

POLICY: 3.2 FINANCIAL MANAGEMENT
POLICY CATEGORY: SUPERINTENDENT LIMITATIONS
PERIOD MONITORED: December 10, 2012 – December 9, 2013
BOARD MEETING DATE: December 9, 2013

This is my monitoring report on the Board of Education's Executive Limitation policy "Financial Management." I certify that the information contained in this report is true and complete, and presented in accordance with the routine monitoring report schedule. This report will monitor the policy starting at its more detailed prohibitions and end with the global prohibition.



Michael F. Paskewicz
Superintendent

December 9, 2013

3.2.1 POLICY PROHIBITION: *The Superintendent shall not fail to insure the District to the extent possible against liability losses to Board members, staff, and individuals engaged in business and/or activities on behalf of the District.*

INTERPRETATION:

I interpret “*shall not fail to insure the District to the extent possible against liability losses to Board members, staff, and individuals engaged in business and/or activities on behalf of the District*” to mean:

1. Insurance contracts and policies are in place with the appropriate level of protection and all loss claims against the policies are recovered, less the deductible.
2. The district has in place insurance contracts to replace, repair, or provide financial remuneration for the district’s assets exceeding \$1,000.00. The level of coverage restores the district to an equal or similar position prior to the loss or damage to the asset, less the deductible. The insurance replaces assets stolen, damaged or destroyed with a minimum value that meets or exceeds the deductible limitations of the insurance coverage, and includes the replacement of real estate, facilities, fixtures, furniture, equipment and consumable assets (i.e. textbooks, computer components, etc.) owned or leased by the district with a value greater than \$1,000.00.
3. Appropriate policies are in place and all claims against the policies are resolved. The district has in place insurance policies to cover acts of litigation, settlements, judgments and staff injuries resulting in financial remuneration by the district. The policies provide coverage for these acts to the extent available through insurance contracts. There are certain acts that are not insurable.
4. Conduct an annual audit by a qualified audit firm; and the adopted budget includes funds to pay for the audit services. This is reasonable as the law requires an annual audit.

This interpretation is reasonable because it is the industry standard utilized by the West Michigan Risk Management Trust. It also meets industry standard for insurance as established by the KISD and are commensurate with insurance programs of similarly situated school districts in the county.

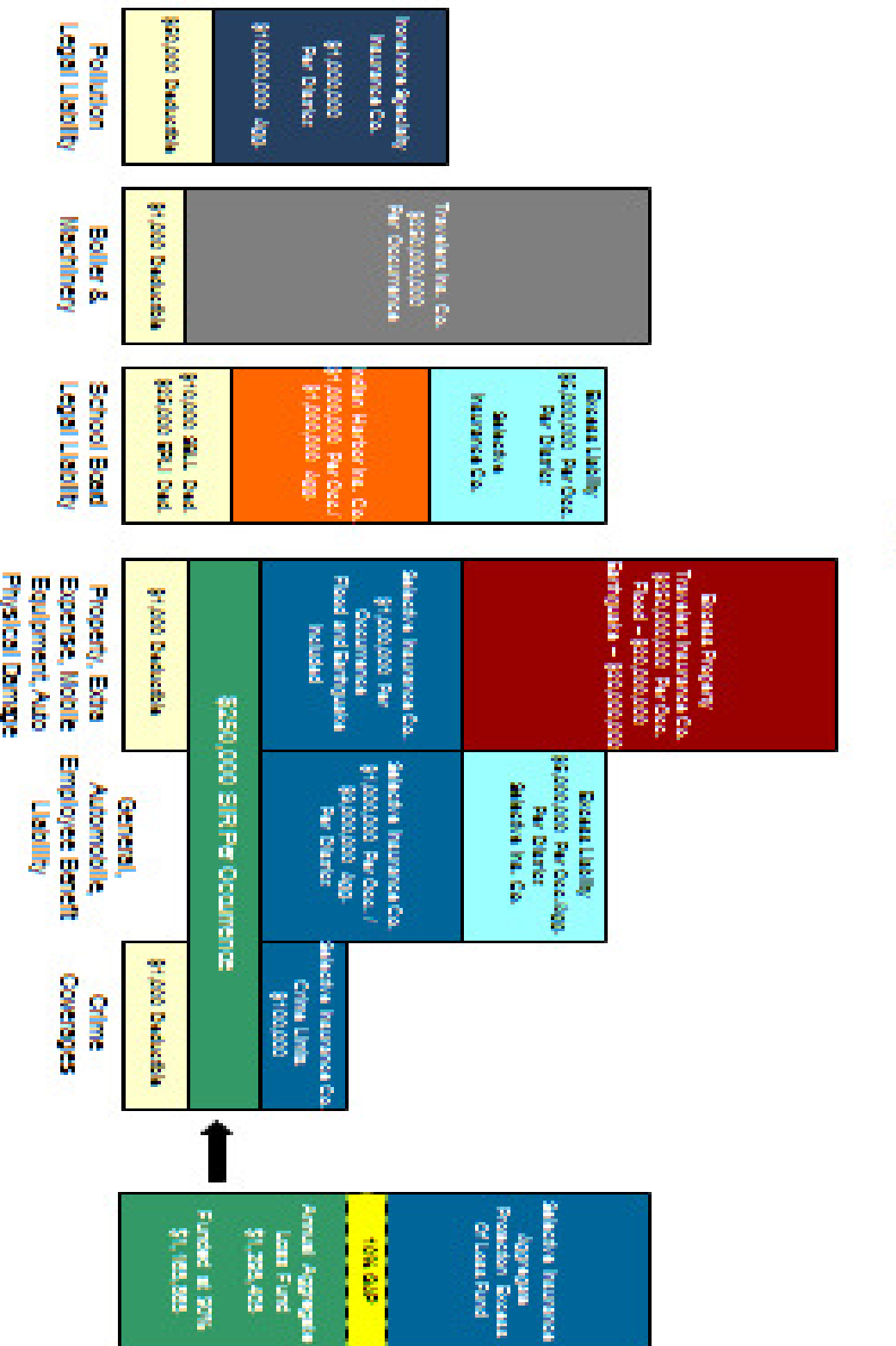
DATA REPORTED:

1. The district has in place the following insurance contracts:
 - a. Property, Mobile Equipment, Auto Physical Damage totals \$201,000,000, which includes the \$2 million in excess property coverage. This is less the \$1,000 deductible.
 - b. General Liability, Employee Benefits Liability coverage totals \$6 million which includes \$5 million excess liability coverage.
 - c. Auto Liability coverage totals \$6 million, which includes \$5 million excess liability coverage.
 - d. Employee Dishonesty, Crime coverage totals \$350,000 less the \$1,000 deductible.
 - e. The green bar (Self-Insured Retention Per Occurrence) is paid out of the Management Loss Funds which currently contains \$1.175 million. This is a required amount by the Michigan's Office of Finance and Insurance Services.
 - f. We carry additional available coverage on Boiler & Machinery, School Board Legal and Fiduciary Liability. In the event of a student trip outside of the United States we purchase the Foreign Legal Liability Coverage.
 - g. Builder's Risk insurance was added with an effective date of June 11, 2012, with a coverage amount of \$16.1 million. This is intended to cover the new construction; any renovations are covered under existing policies.
 - h. Additional Builder's Risk insurance, with a coverage amount of \$12.0 Million has been added, as of May 7, 2013 for the construction/renovation of the new pool and High School athletic facilities.
2. The deductible amount is \$1,000 and is applicable to the Property, Mobile Equipment, Auto Physical Damage and Employee Dishonesty Claims.
3. Board Policies and Procedures are in place in NEOLA section 8700.
4. The 2012/13 audit was conducted by Hunderford, Aldrin, Nichols and Carter, CPA's, P.C., approved by the Board of Education, and paid for by funds designated in the annual budget adopted by the Board of Education.

West Michigan Risk Management Trust

2013-2014 Secured Self-Insured Program Structure

\$250,000 Self-Insured Retention



CONCLUSION STATEMENT:

The organization met expectations.

