grounds department office. Each building head custodian takes an inventory each April and forwards it the custodial supervisor for consolidation

The supplies maintained at the bus garage include oil, anti-freeze, miscellaneous nuts, bolts, and screws. No significant amounts are held in inventory.

Auditor of State Comments

1. The School District does not maintain a fixed asset accounting system; therefore, there is no compliance with existing Board policies.
2. The Board policy for verification of fixed assets should be changed from every five years a shorter period of time. Verification for computers, audio visual, and similar equipment should be verified every year. Other fixed assets maybe verified on a staggered basis over a two or three year period.
3. The School District should obtain a copy of the Fixed Asset Manual published by the Auditor of State's office to use as a guide in the development and implementation of fixed asset policies and procedures.

**East Cleveland City School District
Cuyahoga 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 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 should be posted upon completion of the bank reconciliation.

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

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

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

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

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

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

The School District's treasury activities are the responsibility of the treasurer. These activities include the acquisition and sale of investments and the transfer of cash assets among the various bank accounts. The School District maintains eight checking accounts, three sweep accounts, a benefits checking account and brokerage (investment) accounts with five different firms. The School District's checking accounts include the general account; the payroll clearance account; multiple benefits checking accounts and multiple project construction accounts.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Cash Management and Investing

(continued)

The treasurer is responsible for reconciling all accounts. These accounts are as follows:

Bank and Account Number

Key Bank Account 1	This Key Bank checking account is used for the general operation of the School District.
Key Bank Account 2	This Key Bank sweep account is used to earn interest on monies deposited in the general checking account.
Key Bank Account 3	This Key Bank account is the School Districts' Bond and Coupon account used for bond redemption and interest payments.
Key Bank Account 4	This Key Bank Victory Funds Money market account is used for operation of a Cafeteria Flex benefit plan. Surplus amounts revert back to the General Fund.
Key Bank Account 5	This Key Bank Victory Funds Money market account is used for operation of a Cafeteria Flex benefit plan. Surplus amounts revert back to the General Fund.
US Bank Account 1	This US Bank account is the primary building construction checking account for the payment of construction invoices.
US Bank Account 2	This US Bank account is a sweep account is used to earn interest on monies deposited in the primary building construction checking account.
US Bank Account 3	This US Bank account is a Money market, interest bearing account to receive wire transfers of state monies until needed in the primary building construction checking account.
US Bank Account 4	This US Bank account is a Money market, interest bearing account to receive matured investments of local money until needed in the building construction checking account.
First Merit Bank Account 1	This First Merit Bank account is the primary building construction checking account for the payment of construction invoices for the Prospect building.
Fifth Third Bank Account 2	This Fifth Third Bank account is the primary building construction checking account for the payment of construction invoices for the Kirk building.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Cash Management and Investing
(continued)

Fifth Third Bank Account 3	This Fifth Third Bank NOW Account receives money from matured investments of State money for the Classroom Facilities Building Construction project until the money is reinvested or transferred to a checking account when needed to pay construction invoices.
Fifth Third Bank Account 4	This Fifth Third Bank NOW Account receives money from matured investments of State money for the Classroom Facilities Building Construction project until the money is reinvested or transferred to a checking account when needed to pay construction invoices.
US Bank Account 5	This US Bank account is a zero balance checking account used for biweekly payroll distribution.
US Bank Account 6	This US Bank account is a SWEEP account used for biweekly payroll distribution.
US Bank Account 7	This US Bank account is a checking account for operation of the AFLAC Cafeteria Plan.
US Bank	Certificate of Deposit; John Shaw Trust for the benefit of various activities associated with the high school
Bank One	This Bank One account is a money market investment account for surplus monies of the general fund.
STAR Ohio	Two separate investment accounts for surplus monies of the Classroom Facilities project and the general fund until needed.
Fifth Third Investments	Two separate investment accounts for surplus monies of the Classroom Facilities project and the general fund until needed.

