

POLICY: 3.2 FINANCIAL MANAGEMENT
POLICY CATEGORY: SUPERINTENDENT LIMITATIONS
PERIOD MONITORED: December 12, 2011 – June 11, 2012
BOARD MEETING DATE: June 11, 2012

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.

A handwritten signature in black ink, reading "Michael F. Paskewicz". The signature is written in a cursive style with a large initial 'M' and 'P'.

Michael F. Paskewicz
Superintendent

June 11, 2012

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.*

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.
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 2010/11 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. [Included within the audit was a deficiency in internal control which was considered a material weakness by the auditors. This weakness relates to the requesting of Federal/Grant funds for reimbursement prior to the actual expenditure of district funds. In response to this finding the business office has developed a policy and procedure for the requesting of Federal Funds.](#)

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.*

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 rookits) and is updated on a regular basis as part of our system maintenance.

Incidental Information: Data retention and redundant backup systems are an important part of securing district data. Our auditors also listed this as a concern and a recommendation for improvement. We had meetings with KISD representatives to discuss off-site backup capabilities and the potential for NPS to start backing up on servers at the ISD by the end of the 4th quarter of 2011. We have an issue with incompatible technologies, therefore our AS400 cannot be backed up at the ISD at this point. All non-financial data is backed up on our Data-domain server located at West Oakview.

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: The interpretation has changed since the last monitoring report. Change is in bold font.

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 \$21,825 (was \$21,308) 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 \$21,825 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.

DATA REPORTED:

1. No purchases over the state mandated ceiling of \$21,825 from any one vendor at any one time the fiscal year were made.
2. No commitments over the state mandated ceiling of \$21,825 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.*

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 \$3,412,590 or 10.07% of the general operating fund as reported in the annual audit. * As presented in the 2009/10 audit.
2. The district expended \$2,753,695 (Building and Sites - \$817,495, Athletics - \$736,067, Food Service - \$1,200,133.
3. The insurance reserve balances are held by the West Michigan Risk Management Trust (\$1,173,750), the West Michigan Workers Compensation Fund (\$ 3,291,316), and the Western Michigan Health Insurance Pool (\$1,514,571). 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.*

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	NVPS Expenditure
Bond Reserve Fund	\$769,506	\$1,911,012
Food Service Fund	\$308,909	\$1,200,133
Building and Site Fund	\$755,915	\$817,495

DATA REPORTED:

Reserves are maintained or spent per legal and District designated purposes. This is reflected in the annual external audit of district finances.

CONCLUSION STATEMENT:

The organization met expectations.

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 10.06%
2. The fund balance \$3,412,590

* As presented in the 2010/11 audit.

CONCLUSION STATEMENT:

The organization met expectations.

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 (\$769,506 coupled with annual revenue of \$1,886,359) is sufficient to make the debt service payment of \$1,849,488.

CONCLUSION STATEMENT:

The organization met expectations.

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 – \$769,506

Kitchen Renovation Fund - \$0

Building and Site Maintenance - \$500,000 (A new board resolution will be necessary under GASB 54 to restrict, commit or assign this dollar amount)

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.*

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 \$3.73 of penalty/interest charges for the District in the cumulative amount of \$3.73 for the fiscal year to date and one reports missed a deadline. This report is related to the reporting of payroll figures to the Office of Retirement Services. We receive a \$50.00 fine each time we miss a reporting deadline from ORS.

CONCLUSION STATEMENT:

The organization met expectations.

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

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 -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.*

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 2012, revenues are expected to be \$31,189,246 which is less than anticipated and the Michigan Department of Education has rescinded approximately \$928,087 of funding for the current year.

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

Note: April Amended Balance is \$32,064,190.

CONCLUSION STATEMENT:

The organization met expectations.

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

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 \$4.5million to be repaid on August 20, 2012. Approved by the Board of Education in June 2011.

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.*

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 28, 2011. 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.*

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 284 discounts on payments for a savings of \$2,971.97 (an average of \$10.46 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.*

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.