



Dave Yost • Auditor of State

**Liberty Local School District
Trumbull County, Ohio**

Report on Accounting Methods

Local Government Services Section

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**Liberty Local School District, Trumbull County
Report on Accounting Methods**

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CERTIFICATION

On July 11, 2011, the Liberty Local School District was declared to be in fiscal emergency. Section 3316.10(A), Revised Code, requires that after the declaration of the existence of a fiscal emergency, the Auditor of State shall issue a report assessing the methods, accuracy and legality of the accounts, records, files, and reports. This report shall indicate whether the School District is in compliance with Section 117.43, Revised Code and the requirements of the Auditor of State.

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

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

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

DAVE YOST
Auditor of State

November 8, 2012

Liberty Local School District – Trumbull 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 Liberty Local School District, and (2) whether the current accounting system is in compliance with Section 117.43 of the Revised Code and the requirements of the Auditor of State.

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Governance Overview

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

On July 11, 2011, the School District was declared in a state of fiscal emergency by the Auditor of State. A Financial Planning and Supervision Commission (the Commission) was established under Ohio Revised Code Section 3316.05. Commission membership is as follows:

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Governance Overview

(Continued)

The Commission has defined the level of fiscal management and control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06(A)(2) of the Ohio Revised Code. The complete role of the Commission has been addressed in the financial recovery plan adopted on October 26, 2011, and includes the power to approve contracts entered into by the Liberty Local School District for personal services and employment contracts for all positions other than temporary positions and all purchases in excess of \$5,000.

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

Description of an Effective Budgetary System

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

Statutory Requirements

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

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

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

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

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

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

School District's Budgetary Process

The School District's formal policies regarding the budgetary process provide that annual appropriations shall be adopted and approved by the Board. The Board adopts as part of its annual appropriation measure a spending plan setting forth a five year projection of revenue and expenditures of the general fund. The appropriation measure shall be adopted at the fund level for all funds. According to policy, the Treasurer is required to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the Treasurer's monthly report to the Board.

The Trumbull County Budget Commission has waived the requirement that the School District adopt a tax budget. In place of the tax budget, the budget commission requires alternative tax budget information which includes the following schedules: Statement of Fund Activity for the General fund, Bond Retirement fund and any other funds requesting property tax revenue, Statement of Fund Activity by Fund Type and a schedule of Voted and Unvoted Note and Bond Debt. The alternative tax budget information for fiscal year 2012 was adopted by the Board on January 19, 2011. Once the alternative tax budget is adopted, it is filed with the budget commission no later than January 20. The budget commission determines the amount of millage and calculates the estimated revenue by levy.

On April 25, 2011, the Board accepted, by resolution, the tax rates as determined by the budget commission and received the budget commission's certificate of estimated resources for fiscal year 2012.

After the close of the fiscal year, the Treasurer submits to the County Auditor the unencumbered cash balance of each fund and requests an amended certificate of estimated resources that includes the actual unencumbered fund balances from the preceding year.

On June 27, 2011, the Board of Education adopted a temporary appropriation measure, at the fund level for all funds, prior to the start of the new fiscal year. The temporary appropriations are set at 25 percent of the prior fiscal year's expenditures. The School District operates under the temporary appropriation measure until a permanent appropriation measure is adopted. The permanent appropriation measure was adopted on October 24, 2011.

The Treasurer prepares appropriations based upon prior years' history and currently known facts. The Treasurer compares appropriations to estimated resources to ensure that all budgetary compliance is followed. The Treasurer submits all appropriation measures to the budget commission and at the same time submits a request for an amended certificate of estimated resources for any new or additional estimated revenue available for appropriation. Within two weeks, the Treasurer receives a certificate from the County Auditor certifying that appropriations from each fund do not exceed the official estimate of resources. The Treasurer attaches this certificate to the amended certificate and files both in a binder. The Treasurer also prepares and submits a 412 Certificate which certifies that the School District has sufficient revenue to support those appropriations.

Appropriations for all student activities are set at the fund level in the appropriation measure. At the beginning of the year, the Board approves those student activity programs it wishes to be operational. The Budget and Purpose Statements are prepared by the activity advisor and approved by the building principal. The form identifies the activity, purpose, planned fundraisers, fund balance at the start of the fiscal year, total estimated revenues, total estimated expenditures and estimated fund balance at the end of the fiscal year.

Liberty Local School District – Trumbull County

Financial Accounting Report

Budgetary Process

(Continued)

All Board approved temporary and permanent appropriations are entered into the computer system after they are passed but before the School District has received the certificate from the County Auditor that appropriations from each fund do not exceed the official estimate of resources. If additional or new appropriations are passed, the amounts are entered into the system by the Treasurer.

The Treasurer compares estimated revenues and appropriations to actual revenues and expenditures on a monthly and cumulative basis; however, this comparison is not documented.

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

Auditor of State Comments

1. Appropriations are posted in the system prior to receiving the certificate from the County Auditor indicating that appropriations are within estimated resources. Appropriations should be posted in the system when they become effective which is upon receipt from the County Auditor of the certificate indication that appropriations are within estimated resources.
2. The Treasurer compares appropriations to estimated resources; however, this comparison is not documented. The Treasurer should document the comparison of appropriations to estimated resources. This comparison should be presented to the Board upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.
3. Total final appropriations for fiscal year 2012 exceeded estimated resources plus carryover balances in the athletics, management information systems, data communications, title VI-B and title I special revenue funds in violation of Section 5705.39, Revised Code.
4. Expenditures plus encumbrances for fiscal year 2012 exceeded appropriations in the general fund and the auxiliary services, public preschool, title VI-B and title I special revenue funds contrary to Section 5705.41(B), Revised Code.
5. During fiscal year 2012, the School District had deficit fund cash balances contrary to Section 5705.10, Revised Code

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

Description of an Effective Method for Recording Receipts

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

Statutory Requirements

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

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

School District's Receipt Process

The School District's primary sources of revenues include property taxes collected and remitted by the County Auditor and Treasurer, State Foundation program revenues and Federal and State grants both of which are remitted to the School District from the Ohio Department of Education. The School District also collects student fees and admissions for athletic events at the various school buildings and charges for school lunches served in their cafeterias. Monies are received by the School District via wire transfer and through various cash collection sites throughout the School District. All employees that handle money are bonded by a blanket policy. The Treasurer is individually bonded.

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(Continued)

Building Receipts:

Various employees handle receipts at the three school buildings. Athletic receipts are turned into the Athletic Director. Student activity receipts are turned into the student activity advisor. School fees/fines are turned into the building secretary. The daily receipts are secured in a safe or locked drawer.

The employee prepares a three part pay-in order for each type of daily receipt. The pay-in order includes the date, dollar amount of the receipt, a description of the receipt and the revenue account code for posting. The monies along with the white and yellow copies of the pay-in order are given to the building secretary. The pink copy of the pay-in order is kept by the employee for their records.

Once a day, the building secretary recounts all monies and prepares a three part deposit slip. The white copy of the deposit slip goes to the bank and the yellow and pink copies will be filed in the Treasurer's office. The pink copy of the deposit slip will have bank's receipt printed on the back of it after it is processed by the bank. The building secretary places the monies in a security envelope and seals it. The deposit slip and white copy of the pay-in order is stapled or clipped to the outside of the security envelope and brought to the Treasurer's office. The building secretary retains the yellow copy of the pay-in order for her records.

Athletic Event Receipts: The School District charges an admission fee for high school and middle school athletic events. The ticket sellers are adults only. When a ticket is sold, a ticket is given to the buyer. The ticket must then be presented at the gate/door to gain entrance to the event. The ticket is given to a ticket-taker at the entrance.

The Athletic Director is in charge of receipt collection for athletic events. After all sales are completed, the ticket sellers are responsible for counting the money and completing the Ticket Report which is used to reconcile cash received to tickets sold. This form includes the type of event, date, start up cash, ticket type (student or adult), ticket starting number, ticket ending number, number of tickets sold, price of ticket and total cash received for the tickets. The Ticket Report is signed by the ticket seller. The unsold tickets, the money and the Ticket Report are given to the Athletic Director during the game's half-time. The Athletic Director recounts the money and compares the total to the amount on the Ticket Report. If any discrepancies occur, the amount of the discrepancy is noted on the form. The unsold tickets are kept in a locked file cabinet in the Athletic Director's office.

