

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT

OF

BROWN COUNTY SCHOOLS

BROWN COUNTY, INDIANA

July 1, 2004 to June 30, 2006



**FILED**

10/31/2007



TABLE OF CONTENTS0

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	3
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	4-5
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	6-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments .....	8-9
Statement of Cash Activities .....	10-11
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	12-13
Reconciliation of the Statement of Receipts, Disbursements, and Cash and Investment Balances of Governmental Funds to the Statement of Cash Activities.....	12-13
Proprietary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Proprietary Fund.....	14-15
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds .....	16-17
Statement of Cash and Investments – Fiduciary Funds .....	18-19
Notes to Financial Statements .....	20-30
Required Supplementary Information:	
Schedule of Funding Progress .....	31
Supplementary Information:	
Schedule of Debt .....	32
Other Report.....	33
Audit Results and Comments:	
Receipt Issuance .....	34
Internal Controls .....	34-35
Tax Anticipation Warrants.....	35

TABLE OF CONTENTS0  
(Continued)

<u>Description</u>	<u>Page</u>
Audit Results and Comments (Continued):	
Timely Payments .....	36
Personal Expenses .....	36-37
Errors on Claims .....	37-38
Average Daily Membership (ADM) .....	38
Condition of Records .....	38-39
Leave and Overtime Policy .....	39
Academic Honors Diploma .....	39
Contracts .....	39
Teacher Compensation .....	40
Advance Payments .....	40
Transfer Tuition .....	40
Internal Controls .....	41
Disbursement Documentation .....	41
Travel Claims .....	41
Timely Recordkeeping .....	42
Overdrawn Fund Balances .....	42
Severance Pay .....	43
Retirement/Severance Bond Fund .....	43-44
Fundraisers .....	44
Receipt Issuance .....	44
Deposits .....	44
Disbursement Documentation .....	45
Computer Output .....	45
Condition of Records .....	45-46
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	48-49
Schedule of Expenditures of Federal Awards .....	50
Notes to Schedule of Expenditures of Federal Awards .....	51
Schedule of Findings and Questioned Costs .....	52-62
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings .....	63-64
Corrective Action Plan .....	65-69
Exit Conference .....	70
Official Response .....	71-73

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Shirley Travelstead	07-01-04 to 07-16-04
	Amanda Harvey (Zurwell)	07-17-04 to 09-01-06
	Carol S. Owens (Interim)	10-16-06 to 05-16-07
	Carol S. Owens	05-17-07 to 06-30-07
Superintendent of Schools	D. Lynn Reed	07-01-04 to 06-30-07
	David Shaffer	07-01-07 to 06-30-10
President of the School Board	Martin Travelstead	07-01-04 to 06-30-05
	Janice Cassiday	07-01-05 to 06-30-06
	Teresa Waltman	07-01-06 to 06-30-07
	Zac Gredy	07-01-07 to 08-02-07
	Teresa Waltman	08-03-07 to 06-30-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF BROWN COUNTY SCHOOLS, BROWN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown County Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated June 13, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 13, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF BROWN COUNTY SCHOOLS, BROWN COUNTY, INDIANA

We have audited the financial statements of Brown County Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated June 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on July 30, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 13, 2007

BROWN COUNTY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 150,737</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ 150,737</u>

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,271,624
Restricted assets:	
Cash and investments	<u>115,436</u>
Total assets	<u>\$ 5,387,060</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 115,436
Unrestricted	<u>5,271,624</u>
Total net assets	<u>\$ 5,387,060</u>

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,842,343	\$ -	\$ 103,036	\$ (7,739,307)
Support services	13,450,281	648,645	382,213	(12,419,423)
Community services	27,613	-	-	(27,613)
Nonprogrammed charges	2,589,497	-	-	(2,589,497)
Debt service	1,569,895	-	-	(1,569,895)
<b>Total governmental activities</b>	<b>\$ 25,479,629</b>	<b>\$ 648,645</b>	<b>\$ 485,249</b>	<b>(24,345,735)</b>
General receipts:				
Property taxes				-
Other local sources				3,768,160
State aid				7,691,457
Grants and contributions not restricted				877,848
Bonds and loans				7,205,000
Sale of property, adjustments, and refunds				60,437
Investment earnings				67,926
Intergovernmental transfers				<u>2,372,844</u>
				Total general receipts and intergovernmental transfers <u>22,043,672</u>
				Change in cash and investments (2,302,063)
				Net assets - beginning <u>2,452,800</u>
				Net assets - ending <u>\$ 150,737</u>