3.2.2 POLICY PROHIBITION: *The Superintendent shall not fail to protect intellectual property, information, and files from loss or significant damage.*

INTERPRETATION:

I interpret "*Superintendent shall not fail to protect intellectual property, information, and files from loss or significant damage*" to mean:

1. All data is backed up continuously and saved each workday. Backup media (tapes/disks) are completed successfully at a rate of 98% automated and 100% manual on a daily basis. 100% of all back-up data and logs are completed and taken to offsite storage to ensure proper backup of critical data and systems. The district also maintains industry standard firewall and security protection to prevent inappropriate access to sensitive or private information. This measure is reasonable because it is necessary to meet Federal Regulations and prevents rework due to loss of data.
2. The district has systems in place to detect and prevent attempts to gain access to district systems that would corrupt, damage or provide access to proprietary, confidential, or sensitive information. Proprietary, confidential, and/or sensitive information is defined as the programs and data systems used to support the district operations. Examples of this interpretation include employee data, student data, financial data, and contract data. This interpretation is reasonable because the information protected is sensitive, private, and/or critical to the mission of the district, which if accessed inappropriately, lost, or damaged could potentially harm the district or individuals.

DATA REPORTED:

1. All data is backed up and saved daily. A new tape is used each day. On Friday of each week a backup is completed and the tape is taken off-site until the next weekly backup is completed. All on-site backup tapes are stored in a fire-proof safe that is located in the AS-400 room. Industry standard Firewall and Security Protection is used to monitor and maintain the safety and security of district/employee information.
2. The district security includes firewall protection and security systems that will scan for malware (including Adware, Spyware, Trojans, viruses, worms and rootkits) and is updated on a regular basis as part of our system maintenance.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.3 POLICY PROHIBITION: *The Superintendent shall not make any purchase or commit the District to any capital expense beyond the mandated ceiling provided by the State of Michigan.*

INTERPRETATION:

I interpret “*Superintendent shall not make any purchase or commit the District to any capital expense beyond the mandated ceiling provided by the State of Michigan*” to mean:

1. Purchases over the state mandated ceiling of \$22,766 from any one vendor at any one time or cumulatively during any fiscal year.
2. Commitments made to any one entity or individual to expend district resources in excess of the state mandated ceiling of \$22,766 on that entity or individual’s property, product(s) or services. Further, this means any single transaction or any combination of transactions within the district’s fiscal year.

(All purchases related to construction, exceeding the bid threshold, were put through a rigorous bid process. Requests for quotes were placed on the State of Michigan web-sites www.bid4michigan.com, www.buy4michigan.com, the Northview Public School web-site, www.MLive.com, and the Grand Rapids Press. Numerous vendors were given the opportunity to provide quotes for products or services to the district)

DATA REPORTED:

1. One operational purchase over the state mandated ceiling of \$22,766, requiring board approval, was the student management system “Synergy” at a cost of \$104,626. One construction related “change order” requiring board of education approval was the relocation of the fire suppressant system at the high school at a cost of \$68,901.
2. No other general fund commitments over the state mandated ceiling of \$22,766 were made.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.4 POLICY PROHIBITION: *The Superintendent shall not fail to implement internal controls to ensure fiscal responsibility and sound financial condition for the District.*

INTERPRETATION:

I interpret "Superintendent shall, implement internal controls to ensure fiscal responsibility and sound financial condition for the District" to mean:

1. The amount of fund balance in the District's general operating fund is maintained at a level of not less than 3.5%. As financial conditions improve State-wide the preferred minimum fund balance is 10% or higher.
2. The District only expends designated funds for allowed purposes throughout the identified monitoring period. This is reasonable because Michigan State Law and District policies are followed when expending these funds. Reserves are maintained as budgeted items if not yet spent.
3. The District maintains reasonable fund balances in the Insurance Reserve Fund, the Bond Redemption Fund, Building and Capital Reserve funds, and the Nutrition Services.

DATA REPORTED:

1. The fund balance is \$4,497,606 or 13.1% of the general operating fund as reported in the April 2013 budget amendment.
2. The expected non-general fund district expenses total \$5,811,964 (Building and Sites - \$625,000 Debt Service - \$3,880,213, Food Service - \$1,306,751.)
3. The insurance reserve balances are held by the West Michigan Risk Management Trust (\$1,225,922 Reserve for Claims, \$3,894,188 Fund Balance - Audited Figure), the West Michigan Workers Compensation Fund (\$2,053,034 Reserve for Claims, \$8,814,542 Fund Balance - Audited Figure), and the Western Michigan Health Insurance Pool (\$2,906,616 Reserve for Claims, \$6,972,997 Fund Balance - Audited Figure). The amounts held meet the requirements set by the State Office of Financial and Insurance Services.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.5 POLICY PROHIBITION: *The Superintendent shall not(a) use reserves other than as intended and permitted by law, (b) allow general fund reserves to be less than 10% of general fund expenditures for the previous twelve months, (c) fail to maintain reasonable fund balances in other funds, and (d) fail to maintain sufficient appropriated reserves.*

INTERPRETATION:

I interpret “(a) use reserves other than as intended and permitted by law” to mean:

The District only expends designated funds, as shown in the table below, for allowed purposes throughout the indentified monitoring period. This is reasonable because Michigan law and District policies are followed when expending these funds. Reserves are maintained as budgeted items if not yet spent.