The Athletic Director fills out a three part deposit slip for the receipts and takes the deposit to the bank. For big ticket events, such as varsity football, during or immediately following the event, the Athletic Director has a police cruiser follow him to the bank to make a deposit by placing the seal proof plastic bank bag containing the monies and the white and pink copies of the deposit slip in the drop box. The following day, the Assistant Treasurer picks up the pink copy of the deposit slip with the bank's receipt printed on the back. The Athletic Director sends the yellow copy of the deposit slip to the Treasurer's office. For smaller ticket events, the Athletic Director places the receipts overnight in a locked safe at the high school or in a locked file cabinet in his office and takes the deposits to the bank the following day.

Student Activity Receipts: Each September or October, the Board approves the Purpose and Budget Statements for all student activities that it wishes to be operational. The Purpose and Budget Statement lists the planned fundraisers and the anticipated revenue and expenditures for each fundraiser.

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(Continued)

The student activity advisors must submit a Fundraiser Financial Report for each fundraiser which details the proposed project, quantity of goods to be ordered and projected sales of the fundraiser. The top portion of this form is signed and dated by the student activity advisor and submitted to the building principal for approval. After the building principal signs the top portion of the Fundraiser Financial Report it is sent to the Superintendent for his signature. Upon the collection of all three signature approvals, the fundraiser may commence.

The student activity advisors prepare a pay-in order and turn in any money received to the building secretary within 24 hours. Once a day, the building secretary fills out a deposit slip and turns the receipts into the Treasurer's office.

Once the fundraiser is completed and all monies have been deposited, the student activity advisor fills out the bottom portion of the Fundraiser Financial Report which details the amount of total sales, the cost of goods sold and the amount deposited with the Treasurer. If any goods are not sold, this is noted on the Fundraiser Financial Report. The student activity advisor must sign the bottom of the Fundraiser Financial Report and submit it to the building principal and Superintendent for approval. After the building principal and Superintendent sign the bottom portion of the Fundraiser Financial Report, the form is filed in the Treasurer's office.

The School District holds various fundraisers. In all fundraisers, except for candy sales, goods are only ordered after customer orders and money have been collected. In a candy sale fundraiser, the student activity advisor pays for and picks up the boxes of candy. The student activity advisor only buys as many boxes as he or she knows can be sold. If more candy is needed as the fundraiser continues, the student activity advisor will return to the store and purchase additional boxes. If any candy is left over, it is kept as inventory to be sold in the near future.

Each month, the Treasurer or Assistant Treasurer sends a FINSUM and FINDET report generated from the accounting system to the student activity advisors. The FINSUM provides a summary of the student activity's receipts, expenditures and current fund balance. The FINDET report shows the detailed transactions for the student activity's account. The student activity advisors use the FINDET report to reconcile their total recorded deposits to the amount posted to the system. If there is a discrepancy, the student activity advisor notifies the Treasurer's office.

Receipts from Student Fees and Fines: The School District maintains and tracks student fees by using the student information system which is accessed through the School District's A-site. The system includes information for each student including the student's name, grade level, homeroom teacher, courses and other information. The master fee schedules are entered into the system which automatically adds the appropriate fees to each student based on the information entered for the student.

Elementary students are charged a flat fee based on their grade level. Middle school students are charged fees based on their grade level as well as standard class fees. High school students are charged standard fees for certain classes, such as chemistry and home economics.

The School District also tracks book fines and other fines by using the student information system. The teacher or librarian sends a note to the building secretary to notify her of a student's fines. The building secretary will enter the student's fine amount into the student information system.

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(Continued)

Middle school and high school students turn their fee/fine money directly into the building secretary. In the elementary schools, the students give fee/fine money to their teacher who turns it into the building secretary. In some cases, the student's parents will come in and pay the fee/fine to the building secretary.

Upon receiving the fee/fine money, the building secretary will enter the amount received into the student information system which updates the student's outstanding fees/fines balance. If the student requests a receipt, the building secretary can print out a fee/fine receipt from the system. Prior to the end of the school year, the building secretary will view and print a list of students that have unpaid fees and fines. The building secretary sends a letter to the student's home requesting payment of the fee/fine. The letter states that a hold has been placed on the student's report card until the outstanding fees and/or fines have been paid.

Cafeteria Receipts:

Students pay for breakfast or lunch with cash daily or they may prepay. If students choose to prepay, they bring their monies to the Head Cook or cafeteria worker serving as the cashier at the beginning of the day. The student's parents may also prepay by setting up an account and using the online pay system.

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

All students are given a pin number which differentiates between free, reduced and fully paid lunches. The students enter their pin number into a pin pad and the cashier enters the transaction into the system. If the student has prepaid their breakfast or lunch, the money is taken directly out of their account. If the student has not prepaid and is not eligible for a free lunch, the student gives their lunch money to the cashier.

The database system generates lunchroom reports which total meals served and monies collected. The employee serving as cashier for each register counts the money and closes out and balances the cash register at the end of each lunch day. The cashier then prepares a three part deposit slip for the daily receipts from their register. The cashier also initials the deposit slip. The money is then counted a second time by another cafeteria employee to verify the amount. The employee that does the second count also initials the deposit slip. The deposit slips along with the monies are given to the Head Cook. The Head Cook places the white and pink copies of the deposit slip along the monies in a seal proof plastic bank bag and brings them to the Food Service Director. The yellow copy of the deposit slip is not placed in the bank bag but is given separately to the Food Service Director. Once a day, the Food Service Director drops off the deposits at the bank. Later that day, the Treasurer or Assistant Treasurer will pick up the pink copies of the deposit slips with the bank's receipt printed on the back.

Each day, the Assistant Treasurer enters the amounts from the pink copies of the deposit slips for each building into a monthly Food Service Deposit Report spreadsheet. Every couple days, the Assistant Treasurer sends the latest updated monthly spreadsheet to the Food Service Director. The Food Service Director verifies that the daily amounts deposited at the bank match the daily lunchroom reports. If the amounts do not match, the Food Service Director will notify the Assistant Treasurer.

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(Continued)

At the end of each month, the Food Service Director sends the database generated lunchroom reports to the Assistant Treasurer. The Assistant Treasurer matches the total from the month-end lunchroom reports to her monthly Food Service Deposit Report spreadsheet to verify that the amounts match. The Assistant Treasurer uses the database generated lunchroom reports to post the cafeteria receipts to the system.

The Food Service Director uses the lunchroom system reports to complete Site Claim Form reports on the computer and submit them to the Ohio Department of Education for Federal and State meal subsidies.

Treasurer's Office:

Each building's daily receipts along with the deposit slips and the white copies of the pay-in order are turned into the Treasurer's office.

The Treasurer's office receives State foundation, property taxes, property tax allocations and most Federal and State grants by wire transfer to the School District's general checking account. The Treasurer or Assistant Treasurer reviews the online daily activity report for the general checking account for wire transfers that have been received. The Treasurer or Assistant Treasurer identifies the proper account codes and records the gross receipts to the proper revenue account. Any deductions, such as administrative fees, are booked as memo expenditures. The Treasurer or Assistant Treasurer verifies the gross amounts booked for receipts and expenditures net to the amount wire-transferred to the general checking account.

The Treasurer's office directly receives payments for rentals and the sale of capital assets. Typically, these payments are received through the mail or by individuals coming into the Treasurer's office. All mail received by the Treasurer's office, unless addressed to a specific person, is given to the Treasurer to open. The Treasurer removes the receipts and adds all checks and counts the cash. The Treasurer then fills out a deposit slip for the receipts.

Each afternoon, the Treasurer or Assistant Treasurer takes all daily deposits, except for athletic receipts and cafeteria receipts to the bank. The Treasurer or Assistant Treasurer waits for the deposits to be counted and the amount validated by the bank. The white copy of the deposit slip goes to the bank and the yellow and pink copies are filed in the Treasurer's office. The pink copy of the deposit slip has the bank's receipt printed on the back of it.