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,740,489	\$ -	\$ 86,835	\$ (7,653,654)
Support services	15,992,687	632,263	330,242	(15,030,182)
Community services	128,953	-	-	(128,953)
Nonprogrammed charges	189,157	-	-	(189,157)
Debt service	2,017,016	-	-	(2,017,016)
<b>Total governmental activities</b>	<b><u>\$ 26,068,302</u></b>	<b><u>\$ 632,263</u></b>	<b><u>\$ 417,077</u></b>	<b><u>(25,018,962)</u></b>
General receipts:				
Property taxes				9,794,382
Other local sources				3,757,555
State aid				7,330,402
Grants and contributions not restricted				864,421
Bonds and loans				7,826,000
Sale of property, adjustments, and refunds				491,028
Investment earnings				129,630
Intergovernmental transfers				<u>61,867</u>
				<u>30,255,285</u>
				5,236,323
				<u>150,737</u>
				<u>\$ 5,387,060</u>

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Transportation Operating	Cape Grant 2005	Cape III Grant	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>									
Local sources	\$ 733,604	\$ 25,174	\$ -	\$ 600,000	\$ 8,975	\$ 21,056	\$ 1,233	\$ 1,659,876	\$ 3,049,918
Intermediate sources	-	-	-	-	-	-	-	638	638
State sources	7,787,346	-	-	-	-	-	-	140,844	7,928,190
Federal sources	-	-	-	-	-	-	-	1,126,364	1,126,364
Bonds and loans	4,236,000	724,000	-	-	1,109,000	1,089,000	47,000	-	7,205,000
Sale of property, adjustments and refunds	36,385	2,658	-	-	-	1,300	-	6,801	47,144
Intergovernmental transfers	40	420,000	1,592,511	-	100,000	140,000	110,000	10,293	2,372,844
<b>Total receipts</b>	<b>12,793,375</b>	<b>1,171,832</b>	<b>1,592,511</b>	<b>600,000</b>	<b>1,217,975</b>	<b>1,251,356</b>	<b>158,233</b>	<b>2,944,816</b>	<b>21,730,098</b>
<b>Disbursements:</b>									
<b>Current:</b>									
Instruction	7,411,392	-	29,799	-	-	-	-	401,152	7,842,343
Support services	6,523,332	1,756,237	356,667	-	-	1,493,438	158,557	1,893,647	12,181,878
Community services	299	-	-	-	-	-	-	27,314	27,613
Nonprogrammed charges	864,869	-	-	-	-	-	-	1,724,628	2,589,497
Debt services	990	-	-	-	1,568,905	-	-	-	1,569,895
<b>Total disbursements</b>	<b>14,800,882</b>	<b>1,756,237</b>	<b>386,466</b>	<b>-</b>	<b>1,568,905</b>	<b>1,493,438</b>	<b>158,557</b>	<b>4,046,741</b>	<b>24,211,226</b>
Excess (deficiency) of total receipts over (under) total disbursements	(2,007,507)	(584,405)	1,206,045	600,000	(350,930)	(242,082)	(324)	(1,101,925)	(2,481,128)
Cash and investments - beginning	25,142	7,227	-	-	554	9,327	4,161	2,357,983	2,404,394
Cash and investments - ending	<u>\$ (1,982,365)</u>	<u>\$ (577,178)</u>	<u>\$ 1,206,045</u>	<u>\$ 600,000</u>	<u>\$ (350,376)</u>	<u>\$ (232,755)</u>	<u>\$ 3,837</u>	<u>\$ 1,256,058</u>	<u>\$ (76,734)</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ (2,481,128)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>179,065</u>
Change in cash and investments of governmental activities	<u>\$ (2,302,063)</u>

