

OFFICE OF THE SUPERINTENDENT

Millburn Public Schools

INFORMATION ITEM

November 3, 2010

To: Board of Education Members

From: Ellen E. Mauer, PhD

Subject: First Reading-Accounting and Audits-4:80

This policy is updated to reflect many changes, much of which we have already completed. It requires monthly reporting of income and expenses, continues the audit requirement, continues the inventories requirement, and continues the disposal of district properties requirement. Added is language concerning the yearly required reporting to the state using the state format, language concerning any taxable fringe benefits, and goes over controls for revolving funds and activity accounts. Another section is added for control requirements of checks.

We ask that you use this as your first reading period and then put this on the next BOE meeting agenda for a second reading and approval.

Operational Services

Accounting and Audits ¹

The School District's accounting and audit services shall comply with the Illinois Program Accounting Manual, as adopted by the Illinois State Board of Education, and State law. The Superintendent, in addition to other assigned financial responsibilities, shall report monthly on the District's financial performance, both income and expense, in relation to the financial plan represented in the budget.

Annual Audit ²

At the close of each fiscal year, the Superintendent shall arrange an audit of the District funds, accounts, statements, and other financial matters. The audit shall be performed by an independent certified public accountant designated by the Board and be conducted in conformance with prescribed standards and legal requirements. A complete and detailed written audit report shall be provided to each Board member and to the Superintendent. The Superintendent shall annually, on or before October 15, submit an original and one copy of the audit to the Regional Superintendent of Schools.

Annual Financial Report ³

The Superintendent or designee shall annually prepare and submit the Annual Financial Report on a timely basis using the form adopted by the Illinois State Board of Education. The Superintendent shall review and discuss the Annual Financial Report with the Board before it is submitted.

Inventories ⁴

The Superintendent or designee is responsible for establishing and maintaining accurate inventory records that, at a minimum, comply with the Illinois Program Accounting Manual. The inventory record of supplies and equipment shall include a description of each item, quantity, location, purchase date, and cost or estimated replacement cost.

The footnotes are not intended to be part of the adopted policy; they should be removed before the policy is adopted.

¹ State or federal law controls this policy's content. A board policy or resolution is required concerning revolving funds and petty cash (23 Ill.Admin.Code §100.70). This policy is intended to facilitate the board's fiscal oversight role. The last sentence of the first paragraph should be modified to align with local conditions. The Illinois Program Accounting Manual is found at <http://www.isbe.state.il.us/sfms/pdf/ipam.pdf>.

² Audit requirements are found in 105 ILCS 5/3-7 and 5/3-15.1, and 23 Ill.Admin.Code §100.110. The federal Single Audit Act adds audit requirements for federal programs (31 U.S.C. §7501 *et seq.*).

The following optional sentence establishes an audit committee: "The Board will annually establish an audit committee to help the Board select an external auditor, confer with the auditor regarding the audit's scope, and oversee the audit process." Note: all board committees are subject to the Open Meetings Act.

The following optional sentence establishes a competitive process for selecting the external auditor; it prevents a long-term relationship with an auditor and reduces the possibility of audits being too routine or friendly: "The Board will annually advertise a request for proposals to perform the external audit." Substitute "periodically" for "annually" if desired.

³ Requirements for the annual financial report are found in 105 ILCS 5/2-3.27 and 5/3-15.1; 23 Ill.Admin.Code §100.100. The last sentence of this section should be modified to align with local conditions.

⁴ Illinois Program Accounting Manual is found at <http://www.isbe.state.il.us/sfms/pdf/ipam.pdf>. The last sentence of this section should be modified to align with local conditions.

Disposition of District Property 5

The Superintendent or designee shall notify the Board, as necessary, of the following so that the Board may consider its disposition: (1) District personal property (property other than buildings and land) that is no longer needed for school purposes, and (2) school site, building, or other real estate that is unnecessary, unsuitable, or inconvenient. Notwithstanding the above, the Superintendent or designee may unilaterally dispose of personal property of a diminutive value.

Taxable Fringe Benefits 6

The Superintendent or designee shall: (1) require that all use of District property or equipment by employees is for the District's convenience and best interests unless it is a Board-approved fringe benefit, and (2) ensure compliance with the Internal Revenue Service regulations regarding when to report an employee's personal use of District property or equipment as taxable compensation.

Controls for Revolving Funds and Petty Cash 7

Revolving funds and the petty cash system are established in Board policy 4:50, *Payment Procedures*. The Superintendent shall: (1) designate a custodian for each revolving fund and petty cash fund, (2) obtain a bond for each fund custodian, and (3) maintain the funds in compliance with this policy, State law, and Illinois State Board of Education rules. A check for the petty cash fund may be drawn payable to the designated petty cash custodian. Bank accounts for revolving funds are limited to a maximum balance of \$500.00. All expenditures from these bank accounts must be directly related to the purpose for which the account was established and supported with documentation, including signed invoices or receipts. All deposits into these bank accounts must be accompanied with a clear description of their intended purpose. The Superintendent or designee shall include checks written to reimburse revolving funds on the Board's monthly listing of bills indicating the recipient and including an explanation.

The footnotes are not intended to be part of the adopted policy; they should be removed before the policy is adopted.

⁵ The requirements in this section are specified in 105 ILCS 5/5-22 and 5/10-22.8. A board that desires to act on the disposition of property having *any* value should use the following alternative to this section's the last sentence: "Notwithstanding the above, the Superintendent or designee may unilaterally dispose of worthless personal property."