After the deposit has been made, the Treasurer or the Assistant Treasurer determines the appropriate account codes and posts the receipts to the system. The white copy of the pay-in order and yellow and pink copies of the deposit slip are stapled together and filed numerically in the Treasurer's office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(Continued)

Receipt of State Foundation: State Foundation monies are wire-transferred bi-monthly to the School District's general checking account from the Ohio Department of Education. The foundation settlement sheets which identify the various sources of State aid are printed from the Ohio Department of Education's web page by the Treasurer or Assistant Treasurer. The amount of the wire transfer is compared to the net amount listed on the foundation settlement sheet. Generally, foundation settlements include restricted and unrestricted receipts and tuition payments from other school districts. The Ohio Department of Education also deducts from each settlement pension contributions and tuition payments due to other school districts and community schools. The Treasurer or Assistant Treasurer prepares a state foundation summary sheet which lists the proper accounts for posting. The summary sheet details the revenue side of the foundation settlement and the deductions which are posted as memo expenditures. The system receipt, state foundation summary sheet and the foundation settlement are stapled together and filed in the Treasurer's office.

Receipt of Property Taxes: The Treasurer or Assistant Treasurer identifies the proper account codes for gross property tax receipts and deductions and prepares a property tax summary sheet using information from the tax settlement sheet. The Treasurer or Assistant Treasurer verifies that the net property tax receipts on the tax settlement sheet match the amount wire transferred from the County. The gross property tax receipts and deductions are booked to the general fund, the bond retirement fund and the permanent improvement capital projects fund. The system receipt, property tax summary sheet and the tax settlement sheet are all stapled together and filed in the Treasurer's office.

Receipt of Property Tax Allocations: Homestead and rollbacks are wire-transferred twice a year to the School District's general checking account. The Treasurer or Assistant Treasurer identifies the account codes for gross receipts and deductions and prepares a homestead and rollback summary sheet using information from the tax settlement sheet. The homestead and rollback amount found on the tax settlement minus the amount deducted for administrative fees is compared to the amount wire-transferred to the bank.

Other property tax allocations, including utility deregulation and tangible personal property loss reimbursement are received by wire transfer through foundation. The Treasurer or Assistant Treasurer identifies the proper account codes for gross receipts and deductions using information from the tax settlement sheet. The Treasurer or Assistant Treasurer verifies that the net property tax allocations on the tax settlement sheet match the amount wire transferred through foundation.

Receipt of Grant Monies: The School District participates in various Federal and State grant programs. The Treasurer enters the budget for each grant into the Ohio Department of Education's (ODE) website under the Comprehensive Continuous Improvement Planning (CCIP) System. The CCIP System is a unified grants application and verification system provided by the Ohio Department of Education. Monthly, the Treasurer reviews the FINSUM report, which is a summary of all fund activity and ending balances, and when cash is needed from a particular grant the Treasurer completes an on-line CCIP Project Cash Request.

The Treasurer checks the ODE website once a week to view the CCIP grant monies that were wire-transferred to the School District's bank account. The ODE website has a "Details" button that can be clicked for each payment that provides detailed receipt information for that specific ODE payment. By reviewing the detailed information, the Treasurer can identify the grant proceeds. The amount wire-transferred per the Ohio Department of Education's website is also matched to the bank statement by the Treasurer.

Local grant monies are received in check form by the Treasurer's office. Then the process under the Treasurer's Office section of revenue activity is followed.

Liberty Local School District – Trumbull County

Financial Accounting Report

Revenue Activity

(Continued)

Rental Receipts: The School District rents their school facilities to various community groups. An individual from the community group must fill out a School Facility Reservation Request form with the building principal. The School Facility Reservation Request form includes the name of the community group, the date and hours of the event, the building to be rented, the custodian and/or rental fee, the name, address and telephone number of the applicant and the building principal's signature. The School Facility Reservation Request form is then sent to the Superintendent who initials it and gives it to the board office secretary. The board office secretary makes a copy of the School Facility Reservation Request form and sends it to the applicant and gives the original copy to the Assistant Treasurer. If the applicable rental fee is substantial, the Assistant Treasurer will send a facility use estimate to the community group. The community group is required to pay half of the total estimated facility use fee 30 days prior to the event. After the event takes place, the Treasurer's office bills the community group for the remaining rental fee balance. These groups usually bring or send a check to the Treasurer's office. The Treasurer's Assistant will match the amount on the check to a copy of the billing invoice and prepare a handwritten receipt to give to the individual.

Receipts from Sale of Capital Assets: Monies from the sale of capital assets are usually received by the Treasurer or the Assistant Treasurer, typically in cash or check form. If the individual requests a receipt, the Treasurer or the Assistant Treasurer will prepare a handwritten receipt. The white copy of the handwritten receipt is given to the individual and the yellow copy stays in the receipt book.

Auditor of State Comments

1. Cafeteria receipts are posted in a monthly lump sum amount one month in arrears. Cafeteria receipts should be posted at least on a weekly basis.
2. The majority of the School District's buildings are making deposits within 24 hours of collection. However, there are times when the Athletic Director is holding deposits for more than one business day. A policy should be adopted by the Board following Ohio Revised Code Section 9.38 for the deposit of public funds.

Liberty Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

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

Statutory Requirements

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

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

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

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

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

Liberty Local School District – Trumbull County

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 school district to both pay the contract and maintain all personnel and programs for a specified number of days. A certificate attached to any qualifying contract shall cover the term of the contract; a certificate attached to a wage or salary schedule shall cover the term of the schedule. The certificate shall be signed by the Treasurer, and president of the Board and the superintendent of the school district, unless the school district is in a state of fiscal emergency, in which case the certificate shall be signed by a member of the district's financial planning and supervision commission.

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

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

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

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(Continued)

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

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(Continued)

Financial Planning and Supervision Commission - Under Section 3316 Revised Code, the Commission assumes the power to approve personal service, employment and collective bargaining contracts, approve all contracts above \$5,000, and have all purchase orders reviewed by the fiscal monitor.

Campaign Financing (HB 694) - Section 3517.13 of the Revised Code states any bid or unbid contract, purchase order, or collective bargaining agreement with a value of more than \$10,000 requires the vendor to certify to the contracting authority that the vendor has not made a contribution to the contracting authority in an amount that exceeds the limits provided by law.

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

School District’s Purchasing Process

The Board has adopted formal policies for the purchasing process. Board policy states that all purchases that are within appropriated amounts and were originally contemplated within the budget may be made upon authorization of the Treasurer and Superintendent. The policies address procedures for receiving quotations and bids, awarding bids, issuing “Then and Now” purchase orders and issuing blanket purchase orders

When goods or services are needed at a school building, a manual requisition form is completed. This form includes the originator, vendor, date of request, type and quantity of items requested, price, shipping costs and expenditure code. The manual requisition form is submitted to the building principal who approves the requisition by signing it. Information from the signed requisitions is entered into the system by the building secretary. Once a week, the Assistant Treasurer prints out an Open Requisition report from the system. The Assistant Treasurer gives this report to the Treasurer and Superintendent who approve the requisitions to be converted into purchase orders by signing the report.

An active vendor list is maintained electronically by the Treasurer’s office. The Treasurer and the Assistant Treasurer are the only individuals who can add new vendors to the system. For new vendors, the employee fills out the name and address of the vendor on the manual requisition form. According to Board policy, the Assistant Treasurer verifies that new vendors have no outstanding, unpaid findings for recovery issued by the Auditor of State. The verification is completed by performing a search on the Auditor of State’s web site for unresolved findings for recovery. If no findings exist, the Assistant Treasurer assigns the vendor a vendor number and enters the new vendor’s information into the computer system. The Assistant Treasurer will also send an IRS Form W-9 to the vendor, requesting the vendor’s taxpayer identification number. The vendor fills out the IRS Form W-9 and sends it back to the Treasurer’s office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(Continued)

The Assistant Treasurer pulls up the requisitions in the system and converts them into purchase orders. The system automatically assigns purchase order numbers. The posting of the purchase order automatically records an encumbrance in the system. The purchase orders are printed out by the Assistant Treasurer. The purchase order is first signed and dated by the Treasurer and Superintendent. Next, the purchase order must be signed by the Secretary of the Fiscal Oversight Commission who visits the School District once a week. If the purchase order is over \$5,000 it must be presented at a Commission meeting and approved by the Commission before being signed by the Secretary of the Fiscal Oversight Commission. If the contract is over \$25,000 it must also be approved by the Board through resolution. Purchase orders are used for all purchases and contracts of the School District.