	Restricted Legal Purpose	Nonspendable	NVPS Expenditure
Bond Reserve Fund	\$775,063		\$3,880,213
Food Service Fund	\$419,591	\$3,099	\$1,306,751
Building and Site Fund	\$1,110,233		\$625,000

DATA REPORTED:

Reserves are maintained or spent per legal and District designated purposes. This is as reflected in the November 2013 Audit Presentation.

CONCLUSION STATEMENT:

The organization met expectations.

INTERPRETATION:

I interpret “(b) allow general fund reserves to be less than 10% of general fund expenditures for the previous twelve months” to mean:

1. The amount of fund balance in the District’s general operating fund is maintained at a level of not less than 10% unless specifically approved by

- the Board of Education. As financial conditions improve State-wide the preferred minimum fund balance is 10% or higher.
2. The 10% represents fund balance as a percent of cumulative expenditures for twelve monthly accounting periods preceding the date of this monitoring report, measured at the end of each accounting period ending on the last day of the month.

This is reasonable as it represents compliance with law and Board Policy.

DATA REPORTED:

1. The fund balance is at 13.1%
2. The fund balance \$4,497,606

* As presented at the November 2013 Audit Presentation.

CONCLUSION STATEMENT:

The organization met expectations.

INTERPRETATION:

I interpret “(c) *fail to maintain reasonable fund balances in other funds*” to mean:

1. Insurance reserve fund has a year-end reserve, which equals or exceeds the amount required to be held in the insurance reserve balances are held by the West Michigan Risk Management Trust, the West Michigan Workers Compensation Fund, and the Western Michigan Health Insurance Pool. The amounts held meet the requirements set by the State Office of Financial and Insurance Services insurance pool.
2. Bond redemption funds year-end reserve is sufficient to make the subsequent debt service payment.

DATA REPORTED:

1. The insurance reserve balances are held by the West Michigan Risk Management Trust, the West Michigan Workers Compensation Fund, and the Western Michigan Health Insurance Pool (amounts reported in previous sections. The amounts held meet the requirements set by the State Office of Financial and Insurance Services.
2. The bond redemption fund (\$775,063 coupled with annual revenue of \$3,790,385) is sufficient to make the debt service payment of \$3,880,213.

CONCLUSION STATEMENT:

The organization met expectations.

INTERPRETATION:

I interpret “(d) fail to maintain sufficient appropriated reserves” to mean:

The District plans for potential expenditure needs that may arise during the course of the fiscal year. Appropriated reserves are established for encumbrances and carryover, possible impacts of negotiations, uncertainties in State funding, and other anticipated operational needs. This is reasonable as it is fiscally responsible to plan for unexpected needs that develop throughout the year. Additionally, conservative revenue and enrollment projections are used and generally acceptable accounting principles and historical data are integrated in the budget planning process. Appropriated reserves are maintained as budgeted items if not yet spent.

DATA REPORTED:

Bond Redemption Fund(s) – \$775,063

CONCLUSION STATEMENT:

The organization met expectations.

3.2.6 POLICY PROHIBITION: *The Superintendent shall not allow the organization to incur penalties in material amounts for tax payments, other government-ordered payments or other payments, or allow any filings that are overdue or inaccurately filed.*

INTERPRETATION:

I interpret this to mean:

All payments are made without incurring late payment fees in excess of \$1,000 aggregate amount for any fiscal year; further, reports and other required documents are submitted and accepted in accordance with Michigan Department of Education and Federal timelines. This is reasonable as it represents compliance with external requirements, and the \$1,000 amount has minimal impact on operations of the District.