The general checking account at Key Bank receives all checks and cash from the School District. Checks are written against this account for the daily operation of the School District. Monies are transferred from the main checking account for investments and payroll clearance. The checking account is connected to a nightly sweep account for investment purposes.

The treasurer reconciles the bank accounts each month. The April 2003 reconciliation indicated a book over bank amount of \$675,768.22. Bank statements are received through the 15th of the month. The treasurer clears the cancelled checks for both payroll and accounts payable on the system. The cancelled checks are entered in the system by the physical check amount, which allows the treasurer to review the check for altered amounts. Any discrepancies are noted on the reconciliation report. The reconciled checks are placed in a box in numeric order for storage.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

**Cash Management and Investing
(continued)**

Voided checks are given to the purchasing agent (assistant treasurer) for review and marked void, then given to the benefit secretary, who cuts out the signature portion. The voided check is filed in numeric order with the reconciled checks.

The treasurer reviews the account coding and verifies the receipt postings to the bank deposits during the monthly bank reconciliation process. The receipts are verified to the bank statements by writing the School District receipt number on the bank statements. Any discrepancies are noted on the bank statement and the receipt report. The discrepancies are traced to the next month reconciliation. The payroll transfers are verified to the transfer statements from Key Bank. Food service receipts are reconciled by comparing the department report with the bank receipt report. Discrepancies are noted on the reconciliation.

The School District uses Key View to monitor daily receipts and checks that are clearing the system. Key View is a Key Bank product that allows a customer to view bank activity over the Internet. A report is run by the treasurer's secretary and given to the treasurer for review. The School District has bank reconciliation management from Key Bank and US Bank. Key Bank provides check and receipt reconciliation reports. Checks are put in order by the banks to aid reconciliation.

The Adult Education program has a petty cash fund which is used as a change fund. The amount is included on the School District's monthly reconciliation. The high school cafeteria change fund is established at the beginning of each school year and is deposited in the general account at the end of the school year. During the school year, the change fund appears as a reconciling item on the treasurer's bank reconciliation.

The Board adopted a policy authorizing a petty cash account, a generic cash in school buildings, a detailed cash in school buildings, and an investment policy. The petty cash account policy states that annually, the treasurer establishes the amount of money to be placed in the accounts. A list of offices and departments having petty cash and the amounts held by each office and department was not available.

The investment policy addresses authorized investments and liquidity. The School District posts interest to the general fund, capital projects funds, and a trust fund. The capital projects and trust fund are required to receive interest due to bond indenture requirements and trust requirements.

The Boards Petty Cash Policy authorizes the treasurer to establish petty cash funds. The School District has a change fund in the high school cafeteria and a petty cash fund in the adult education department.

The Financial Planning and Supervision Commission is requiring the timely recognition of cash receipts and disbursements to ascertain the cash financial position of the School District.

Auditor of State Comments

1. The School District should complete a consolidated monthly bank reconciliation that equals the fund cash balances and all reconciling factors should be properly documented. Current bank reconciliations include a bank over book amount that varies each month.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Cash Management and Investing
(continued)

Auditor of State Comments (continued)

2. The treasurer should record bank charges, interest, and any other adjustments to the accounting records upon completing the bank reconciliations. Reconciling adjustments should not be carried forward for an extended period of time. Adjustments caused by bank errors should be corrected within one month.
3. The treasurer should assign to a specific individual the duty of reconciling all bank accounts on a monthly basis. The bank statements should be obtained from each bank within the first few days of the next month rather than waiting for delivery by mail. All reconciliations should be completed within two weeks of the month-end closing. The treasurer should review and approve all monthly bank reconciliations.
4. The bank and investment transactions of the capital projects funds should be posted upon occurrence. These accounts should be closed once the reconciliation issues are resolved with the School District's primary checking account. The practice of issuing manual checks to the project contractors should cease. Project contractors should be paid by a computer generated check issued against the primary account or electronic funds transfer. A bank transfer equal to the amount of the payments from the construction account to the primary checking should be made upon issuance of the check.
5. The treasurer should establish written control procedures for the voiding of checks.
6. The School District should establish an interest allocation policy. The policy should comply with State law, include the specific funds to receive interest, and identify the method used to allocate the interest.
7. The Board should revise the petty cash policy to comply with the guidance in Auditor of State Bulletin 99-019. The policy should include the office, department, and buildings that are authorized a petty cash fund and/or change funds and the amount of the fund.
8. A change fund currently exists for the high school cafeteria. There are no change funds in the cafeterias at the other buildings and there is no Board policy for change funds.