The computer system will not allow a purchase order for an amount which exceeds appropriations. An error message such as “negative remaining balance for budget account” is displayed. The Treasurer’s Assistant notifies the building principal of the negative budget account. The building principal will review their budget and appropriation accounts and contact the Treasurer. If there is cash available in the fund, the Treasurer will make a transfer between the various appropriation accounts to cover the deficiency in the accounts.

The Treasurer’s office distributes four copies of the purchase order form in the following manner:

1. The white (original) copy of the purchase order is either mailed, faxed or hand delivered to the vendor.
2. The blue copy of the purchase order is filed numerically in binders in the Treasurer’s office.
3. The green copy of the purchase order is sent to the building where the requisition originated.
4. The pink copy of the purchase order is sent after payment is made to the building where the requisition originated, stamped with the date paid for the employee’s records.

The School District purchases goods and services with blanket purchase orders as needed. For the School District, blanket purchase orders are used in areas such as food service, utilities, custodial supplies and transportation. The Treasurer issues blanket certificates under the old statutory restriction of 90 days or \$5,000. Expenditures made against blanket purchase orders are tracked by running a Purchase Order Detail Report from the accounting system. This report details the expenditures made against each purchase order and the amount remaining on the purchase order.

“Then and Now” purchase orders are prepared for purchases without prior approval. “Then and Now” purchase orders must be approved by Board resolution if greater than \$3,000. If they are \$3,000 or less, the Treasurer has the authority to approve such purchase orders. However, the Treasurer only approves the use of “Then and Now” purchase orders if the purchase was necessary and appropriations are available. If not, the amount is not approved and the employee who initiated the purchase is responsible for the payment.

Periodically throughout the year and prior to the end of the fiscal year, the Treasurer reviews the open purchase orders to determine whether a purchase order should be closed or whether invoices still exist against the purchase order. At fiscal year end, if invoices still exist against an existing purchase order, that purchase order will be carried over to the following fiscal year. Any unneeded purchase orders are cancelled along with the corresponding encumbrances.

Liberty Local School District – Trumbull County

Financial Accounting Report

Purchasing Process

(Continued)

Contracts which exceed \$25,000 are given to the Treasurer to make the necessary arrangements for public bidding. The Board authorizes the School District to advertise for bids. Interested vendors notify the Treasurer's office and they are sent a bid packet. Bids are received by a set date at a bid opening and a list of vendors and bid amounts is created. The Treasurer and the Superintendent review and discuss the information. The Superintendent makes a recommendation to the Board. The Board, by resolution, awards the contract. The Treasurer does not prepare a 412 Certificate for major contracts. When feasible, purchases or contracts under \$25,000 that are purchased through the Treasurer's office are based on price quotations submitted by at least three vendors.

The Treasurer sends the vendor awarded the bid a notification that they have been awarded the contract. The bids of the unsuccessful bidders are returned along with a letter notifying them of the successful bidder. The contract is sent to the Treasurer for review and signature and the Superintendent for final review and signature.

Auditor of State Comments

1. Section 5705.41(D)(3), Revised Code, allows the fiscal officer to certify expenditures in an amount not in excess of an amount established by resolution adopted by a majority of the members of the board of education. This type of certification, referred to as a blanket certification (blanket purchase orders), has not been authorized by the Board. The Treasurer continues to issue blanket certificates under the old statutory restriction of 90 days and \$5,000. The Board should adopt a resolution that identifies the maximum dollar amount for blanket certifications/purchase orders.
2. The School District does not issue 412 certificates for qualifying contracts. Section 5705.412, Revised Code, requires the School District to certify, prior to entering into a qualifying contract, that payment of the obligation will not affect the School District's ability to maintain all personnel and programs for the term of the contract. The certificate is to be attached to the qualifying contract and signed by the Treasurer, Superintendent, and President of the Board. If the School District is in a state of fiscal emergency, the certificate shall be signed by a member of the School District's Financial Planning and Supervision Commission who is designated by the Commission for this purpose. The certificate is to be attached to any qualifying contract.

Liberty Local School District – Trumbull County

Financial Accounting Report

Cash Disbursements

Description of an Effective Method for Accounts Payable and Cash Disbursements

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

Statutory Requirements

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Cash Disbursements

(Continued)

Administrative Code Requirements

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

School District’s Cash Disbursement Process

The employee who initiated the purchase requisition and the Assistant Treasurer are responsible to ensure that goods and services are received prior to payment. The majority of invoices are received directly by the Assistant Treasurer; however, some invoices will arrive at the school buildings. If the Assistant Treasurer receives the invoice, it is sent to the building where the requisition originated. The employee at the building who receives the shipment of goods verifies the contents to the packing slip, the invoice and green copy of the purchase order. If not all goods are received or incorrect items are received, the employee will contact the vendor and resolve the issue accordingly. Once the goods or services have been verified as received, the green copy of the purchase order is signed and marked “ok to pay”. The green copy of the purchase order along with the invoice and packing slip is sent to the Assistant Treasurer in the Treasurer’s office.

Upon receiving the invoice, the Assistant Treasurer will compare the items, quantities, and unit price to the purchase order. If an invoice is wrong, the Assistant Treasurer investigates why there is a difference and contacts the vendor to notify the vendor of the error. The error is then resolved accordingly. If an employee has purchased and received goods prior to a purchase order being completed a “Then and Now” purchase order is used. The Treasurer or Assistant Treasurer will contact the building principal to determine the reason the purchase was made and to receive approval for the purchase. After receiving the building principal’s approval, the Assistant Treasurer will complete a “Then and Now” purchase order. Board approval is required if the then and now purchase order is over \$3,000.

If the invoice amount exceeds the purchase order, the Assistant Treasurer will call the vendor to determine why the amount on the invoice is higher. The price difference is usually due to shipping costs that were not included in the purchase order. If the discrepancy resulted from an error by the School District, the Assistant Treasurer will verify that sufficient funds were available at the time to cover the higher price. The Assistant Treasurer then crosses out the old amount and writes the new total on the purchase order.

The packing slip, invoice and green copy of the purchase order waiting to be paid are paper clipped together and filed alphabetically in a separate vendor file known as the “open purchase order file” in the Treasurer’s office.

The Assistant Treasurer enters the data that creates a voucher into the School District’s computer system by entering the vendor, account code, invoice number, purchase order number, and amount of the invoice which creates a check in the system.

In the majority of instances, payment is not made on an order until all goods have been received. Once the remainder of the order is received, the green copy of the purchase order along with the invoice is sent to the Assistant Treasurer.

Liberty Local School District – Trumbull County

Financial Accounting Report

Cash Disbursements

(Continued)

In rare instances, a partial payment will be made if all the goods are not received at the same time. This occurs if the School District has agreed ahead of time to make a partial payment to a particular vendor due to certain items being on backorder. In this case, the building employee makes a copy of the green copy of the purchase order and marks which items were received. The building employee signs the copy of the purchase order and sends it to the Assistant Treasurer. The Assistant Treasurer matches the copy of the purchase order with the items received marked to the invoice to make sure that everything invoiced was actually received. The Assistant Treasurer writes the amount of the partial payment on the pink copy of the purchase order which is kept in a separate binder.

Prior to printing checks, the Assistant Treasurer runs an invoice list report and compares this to the individual vouchers to ensure that the checks are payable to the same vendor and the amount agrees to the invoice. The Treasurer verifies that sufficient funds are available to pay the invoices and approves the printing of checks.

Checks are normally printed once a week. The blank check stock paper is kept in a cabinet in the Treasurer's office. The check stock paper is completely blank and does not contain the school name, account number, check number or any other information. This information is printed on the check through the check printing process. The Assistant Treasurer uses a computer program called create-a-check to generate, electronically sign and print the checks. The check printing program is user name and password protected. The Treasurer and the Assistant Treasurer have security access for printing budgetary checks. The Assistant Treasurer then mails the check along with the remittance form and removes the voucher packet from the "open purchase order file" and attaches a copy of the check to the front of it. The Assistant Treasurer also removes the pink copy of the purchase order from a binder and stamps the date paid on it and sends it to the employee for their records.