BROWN COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Transportation Operating	Cape Grant 2005	Cape III Grant	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>									
Local sources	\$ 5,867,010	\$ 2,247,228	\$ -	\$ -	\$ 1,757,829	\$ 1,892,633	\$ 97,229	\$ 738,478	\$ 12,600,407
Intermediate sources	680	-	-	-	-	-	-	900	1,580
State sources	7,402,922	-	-	-	-	-	-	142,822	7,545,744
Federal sources	-	-	-	-	-	-	-	1,066,156	1,066,156
Bonds and loans	4,716,000	1,091,000	-	-	725,000	1,206,000	64,000	24,000	7,826,000
Sale of property, adjustments and refunds	176,534	4,218	-	-	-	-	-	7,924	188,676
Intergovernmental transfers	2,459	-	48,358	-	-	-	-	11,050	61,867
<b>Total receipts</b>	<b>18,165,605</b>	<b>3,342,446</b>	<b>48,358</b>	<b>-</b>	<b>2,482,829</b>	<b>3,098,633</b>	<b>161,229</b>	<b>1,991,330</b>	<b>29,290,430</b>
<b>Disbursements:</b>									
<b>Current:</b>									
Instruction	7,368,925	-	14,446	1,067	-	-	-	356,051	7,740,489
Support services	6,782,538	1,780,900	609,764	2,629	-	2,113,870	89,245	2,141,105	13,520,051
Community services	78,104	-	314	-	-	-	-	50,535	128,953
Nonprogrammed charges	178,107	-	-	-	-	-	-	11,050	189,157
Debt services	-	-	-	-	2,017,016	-	-	-	2,017,016
<b>Total disbursements</b>	<b>14,407,674</b>	<b>1,780,900</b>	<b>624,524</b>	<b>3,696</b>	<b>2,017,016</b>	<b>2,113,870</b>	<b>89,245</b>	<b>2,558,741</b>	<b>23,595,666</b>
Excess (deficiency) of total receipts over (under) total disbursements	3,757,931	1,561,546	(576,166)	(3,696)	465,813	984,763	71,984	(567,411)	5,694,764
Cash and investments - beginning	(1,982,365)	(577,178)	1,206,045	600,000	(350,376)	(232,755)	3,837	1,256,058	(76,734)
Cash and investments - ending	\$ 1,775,566	\$ 984,368	\$ 629,879	\$ 596,304	\$ 115,437	\$ 752,008	\$ 75,821	\$ 688,647	\$ 5,618,030

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 5,694,764
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(458,441)</u>
Change in cash and investments of governmental activities	<u>\$ 5,236,323</u>

BROWN COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
PROPRIETARY FUND  
For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Local sources	\$ 1,434,175
Sale of property, adjustments and refunds	13,293
Total receipts	1,447,468
Disbursements:	
Support services	1,268,403
Total disbursements	1,268,403
Changes in cash and investments	179,065
Cash and investments - beginning	48,406
Cash and investments - ending	\$ 227,471

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
PROPRIETARY FUND  
For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Local sources	\$ 1,711,845
Sale of property, adjustments and refunds	302,349
Total receipts	2,014,194
Disbursements:	
Support services	2,472,635
Total disbursements	2,472,635
Changes in cash and investments	(458,441)
Cash and investments - beginning	227,471
Cash and investments - ending	\$ (230,970)

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ (1,787)
Intermediate sources	-	1,000
Bonds and loans	1,040,000	-
Total additions	1,040,000	(787)
Deductions:		
Instruction	-	452
Debt services	17,316	-
Total deductions	17,316	452
Excess (deficiency) of total additions over (under) total deductions	1,022,684	(1,239)
Cash and investments - beginning	-	11,816
Cash and investments - ending	\$ 1,022,684	\$ 10,577

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 3,215	\$ 1,750
Deductions:		
Support services	-	1,085
Debt services	2,000	-
Total deductions	2,000	1,085
Excess of total additions over total deductions	1,215	665
Cash and investments - beginning	1,022,684	10,577
Cash and investments - ending	\$ 1,023,899	\$ 11,242