DATA REPORTED:

Results of internal reviews disclose a number of penalty/interest charges related to the Michigan Public Schools Employee Retirement System (MPERS) for the District in the cumulative amount of \$11,444.57 for the fiscal year to date. These are a result of outstanding issues with MPERS that were found to be legitimate.

The issue, un-reconciled differences between the district and MPSERS, has been rectified and our process has been updated to avoid this in the future.

CONCLUSION STATEMENT:

The organization did not meet expectations. Compliance expected by May, 2014.

3.2.7 POLICY PROHIBITION: *The Superintendent shall not fail to aggressively pursue receivables after a reasonable grace period.*

INTERPRETATION:

I interpret this to mean:

A timely attempt is made to collect monies owed to the District that are older than thirty days, or other period of time deemed reasonable within the normal course of business. Major categories of receivables:

- Amounts Due from Other Governments – 30 to 90 days following submission of reports or other required information.
- Accrued Investment Earnings – 30 to 180 days as defined by the Investment Agreements.

This is reasonable as common business practices are used as a guideline to compare against.

DATA REPORTED:

We bill Other Governmental Units for programs we are running twice annually. The Deaf and Hard of Hearing Center Program bills go out in November and May. Our region billings are sent in January and June.

All amounts are received within normal business timelines.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.8 POLICY PROHIBITION: *The Superintendent shall not achieve compliance with these provisions by endangering future capacity to accomplish Ends.*

INTERPRETATION:

I interpret this to mean:

Endangering future capacity means committing to expenditures without a reliable funding source. This is reasonable as this helps to prevent fiscal jeopardy.

DATA REPORTED:

For Fiscal 2013, revenues are expected to be \$32,578,710 (per the October amendment) which is less than anticipated, due to per pupil fund levels being held at 2006-07 levels by the State of Michigan.

Northview is prepared to offset these revenue shortages with unspent funds, fund balance reserves, reduction of personnel, and reasonable settlements of negotiated agreements.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.9 POLICY PROHIBITION: *The Superintendent shall not determine borrowing levels.*

INTERPRETATION:

I interpret this to mean:

Shall not conclude and take action on loans or other financing transactions obligating the District for re-payment. This is reasonable as these types of financing transactions represent borrowing by the District.

DATA REPORTED:

The following amounts were approved for borrowing by the Board of Education for the period ending month/year:

- Michigan Municipal Bond Authority issuance was \$3.0 million to be repaid on August 20, 2014. Approved by the Board of Education in June 2013.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.10 POLICY PROHIBITION: *The Superintendent shall not fail to provide for an annual audit of the financial statements of the District each fiscal year by a qualified third party and make provision for payment of the expenses of conducting the audit.*

INTERPRETATION:

I interpret this to mean:

Shall not fail to conduct an annual audit by a qualified audit firm; and the adopted budget includes funds to pay for the audit services. This is reasonable as an annual external audit is required by state law.

DATA REPORTED:

An audit was completed by Hungerford, Aldrin, Nichols & Carter, PC and presented to the Board of Education on November 25, 2013. The adopted budget included the amounts necessary to pay for the audit.

CONCLUSION STATEMENT:

The organization met expectations.

3.2.11 POLICY PROHIBITION: *The Superintendent shall not fail to pursue discounts offered by suppliers for early payment of invoices when appropriate.*

INTERPRETATION:

I interpret this to mean:

- The discounts for early payment of invoices do not exceed the percentage of revenue the District would receive if funds remained in our accounts for the full length of time allowed for payment by vendors.

DATA REPORTED:

- During the period monitored the District received 252 discounts on payments for a savings of \$3,853.73 (an average of \$15.30 per discount).
- At no time did the discount amount received for early payment provide less revenue than if the District left the money in accounts for the entire billing period.

CONCLUSION STATEMENT:

The organization met expectations.

3.2 GLOBAL POLICY PROHIBITION: *The Superintendent shall not allow assets to be unprotected, inadequately maintained or unnecessary risked. Furthermore, budgeting for any fiscal period or for the remaining part of any fiscal period shall not deviate significantly from Board Ends priorities, risk fiscal jeopardy or fail to derive from a multi-year plan.*

INTERPRETATION:

I submit the Board's policy is comprehensively interpreted in the preceding provisions. This is reasonable because my interpretations, data reported and conclusion statements are presented with those provisions above.

CONCLUSION STATEMENT:

The organization met expectations.