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

1. The original copy of the check is sent to the vendor along with the remittance form for payment.
2. The white copy of the check is attached to the voucher packet and filed in the Treasurer's Office.

The voucher packet includes the white copy of the check, the invoice, the green copy of the purchase order, and any packing slips. All voucher packets are kept in a filing cabinet in the Treasurer's office and are filed numerically by check number.

Debt payments are all made by checks processed by the Assistant Treasurer.

If a check is voided, the Assistant Treasurer handwrites "VOID" on the check and blacks out the signature portion of the check. The voided checks are filed separately in numerical order in the archives file room across from the Treasurer's office. The voided checks are entered into the accounting system.

Auditor of State Comments

1. The School District should document the procedures for cash disbursements including the staff positions and their functions. The document should also include procedures for when only partial orders are received and when an invoice exceeds the purchase order/fiscal officer certification of funds. The document should be kept on file in the Treasurers' office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

Description of an Effective Method of Payroll Processing

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

Statutory Requirements: The following State statutes apply:

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

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

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(Continued)

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

School District's Payroll Processing Procedures

The Board of Education has adopted formal policies for the payroll process regarding payroll authorization and payroll deductions. The employment of all School District personnel must be approved by the Board. Deductions are made from an employee's paycheck upon proper authorization on the appropriate form.

All full and part-time employees are compensated biweekly. There are approximately 176 full and part-time employees within the School District. The School District's pay period for all employees begins on Monday and ends on Friday, twelve days later. Employees are paid on Thursday, thirteen days after the pay period ending date. Any overtime or extra time earned during the pay period is paid in the following pay period.

In addition to their bi-weekly pay, employees may receive additional amounts along with their regular compensation for supplemental contracts, extra pays, stipends or longevity. Direct deposit is mandatory for all employees. Each pay employees receive a direct deposit notification form which includes an earnings statement portion that indicates gross and net earnings, withholdings (year-to-date and for the pay period), leave usage during the pay period, and leave balances as of the end of the pay period.

All certified and non-certified employment applications are received and kept on file by the Treasurer's office. Recommendations for employment are made to the Board by the Superintendent and are recorded in the minutes by the Treasurer. Copies of all employee records, transcripts, licenses, and evaluations, financial data, such as withholding forms and other payroll related data are kept in a personnel file in the Treasurer's office.

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

Administrators: Administrators include the Superintendent, Principals, Treasurer and Treasurer's office employees and department supervisors. Individual administrative contracts are prepared by the Treasurer based upon contract provisions approved by the Board. The contract provisions establish the annual rate of pay, annual vacation days to be credited, and job duties and expectations for each employee. In addition, the contract provisions state the Board will provide the employee with a \$75,000 term life and accidental death and dismemberment insurance policy and all other benefits at least equal to those provided for certified staff. The contracts are reviewed and approved by the Board. Contracts for the Superintendent and Treasurer run from August through July. Contracts for principals typically run from July through June of the subsequent year or years. Contracts are paid over twenty-six pays. The signed contracts are kept on file in the Treasurer's office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(Continued)

Certified: Teachers' salaries and benefits are governed by a negotiated agreement between the Liberty Local School District and the Liberty Association of School Employees. The contract covered the period September 1, 2005 through August 31, 2008. The current contract will continue in effect until another contract is approved. The negotiated agreement established salary schedules that reflect annual rates of pay based upon years of experience and education. In addition, the negotiated agreement identifies the annual amount of personal leave to be credited and sick leave accrual amounts for certified employees. Certified employees do not earn vacation.

Individual teacher contracts are prepared by the Treasurer. The employee receives two copies of the contract, one copy is to be signed by the employee and returned to the Treasurer's office and the other copy is for the employee's records. The contracts are approved by the Board and signed by both the Treasurer and the Board President. The contracts are kept on file with the Treasurer's office. The teachers' contracts are normally mailed in April or May prior to the end of the school year. After an employee has entered into a continuing contract, only a salary notification letter is given to the employee in the following years. Salary notices are mailed out to the employees in April or May. If employees disagree with the contract amount on the salary notice, they can contact the Treasurer's office to resolve the issue.

The Treasurer or Payroll/Benefits Clerk enters the master salary schedule into the payroll system which automatically assigns the appropriate salary to each employee based on the information entered for the employee. The contract amounts in the payroll system are matched to the individual contracts and salary notices to verify that the amounts in the system are correct. The payroll system calculates the amount to be paid to each employee over twenty-six pays.

For any change that results in a pay schedule adjustment, the teacher is required to contact the Treasurer's office so contract changes can be processed. The Treasurer's office requires the teacher to provide a copy of their transcript to support the change prior to the first day of the first or second semester. After receiving support for the change, the Payroll/Benefits Clerk will update the employee's contract amount in the payroll system. The payroll system calculates the amount to be paid to each individual over twenty-six pays.

Classified Employees: Salaries and benefits for custodians, bus drivers, mechanics, cafeteria workers, secretaries, and aides are governed by a contract negotiated between the Liberty Local School District and the Liberty Association of School Employees. The contract covered the period September 1, 2005 through August 31, 2008. The current contract will continue in effect until another contract is approved.

The contract sets forth the hourly rates for classified positions. The contract also sets forth the sick leave accrual amount, and the amount of vacation and personal leave to be credited annually. In addition, the contract defines overtime at one and a half times the employee's regular rate. Employees are considered full time if they work twenty or more hours per week.

Individual classified contracts are prepared by the Treasurer. As per negotiated agreement, classified employees are given a one-year contract in the first year of employment. Following the first year of employment, classified employees are given a two-year contract. Following the third year of employment, classified employees are given a continuing contract which is in effect until the School District or employee terminates the employment. After an employee has entered into a continuing contract, only a salary notification letter is mailed to the employee.

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(Continued)

The procedures for preparing and mailing out the salary notices as well as entering the contract amounts into the payroll system are the same as those described for certified.

Timesheets are only prepared for hourly employees such as aides. Each hourly employee fills out and signs an individual timesheet. Each timesheet includes the employee's name, position and the hours worked each day in a two week pay period. The timesheet is then submitted to the building principal. The building principal reviews the timesheet and signs it. The building principal forwards the timesheets to the Payroll/Benefits Clerk in the Treasurer's office.

Overtime: Overtime earned by classified employees is paid in the pay period following the pay period in which it was earned. Overtime is paid at a rate of one and a half times the employee's regular rate. Overtime is recorded on an individual employee overtime form. All overtime has to be approved by the employee's supervisor each pay period. The Payroll/Benefits Clerk verifies the mathematical accuracy of the overtime forms and enters the overtime amount for each employee into the payroll system.

The building secretaries fill out a bi-weekly overtime/attendance calendar sheet for the custodial and transportation departments. The far left column of this sheet lists the names of all employees within the department and there are fourteen remaining columns, one for each day in the two week period. The building secretary writes in overtime hours worked and also marks and any leave taken. The bi-weekly overtime/attendance calendar sheet is signed by the department supervisor and submitted to the Payroll/Benefits Clerk. The bi-weekly overtime/attendance calendar sheets are matched to the individual overtime forms.

Extra time earned, such as when one teacher covers a class period for another, is entered into the payroll system based on the hours recorded on the certified extra pay sheet. The extra pay sheets are approved by the employee's supervisor. The extra pay sheets are submitted to the Payroll/Benefits Clerk in the Treasurer's office who enters them into the payroll system.

Other Employees: The Treasurer takes a roll call at every Board meeting and marks down the board members in attendance. The Payroll/Benefits Clerk uses the board attendance on the meeting minutes to calculate and enter payroll for the board members. Board members are paid at a maximum rate of \$80 per meeting.

Supplemental: The Treasurer is responsible for preparing supplemental contracts. These contracts are issued as the Treasurer's office receives the assignments for each supplemental position. The Board of Education approves the supplemental contracts before they are mailed to employees. Employees have the option to receive one lump-sum payment after the contracted duties are completed or to be paid in two lump sum payments (first payment when contract is half completed and second payment when contract is fully completed).