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,022,684	\$ 10,577	\$ 10,863
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,022,684	\$ 10,577	

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,023,899	\$ 11,242	\$ 9,273
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,023,899	\$ 11,242	

The accompanying notes are an integral part of the financial statements.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Brown County Schools

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with Bartholomew Consolidated School Corporation, Crothersville Community School Corporation, Seymour Community School Corporation, Greensburg Community School Corporation, and Decatur County School Corporation in a joint venture to operate Bartholomew County Special Services Cooperative which was created to provide special education services. The Cooperative's continued existence depends on continued funding by the School Corporations. Complete financial statements for the Cooperative can be obtained from Bartholomew Consolidated School Corporation, 1200 Central Avenue, Columbus, IN 47201.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

The cape grant 2005 and cape III grant funds accounts for funding from the Lilly Endowment Fund to provide funds for the career resource center and professional development for school corporation staff.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for employee health benefits.

The pension trust funds account for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay postretirement or severance benefits held by the School Corporation in a trustee capacity.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the employees.

Agency funds account for assets held by the School Corporation as an agent for payroll withholdings.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

BROWN COUNTY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Due to Brown County property reassessment issues, property taxes were not billed or settled in a timely manner as noted below:

<u>Tax Billing Cycle</u>	<u>Normal Tax Settlement (on or before)</u>	<u>Actual Tax Settlement</u>
2003 pay 2004	June 30, 2004 and December 31, 2004	April 26, 2006
2004 pay 2005	June 30, 2005 and December 31, 2005	August 25, 2006
2005 pay 2006	June 30, 2006 and December 31, 2006	Not yet settled as of July 30, 2007

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 9 to 12 days per year. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is paid to employees through cash payments upon termination.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 to 3 days per year. Unused personal leave is added to accumulated sick leave.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash, which are violations of the Uniform Compliance Guidelines as referenced in state statutes:

Fund	2005	2006
General	\$ 1,982,365	\$ -
Transportation Operating	577,178	-
Debt Service	350,376	-
Capital Projects	232,755	-
Special Education Preschool	34,788	-
Co-op School 2003-2004	326,990	378,295
Co-op School 2004-2005	-	198,526
Gifted and Talented 2004-2005	-	336
BCJHS After School Donations	136	-
Technology USAC E-Rate	-	3,246
CSHP Coord School Health Program 2004	-	17
Even Start 2004-2005	12,536	-
Title VI Innovative 2003-2004	3,200	3,200
Adult Ed Outreach FY 2004-2005	-	962
Lilly Endowment Grant	7,000	7,000
Lilly Endowment Grant 2003	-	37
CAPE Grant 2004	-	76,092
Project Respect 2004-2005	7,482	609
Rock Grant 2005-2006	-	3,911
LSTA Grant 2002-2003 (Library)	5,979	5,979
Title II Part D - Technology	-	2,148
Title II Part A Improve Teacher Quality	-	191
Internal Service Employee Health	-	230,971
	<u>\$ 3,540,785</u>	<u>\$ 911,520</u>

BROWN COUNTY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Cash deficits arose primarily from disbursements exceeding receipts due to the County's failure to bill property taxes on a timely basis; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2004-2005</u>	<u>2005-2006</u>
General Fund	Transportation Operating	\$ 420,000	\$ -
	CAPE Grant 2005	100,000	-
	Debt Service	140,000	-
	Capital Projects	110,000	-
Other governmental	CAPE Grant 2005	1,590,869	-
	Other governmental	<u>10,293</u>	<u>11,050</u>
Totals		<u>\$ 2,371,162</u>	<u>\$ 11,050</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Medical Benefits to Employees

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Employee Benefit Trust Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program.

B. Holding Corporation

The School Corporation has entered into a capital lease with Brown County High School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the 2005-2006 school year totaled \$463,000.