**East Cleveland City School District
Cuyahoga 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.

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

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

Administrative Code Requirements: By July 31 of every year, the treasurer shall complete a Form 4502, Annual Financial Report, for the Ohio Department of Education. Depending on the school district's computer system, the report is either generated by the system or completed manually on the prescribed form. If the school district prepares the 4502 using State software, the report is transmitted to the Department of Education. If the School District completes the 4502 manually, a hard copy is mailed to the Department of Education.

School districts are required by 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 State software through Lakeshore Northeast Ohio Computer Association (LNOCA); therefore, multiple standard and customized month-and year-to-date reports can be generated. The School District prepares month-and year-to-date reports, places them in binders and stores them in file cabinets in the treasurer's office. Throughout the year various payroll reports are kept on file in the treasurer's office. The Cash Basis Annual Financial Report, 4502, is completed by July 20, each year and is transmitted by LNOCA to the State Department of Education.

The treasurer provides the Board with a financial summary, an appropriations summary, and a revenue summary for the general and DPIA funds. Also provided is a check payment report and a receipts ledger for all funds, the monthly bank reconciliation, and an investment report.

The School District prepares its annual financial report in accordance with generally accepted accounting principles (GAAP). The unaudited financial statements are filed with the Auditor of State, Local Government Services Division within 150 days of the end of the fiscal year end.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Financial Reporting
(continued)

The Financial Planning and Supervision Commission is requiring that on or about the fifteenth day of each month, the treasurer is to certify and present to the Commission a monthly financial report for the prior month; that all School District cash, bank and investment accounts be reconciled; and that all financial activity has been properly reported in the general ledger.

Auditor of State Comments

1. The School District should establish an audit committee to act as an informed, vigilant, and effective overseer of the financial reporting process.
2. The Board should receive copies of the appropriations and revenue reports for all funds.
3. The Commission has requested that the treasurer prepare and submit the SM-1 and SM-2 reports, monthly, in addition to the other reports provided to the Board and the Commission.
4. The unaudited financial statements for the fiscal year ended June 30, 2002 were filed on November 27, 2002. The Audit has not yet been completed. Following the release of the annual audit report, the treasurer should provide a copy to each Board member.

**East Cleveland City School District
Cuyahoga County**

Financial Accounting Report

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

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

Statutory Requirements

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

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

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

Auditor of State Comments

1. Minutes of all regular and special meetings should always be read and approved, unless corrections are needed, at the next regular meeting of the Board. The minutes should be completed and signed immediately following the meeting at which they are approved. The Board minutes are not approved at each meeting nor are they signed when approved.
2. The minutes should include a synopsis of any discussions of matters the Board is considering. The minutes do not include a synopsis of any discussions. The Board has an audio recording of all of its meetings. The Board should review Ohio Public Records Law to determine whether its minutes and the retention of the tapes are in compliance with the law.
3. The School District should include attachments to resolutions in the record of proceedings book.
4. Official budgetary documents at the School District are difficult to locate and, if located, they do not indicate the appropriate dates.

**East Cleveland City School District
Cuyahoga 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 and Procedures Manual, resolutions, administrative rules and the Ohio Revised Code. These methods in some cases vary from the actual methods used in performing the daily activities.

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



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

EAST CLEVELAND CITY SCHOOL DISTRICT

CUYAHOGA 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
JULY 21, 2003**