⁶ The intent of this optional section is twofold: (1) to control personal use of district property and equipment, and (2) to ensure compliance with IRS rules. As to the first point, allowing personal use of district property or equipment is arguably prohibited by the Ill. Constitution, Art. VIII, Sec 1 which states: "Public funds, property or credit shall be used only for public purposes." As to the second point, any fringe benefit an employer provides is taxable and must be included in the recipient's pay unless the law specifically excludes it. See Publication 15-B (2008), *Employer's Tax Guide to Fringe Benefits*, <http://www.irs.gov/publications/p15b/index.html>.

⁷ 105 ILCS 5/10-20.19; 23 Ill.Admin.Code §100.70. This paragraph's contents are mandatory, except for the \$500 cap on the maximum balance of revolving funds. The cap amount may be changed or the following alternative used: "Each revolving fund shall be maintained in a bank that has been approved by the Board and established in an amount approved by the Superintendent consistent with the annual budget."

Control Requirements for Checks ⁸

The Board must approve all bank accounts opened or established in the District's or a District school's name or with the District's Federal Employer Identification Number. All checks issued by the School District must be signed by either the Treasurer or Board President, except that checks from an account containing student activity funds and revolving accounts may be signed by the respective account custodian.

Internal Controls ⁹

The Superintendent is primarily responsible for establishing and implementing a system of internal controls for safeguarding the District's financial condition; the Board, however, will oversee these safeguards. The control objectives are to ensure efficient business and financial practices, reliable financial reporting, and compliance with State law and Board policies, and to prevent losses from fraud, employee error, misrepresentation by third parties, or imprudent employee action.

The Superintendent or designee shall annually audit the District's financial and business operations for compliance with established internal controls and provide the results to the Board. The Board may from time-to-time engage a third-party to audit internal controls in addition to the annual audit.

The footnotes are not intended to be part of the adopted policy; they should be removed before the policy is adopted.

⁸ This section is largely up to the local board's discretion; additional controls may be added. The following alternative to the second sentence will mandate two signatories for checks:

Two of the following individuals, the Treasurer, Board President, and/or Board Vice-President, shall sign all checks issued by the School District, except that checks from an account containing student activity funds and revolving accounts may be signed by the respective account custodian.

A board must comply with State law requirements concerning the use of facsimile or electronic signatures on checks. The Secretary of State, Index Department, maintains certified manual signatures of officers authorized to sign checks (Uniform Facsimile Signature of Public Officials Act, 30 ILCS 320/). Electronic records and signatures are governed by the Electronic Commerce Security Act (5 ILCS 175/5). Attorneys disagree about the applicability of these laws to school districts.

⁹ This section is largely up to the local board's discretion. The annual audit must include a "review and testing of the internal control structure" (23 Ill.Admin.Code §100.110). This review's limited scope means that boards should not rely on it to reveal uncontrolled financial risks. The board's responsibility is to establish policy to safeguard the district's financial condition. Indeed, the oath of office includes this promise: "I shall respect taxpayer interests by serving as a faithful protector of the school district's assets." In this sample policy, the board sets the control objectives and the superintendent is responsible for developing an internal controls system.

Boards that wish to take a larger oversight role regarding internal controls may list the numbered sentences in the IASB sample administrative procedure 4:80-AP, *Checklist for Internal Controls*, as required inclusions in the superintendent's program for internal controls. This alternative, for insertion at the end of this section's first paragraph, follows:

The District's system of internal controls shall include the following:

1. All financial transactions must be properly authorized and documented.
2. Financial records and data must be accurate and complete.
3. Accounts payable must be accurate and punctual.
4. District assets must be protected from loss or misuse.
5. Incompatible duties should be segregated, if possible.
6. Accounting records must be periodically reconciled.
7. Equipment and supplies must be safeguarded.
8. Staff members with financial or business responsibilities must be properly trained and supervised, and must perform their responsibilities with utmost care and competence.
9. Any unnecessary weaknesses or financial risks must be promptly corrected.

LEGAL REF.: 105 ILCS 5/2-3.27, 5/2-3.28, 5/3-7, 5/3-15.1, 5/5-22, 5/10-21.4, 5/10-20.19, 5/10-22.8, and 5/17-1 et seq.
23 Ill.Admin.Code Part 100.

CROSS REF.: 4:10 (Fiscal and Business Management), 4:50 (Payment Procedures), 4:55 (Use of Credit and Procurement Cards), 4:90 (Activity Funds)

Operational Services

Accounting and Audits

All reporting formats used for the Annual Financial Report will be consistent with the Illinois Program Accounting Manual for Local Educational Agencies.

At the close of each fiscal year, the Superintendent or a designee shall arrange to have the District books and accounts audited by an independent certified public accountant designated by the Board of Education in conformance with prescribed standards and legal requirements. A complete and detailed written audit report shall be provided to each Board of Education member and to the Superintendent.

The Superintendent or a designee shall annually, on or before October 15, submit an original and one copy of the audit to the Regional Superintendent of Schools.

Inventories

The Superintendent is responsible for developing and maintaining an inventory of District buildings and capital equipment. The inventory record of equipment shall include such items as a description of each item, the quantity, the location, the date of purchase, and the cost or the estimated replacement cost.

Disposition of District Property

The Superintendent shall notify the Board, as necessary, of any (1) District personal property no longer needed for school purposes, and (2) school sites, buildings, or other real estate that is unnecessary, unsuitable, or inconvenient, so that the Board may consider its disposition.

LEGAL REF.: 105 ILCS 5/2-3.27, 5/2-3.28, 5/3-7, 5/3-15.1, 5/5-22, 5/10-21.4, 5/10-22.8 and 5/17-1 et seq.

23 Ill. Admin. Code, ch. 110 and 125.

ADOPTED: May 20, 2002