Substitutes: The building secretary at the elementary school calls substitute teachers for all three school buildings when needed. The elementary building secretary fills out a daily substitute log sheet. This sheet includes the date, the names of the absent teachers, type of leave (sick, personal or other), the names of the replacement substitute teachers and the school building. The daily substitute log sheets are submitted to the Treasurer's office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(Continued)

Each substitute teacher will fill out an individual bi-weekly substitute time report. This report includes the name of the substitute, hours worked each day in a two week pay period and the names of the absent teachers. The bi-weekly substitute time reports are signed by the building principal and submitted to the Treasurer's office. The Payroll/Benefits Clerk receives these reports, compares them to the daily substitute sheets for the pay period and enters this information into the payroll system. Substitute teachers are paid a daily rate and are used as needed.

Withholdings: A new employee packet is given to new employees to be completed, signed, and returned to the Treasurer's office. This packet includes a payroll information form, direct deposit authorization form and various tax and retirement forms. The Treasurer's office enters the information into the computer. If employees need to change any of the information on these forms they can obtain the appropriate form from the Treasurer's office. Withholding and various deduction forms are maintained in the Treasurer's office. Federal and State employee withholding deductions are made by ACH payments. Local employee withholding deductions are paid by budgetary check.

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

Leave: Vacation and personal leave is credited annually as indicated in the respective negotiated agreement or in each administrator's contract. All full-time employees receive 15 sick days for each calendar year. Vacation, personal, and sick leave usage is posted in the payroll system by the Payroll/Benefits Clerk every pay according to the amount of time recorded on the absence request and/or sick leave forms. The system updates the balances automatically.

Vacation, personal or professional leave is approved by the employee's immediate supervisor in advance on an absence request form. This form includes the employee's name, dates of absence requested, type of leave requested and total days requested. The supervisor forwards the absence request forms to the Payroll/Benefits Clerk.

Sick leave is not required to be requested in advance. Certified employees contact the building secretary and classified employees contact the department supervisor to report off sick. If not completed prior to taking sick leave, the sick leave form must be filled out by the employee upon returning from leave. The employee's supervisor approves it and forwards the sick leave forms to the Payroll/Benefits Clerk.

The Payroll/Benefits Clerk matches the absence request and sick leave forms to the daily substitute log sheets and the bi-weekly overtime/attendance calendar sheets. The Payroll/Benefits Clerk uses the absence request and sick leave forms to enter vacation, sick and personal leave usage into the payroll system.

STRS/SERS: Payroll deductions for STRS and SERS are processed through the payroll system and filed timely. The Board share of retirement is deducted from the State Foundation. Therefore, the Treasurer's office books the Board share as a memo expenditure and mails the employee share to STRS and SERS.

Bi-weekly, the Payroll/Benefits Clerk completes the STRS Employer Cash Receipt Remittance Form and mails it to STRS along with payment of the employee share for that pay period. SERS employee contributions are paid monthly. Each month, the Payroll/Benefits Clerk completes the SERS Cash Deposit Report and mails it to SERS along with payment.

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(Continued)

Other Employee Benefits: The School District provides medical, prescription, vision and dental benefits to all full-time employees administered through Anthem. Monthly charges per person for participation in the program are recommended by the third party administrator and approved by the Board of Education. Employees are required to pay \$40 per month for family coverage and \$20 per month for single coverage under Anthem PPO and \$20 per month for family coverage and \$10 per month for family coverage under Anthem HMO. Employees are required to pay \$8.20 per month for family coverage and \$3.44 for single coverage for dental. Medical, prescription, vision and dental insurance benefits are pro-rated for part-time employees. Life insurance benefits are provided through Core Source. The Board provides each full-time and part-time employee with term life insurance of \$75,000.

Payroll Deductions: Payroll deductions for medical, prescription, vision, dental and life insurance benefits are processed through the payroll system and then used as part of the payment. The Payroll/Benefits Clerk is responsible for the preparation of the documentation for the payments of medical, prescription, vision, dental and life insurance benefits. All payroll deduction reports and insurance invoices are maintained by the Payroll/Benefits Clerk.

Severance: The School District offers severance pay upon retirement to its certified and classified employees with at least ten years of service in the School District. Payments for certified and classified employees are twenty-five percent of their unused sick leave times the employee's daily rate. The maximum number of sick leave days accumulated is unlimited.

Payroll Preparation: Access to the payroll system is password protected. The Treasurer has given authority to Northeast Ohio Management Information Network (NEOMIN), the School District's A-site, to grant access and supply a password. The Treasurer and the Payroll/Benefits Clerk have full access to the payroll system.

All payroll information must be received by Monday morning following the end of the pay period. Overtime and extra time from the previous pay period is entered into the payroll system by the Payroll/Benefits Clerk. Once all payroll information is entered into the system on Tuesday and Wednesday, the payroll is ready to be processed.

The first report run is the bi-weekly report called INICAL. The INICAL lists the total regular employee bi-weekly payroll prior to exceptions (stipends, certain supplementals, miscellaneous pays, etc.) The next payroll report generated is a distribution proof listing called PAYSUM which details out the gross payroll by individual employee. The Payroll/Benefits Clerk will review this report and check for any unusual entries and make any necessary corrections.

The next step is to run the CALCPAY program which generates four reports, the PAYRPT, DEDTOT, the CALCERR, and the BUDPRO. The PAYRPT details the gross payroll and deductions by individual and pay group. The DEDTOT lists all payroll deductions including STRS and SERS deductions. The CALCERR lists items that are unusual and may need further attention. This report is reviewed by the Payroll/Benefits Clerk for any errors. The BUDPRO details the gross payroll by budget account. The Payroll/Benefits Clerk reviews this report to verify there are no errors in the payroll coding.

Liberty Local School District – Trumbull County

Financial Accounting Report

Payroll Processing

(Continued)

The direct deposit notification forms and payroll checks are printed in the Treasurer's office no later than the Thursday of every pay week. Payroll checks are only used for severance and board member pay. The blank check stock paper is kept in a cabinet in the Treasurer's office. The check stock paper is completely blank, not pre-numbered and not containing school name, account number or any other information. This information is printed on the checks. The Payroll/Benefits Clerk uses a computer program to create, electronically sign and print the direct deposit notification forms and payroll checks.

Prior to printing the payroll checks and direct deposit notification forms and electronically submitting the direct deposits, the Treasurer reviews the payroll. The Treasurer checks to see that the employee pay rates are correct and that overtime and extra time hours have been calculated and entered correctly.

The Payroll/Benefits Clerk prints the direct deposit notification forms and payroll checks using the CHKPRP program. Direct deposits are submitted electronically to the bank by Thursday. After submitting the direct deposits, the Payroll/Benefits Clerk prints a batch summary report off the bank's website. The Payroll/Benefits Clerk verifies that the direct deposit amount on the batch summary report matches the total on the PAYDIR report. The Treasurer or Assistant Treasurer fills out a transfer slip at the bank to transfer money from the general checking account into the payroll account.

Employees receive a direct deposit notification pay stub on Wednesday of the payroll week. During the school year, the printed pay stubs are sent to the department or building where the employee works. During the summer, the printed pay stubs for nine month employees are mailed to the employee's home.

Payroll checks and direct deposits are posted to the payroll system and general ledger system by running the CHKUPD program. Appropriate deduction checks are printed and posted to the payroll system and general ledger system by running the DEDRPT and PAYDED.

The AUTOPOST program automatically posts the payroll information to the accounts from which the employees are charged within the payroll system and the budgetary system.

Internal Revenue Service W-2 forms are processed before the end of January of the new calendar year. W-2 forms are distributed to all employees by the end of January. All W-2 information is submitted electronically to the IRS through the School District's A-site, NEOMIN.

Auditor of State Comments

1. The procedures used to process payroll should be documented and on file in the Treasurer's office. The procedures should address payroll duties and processes.
2. The School District's negotiated agreement with the Liberty Association of School Employees covered the period September 1, 2005 through August 31, 2008. The School District and the Liberty Association of School Employees continued to extend this contract yearly until a new negotiated agreement is in place. The School District should work with the Liberty Association of School Employees to agree to a new negotiated agreement.

Liberty Local School District – Trumbull County

Financial Accounting Report

Debt Administration

Description of an Effective Method of Debt Administration

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

Statutory Requirements

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

School District's Debt

Debt issuances are approved by the Board by resolution. The Board resolution identifies the statute which allows for the issuance of the debt, the purpose, the principal amount, the maturity date or dates, interest rate, and the source of revenue to be used for repayment.

The Treasurer matches all bills received for debt to the appropriate amortization schedules to ensure that the correct debt payments are made. Debt payments are all made by check. All debt documents and amortizations schedules are kept on file in the Treasurer's office.

The amount of the School District's outstanding debt at June 30, 2012 consists of the following:

| | Interest Rate | Principal Outstanding 6/30/2012 |
|--|------------------|---------------------------------------|
| Series 1997 School Improvement Bonds | | |
| Capital Appreciation Bonds | 5.0% to 6.65% | \$230,059 |
| Accretion on Capital Appreciation Bonds | | <u>365,218</u> |
| <i>Total School Improvement Bonds, Series 1997</i> | | <u>\$595,277</u> |

Liberty Local School District – Trumbull County

Financial Accounting Report

Debt Administration

(Continued)

| | <u>Interest Rate</u> | <u>Principal Outstanding 6/30/2012</u> |
|--|--------------------------|--|
| Series 2006 Refunding Bonds | | |
| Serial Bonds | 3.5% to 4.1% | \$5,150,000 |
| Capital Appreciation Bonds | 4.36% to 4.43% | 644,994 |
| Accretion on Capital Appreciation Bonds | | 509,448 |
| Unamortized Loss | | 171,249 |
| Unamortized Premium | | 247,239 |
| <i>Total Refunding Bonds, Series 2006</i> | | <u>6,722,930</u> |
| Series 2009 Tax Anticipation Note | 4.90% | 503,400 |
| Series 2010 Tax Anticipation Note | 3.40% | 1,420,800 |
| House Bill 264 Energy Conservation Loan | 2.70% | 2,327,350 |
| 2011 State of Ohio Solvency Assistance Advance | 0.00% | <u>1,921,000</u> |
| <i>Total Debt</i> | | <u><u>\$13,490,757</u></u> |

On November 20, 1997, the School District issued \$11,199,918 in voted general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$3,595,000, \$6,335,000 and \$1,269,918, respectively. The general obligation bonds were issued for the purpose of providing funds for construction of a new high school. The full amount of the serial bonds had been retired by the School District through annual debt service repayments. On March 30, 2006, the full amount of the term bonds was retired by the School District through an advance refunding. The general obligation bonds mature December 1, 2012 and will be retired from the debt service fund.

The capital appreciation bonds were originally sold at a discount of \$384,941, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2012.

On March 30, 2006, the School District issued \$6,334,994 in voted general obligation bonds which included serial and capital appreciation (deep discount) bonds in the amounts of \$5,690,000 and \$644,994, respectively. The general obligation bonds were issued for the purpose of refunding the term bond portion of the 1997 school improvement bonds to take advantage of lower interest rates. The bonds were issued for a fifteen year period with a final maturity at December 1, 2020. These bonds will be retired from the debt service fund.

The capital appreciation bonds were originally sold at a discount of \$885,006, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2014 through 2015.

The School District incurred a deferred loss on the advance refunding of \$298,414. The deferred loss is being amortized over the life of the bonds. The 2006 refunding bonds were sold at a premium of \$430,832. This premium is being amortized over the life of the bonds.

Liberty Local School District – Trumbull County

Financial Accounting Report

Debt Administration

(Continued)

During fiscal year 2009, the School District issued an \$839,000 tax anticipation note for the purpose of providing for the emergency requirements of the School District. This note was issued for a five year period with a final maturity on December 1, 2014. This note will be repaid from the general fund.

During fiscal year 2010, the School District issued a \$1,776,000 tax anticipation note for the purpose of providing for the emergency requirements of the School District. This note was issued for a five year period with a final maturity on December 1, 2015. This note will be repaid from the general fund.

During fiscal year 2011, the School District received \$2,327,000 in proceeds for the House Bill 264 energy conservation loan which were placed into the building capital projects fund. The work on energy conservation is to be completed in fiscal year 2012. The energy conservation loan is subject to annual sinking fund redemptions on December 1 in the years of 2011 through 2025 at a redemption price of 100 percent of the principal amount to be redeemed.

During fiscal year 2012, the School District received a Solvency Assistance Fund advance from the State of Ohio in the amount of \$1,921,000. 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 fiscal year 2012 advance will be repaid over two fiscal years, beginning in fiscal year 2013 with State foundation revenues.

Auditor of State Comments

None.

Liberty Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

Description of an Effective Inventory of Capital Assets and Supplies

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

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

Statutory Requirements

Section 3313.41(A), Revised Code, requires that, except as provided in divisions (C),(D),(F), and (G) of this section, when a Board decides to dispose of real or personal property that it owns in its corporate capacity, and that exceeds in value \$10,000, it shall sell the property at public auction, after giving at least thirty days' notice of the auction by publication in a newspaper of general circulation or by posting notices in five of the most public places in the School District in which the property, if it is real property, is situated, or, if it is personal property, in the School District of the Board that owns the property. The Board may offer real property for the sale as an entire tract or in parcels. Under division (B), when the Board has offered real or personal property for sale at public auction at least once pursuant to division (A) of this section, and the property has not been sold, the Board may sell it at a private sale. Regardless of how it was offered at public auction, at a private sale, the Board shall, as it considers best, sell real property as an entire tract or in parcels, and personal property in a single lot or in several lots. Real property is a permanent improvement and the proceeds are to be recorded into a permanent improvement fund as required by Section 5704.01 and 5705.10, Revised Code.

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

(Continued)

School District's Method of Accounting for Capital Assets

The Board of Education has adopted formal policies regarding capital assets and inventory. The Board policy defines capital assets as those tangible assets of the School District with a useful life in excess of one year, an initial cost equal to or exceeding the amount determined every three years in the School District's administrative guidelines and which the District intends to hold or continue to use over an extended period of time. The policy does not specify a dollar amount for the capital asset threshold but in practice the School District capitalizes assets with costs of or exceeding \$5,000. Assets for which accountability is desired that have a value less than \$5,000 may, at the School District's discretion, be entered into the capital asset system for control purposes only but are not reported on the financial statements. The policy states that if a single item does not meet the threshold amount, but is typically purchased in aggregate, the Treasurer shall use discretion in deciding whether or not the items shall be capitalized. The classification of capital assets includes land, land improvements, building and improvements, furniture and equipment, vehicles and textbooks. All assets are capitalized at cost or historical cost.

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

The Treasurer identifies all capital asset additions other than technology assets by running an expenditure report which includes the 600 capital outlay expenditure object codes from the School District's system. The Technology Coordinator tracks all technology assets, such as computers, printers, copiers, projectors and audio/visual equipment and tags these items over \$250. The asset tag aids in identifying the existence of the asset. The Technology Coordinator prepares a spreadsheet with the annual technology additions. This spreadsheet includes the asset tag number, description of the asset, asset location, model and serial number, vendor, purchase order number and purchase price. The Technology Coordinator gives this spreadsheet to the Treasurer to enter the asset information into the Industrial Appraisal database. All capital assets at or above \$5,000 are capitalized.

The Treasurer enters asset additions into the Industrial Appraisal database. The information entered includes asset class, useful life, description of asset, location of asset and the fund and function from which the asset was purchased. The Treasurer enters all items that have been given an inventory tag number. Items to be capitalized are coded as such. This database is transferred electronically to Industrial Appraisal who closes out the database and rolls the information over to the next year. Industrial Appraisal uses the information in the database to certify insurable values each year for the School District.

The Treasurer enters the useful life and depreciation method to be used into the Industrial Appraisal database to calculate annual depreciation. Depreciation is calculated on a straight line basis. Salvage value is not used.

When employees wish to dispose of an asset, they send an email or written note to the Treasurer's office with a description of the asset, serial number and asset tag number. The Treasurer compiles a list of capital assets to be disposed of and submits it to the Board for approval. Upon Board approval, the assets may be trashed or recycled. If an asset can still be used, the Treasurer's office will sell the asset. The sale of capital assets is very rare and in almost all cases disposed assets are simply scrapped.

Liberty Local School District – Trumbull County

Financial Accounting Report

Capital Assets and Supplies Inventory

(Continued)

Every one to two years, the Technology Coordinator performs a physical inventory of all technology assets. The Technology Coordinator prints out a technology listing from his Microsoft Access database by room and goes around to all the rooms and verifies which technology assets are still in the room, any additional assets and any missing items.

School District's Methods for Assets for Supplies

The School District does not perform an annual physical inventory of supplies to verify existence or non-existence. For financial reporting purposes, the only inventory of supplies that is reported is fuel and food service.

The Head Cook at each building takes a monthly physical inventory and sends the tally sheets to the Food Service Director. The Food Service Director then enters the quantities on hand for each inventory item into a formula spreadsheet that calculates the dollar amount of the inventory based on the cost per unit. The Food Service Director uses the dollar totals from the monthly inventory spreadsheet to complete the State Child Nutrition reports online which are submitted to the State Department of Education.

Auditor of State Comments

1. The Board policy does not state a capitalization threshold for capital assets. The School District should review and update their capitalization threshold. The Board should approve changes in capitalization thresholds by resolution. The School District should set the capitalization threshold at a level that accounts for the majority of capital assets.
2. The capital asset policy should be expanded to address valuing donated assets, assigning salvage values and addressing private property (items belonging to staff and students). In accordance with GASB Statement No. 34, depreciation expense should be calculated by allocating the net cost of depreciable assets over their estimated useful lives. The net cost of depreciable assets is defined as historical cost less estimated salvage value.
3. The Treasurer's office does not verify the existence or non-existence of any significant consumable inventory other than fuel and food service supplies. The Treasurer should verify that there are no significant inventories other than fuel and food service to be reported. This should be done by physically checking the areas where consumable inventories would be stored.

Liberty Local School District – Trumbull County

Financial Accounting Report

Cash Management and Investing

Description of an Effective Method of Cash Management

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

Statutory Requirements

Interim cash should be invested according to Section 135.14 of the Revised Code. The deposits of public money should be insured and/or collateralized to ensure repayment of public monies deposited with a financial institution. Interest allocation should be in accordance with the Ohio Constitution and State statutes.

Cash management and investment activities of a school district are additionally governed by Sections 135.01 to 135.22, and 3313.31 and 3315.01 of the Ohio Revised Code.

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

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

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

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

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

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

Liberty Local School District – Trumbull County

Financial Accounting Report

Cash Management and Investing

(Continued)

Federal Requirements

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

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

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

The School District's Methods of Cash Management and Investing

The School District's treasury activities are the responsibility of the Treasurer. The Treasurer reconciles the treasury with the accounting records and transfers cash among the various bank accounts as needed. The School District maintains a general checking account, a business account, a payroll checking account, a benefits account and a STAR Ohio account.

The First Place Bank business account receives wire transfers for the School District. The general checking account receives daily deposits from the School District. Checks are written against the general checking account for the daily operations, other than insurance and payroll, of the School District. Transfers are made when necessary from the business account into the general checking account and the benefit account. Electronic payments for insurance are made out of the benefits account.

At the beginning of each month, the Treasurer closes out the previous month. Within the next two weeks, the Treasurer reconciles the bank accounts for the previous month. To identify outstanding checks, the Treasurer enters into the accounting system the check numbers that cleared the bank per the bank statement and then runs an outstanding check register report. Any discrepancies are noted on the monthly cash reconciliation. This reconciliation is presented to the Board.

Voided general operations and payroll checks have the signature blacked out and void written on them by the Assistant Treasurer or Payroll/Benefits Clerk. These voided checks are filed in numerical order in the Treasurer's Office.

The Board policy states that the Treasurer is authorized to make investments with available monies from the funds of the School District in securities authorized by State Law. Earnings on an investment may become a part of the fund from which the investment was made, unless otherwise specified by law. The only investment the School District holds is a STAR Ohio account. The School District does not have a policy for distribution of interest income but instead has chosen to follow State statute. In fiscal year 2011 and prior years, the only fund that received interest was the general fund. The Treasurer annually attends training on investing offered by the State Treasurer's office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Cash Management and Investing

(Continued)

Auditor of State Comments

1. The School District does not have a policy for distribution of interest income. The School District should adopt a policy for the distribution of interest income.
2. During fiscal year 2011, the School District did not record interest earned on the money derived from the food service fund as required by Section 135.21, Revised Code. The School District should allocate interest to the food service fund monthly based upon fund balances.

Liberty Local School District – Trumbull County

Financial Accounting Report

Financial Reporting

Description of Effective Method of Financial Reporting

The Treasurer should periodically provide the Board with reports setting forth year-to-date receipts, disbursements, outstanding encumbrances, and available fund balances for each fund of the School District. In addition, information concerning estimated and actual receipts, appropriations and disbursements plus encumbrances should be presented for the Board's review. On an annual basis, the Treasurer should prepare and publish within 150 days of fiscal year-end financial statements prepared in accordance with generally accepted accounting principles (GAAP) and Section 117-9-03(B).

Statutory Requirements

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

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

The School District's Method of Financial Reporting

The School District uses software provided by the Northeast Ohio Management Information Network (NEOMIN) which allows for standard and customized month and year-to-date reports. The School District prepares month and year-to-date reports, including the revenue, budget and appropriation account summary reports, which are kept on file in the Treasurer's office.

During the monthly Board meetings, the Board members receive a copy of the monthly cash reconciliation, the FINSUM report (receipts, expenditures and current fund balance for each fund), the SM-2 Annual Spending Plan (Current Operation – General Fund Only) report and the CHECKS report (list of bills paid for the previous month). Other financial reports are given according to requests of the Board members.

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 within 150 days of the end of the fiscal year end or, if unable to meet the deadline, an extension is requested. The School District filed a copy of its annual financial report to the office of the Auditor of State for the fiscal year ended June 30, 2011 on November 25, 2011. As soon as the financial audit is released by the Auditor of State, the audit is distributed to all Board members.

In prior fiscal years, the School District has not published a notice of the availability of the financial statements in the local newspaper. Copies of the financial statements are kept at the School District for the public and distributed when requested. All requests of financial information from the public are prepared and distributed by the Treasurer's office.

Liberty Local School District – Trumbull County

Financial Accounting Report

Financial Reporting

(Continued)

Auditor of State Comments

1. The Board does not receive reports presenting estimated revenues and appropriations. The Treasurer should provide the Board with reports comparing estimated revenues and appropriations to actual amounts on a monthly and cumulative basis.
2. At the time the annual financial report is filed with the Auditor of State, the Treasurer must publish in the newspaper notice of the completion of the report and that the report is available for inspection. The School District has not published completion of the report in the newspaper for the past several years.

Liberty Local School District – Trumbull County

Financial Accounting Report

Recording Official Proceedings

Description of an Effective Method of Recording Official Proceedings

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

Statutory Requirements

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

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

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

The School District's Method of Recording Official Proceedings

The Board usually holds their regular monthly meetings on the fourth Monday of each month. The Treasurer takes notes during the Board of Education meetings. From those notes, the Treasurer prepares the minutes of the meeting. The minutes include who is in attendance, a summary of topics discussed, resolution numbers and a description of the resolution, votes on each resolution and any reports or materials handed out to support the resolutions. The minutes are approved by the Board at the following month's meeting and signed by the Treasurer. Typed minutes, resolutions and supporting exhibits are kept in binders in the Treasurer's office.

Auditor of State Comments

1. The President of the Board does not sign minutes after approval of the Board. The Board President should sign the minutes after Board approval.

Liberty Local School District – Trumbull County

Financial Accounting Report

Conclusion

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

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

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Dave Yost • Auditor of State

LIBERTY LOCAL SCHOOL DISTRICT

TRUMBULL 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
NOVEMBER 8, 2012