C. Subsequent Events

Tax Anticipation Warrants were issued after June 30, 2006, as described below:

	<u>2005 Pay 2006</u>	<u>2006 Pay 2007</u>	<u>Outstanding Tax Anticipation Warrants June 30, 2007</u>
General	\$ 7,760,000	\$ 8,000,000	\$ 15,760,000
Transportation	865,000	1,000,000	1,865,000
Bus Replacement	75,000	120,000	195,000
Debt Service	2,210,000	1,300,000	3,510,000
Capital Projects	<u>1,030,000</u>	<u>1,900,000</u>	<u>2,930,000</u>
Totals	<u>\$ 11,940,000</u>	<u>\$ 12,320,000</u>	<u>\$ 24,260,000</u>

Issued	July 11, 2006	February 1, 2007
Original Maturity	December 29, 2006	December 31, 2007
Extension	June 29, 2007	
Extension 2	December 29, 2007	

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 20 years of service. Currently, 22 retirees meet these eligibility requirements. The School Corporation provides the first \$5,000 of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Pension Plans

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 140,117
Interest on net pension obligation	(10,047)
Adjustment to annual required contribution	11,449
Annual pension cost	141,519
Contributions made	132,706
Increase in net pension obligation	8,813
Net pension obligation, beginning of year	(138,573)
Net pension obligation, end of year	\$ (129,760)

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	PERF
Contribution rates:	
School Corporation	5.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 119,287	104%	\$ (112,563)
	06-30-04	98,096	127%	(138,573)
	06-30-05	141,519	135%	(129,760)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

BROWN COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund  
150 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$298,210, \$269,322, and \$236,345, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

BROWN COUNTY SCHOOLS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,096,273	\$ 1,983,094	\$ 113,179	106%	\$ 2,104,286	5%
07-01-04	2,143,206	2,352,065	(208,859)	91%	2,438,366	(9%)
07-01-05	2,248,608	2,566,780	(318,172)	88%	2,401,639	(13%)

BROWN COUNTY SCHOOLS  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DEBT

June 30, 2006

Description of Debt	Present Value of Net Minimum Lease Payments	Due Within One Year
Brown County High School Building Corporation	\$ 5,246,480	\$ 809,941
	Ending Balance	Due Within One Year
Governmental Activities:		
Capital Leases	\$ 5,246,480	\$ 809,941
Notes and loans payable	2,538,710	167,849
Bonds payable:		
General obligation bonds:	2,255,000	485,000
Tax Anticipation Warrants	17,825,150	17,825,150
Total governmental activities long-term debt	\$ 27,865,340	\$ 19,287,940

BROWN COUNTY SCHOOLS  
OTHER REPORT

The audit report presented herein was prepared in addition to the supplemental report listed below:

Brown County Schools – School Corporation Treasurer

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS

RECEIPT ISSUANCE

Receipts were not always issued or recorded in a timely manner. We noted that the process of actually issuing receipts occurred two or three times a month. At those times, the receipts were dated as if they were issued at an earlier date. We noted a few instances where the receipt date preceded the actual receiving of the electronic funds transfer into the bank account.

An obsolete computer receipt form was used to manually write receipts for those instances where someone brought money, generally for textbook rental fees, to the School Corporation Office. However, the duplicate receipts were not kept in a numeric sequence which would ensure that all such series of receipts were accounted for and would be traceable to subsequent computer issued receipts and posting to the funds. Some of these handwritten duplicate receipts were stapled to the back of the duplicate current computer issued receipts; however, there was no log or other method available, other than to go through every duplicate receipt, looking for a stapled document.

Also, there were numerous instances of errors in posting the receipts to the proper fund and receipt account numbers. Subsequent corrections were difficult to trace from the original posting to the corrected posting. No log or other notations were found to document why some corrections were made.

There were many instances where electronic fund transfers from the Auditor of State were not identified in a timely manner. The receipt in most of those instances would then be issued after the month end was balanced.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

INTERNAL CONTROLS (Receipts)

We noted several instances where receipts were posted incorrectly for tax revenues, intergovernmental revenues, and grant receipts. The Treasurer's staff did not have sufficient internal controls over the receipt of the various funds to ensure proper receipt of the various taxes, intergovernmental revenues, and grant funds received. Sufficient procedures were not in place to be aware if the School Corporation had not received anticipated revenues in a timely manner. Internal controls were not in place over grant funds to ensure the Treasurer's staff was able to monitor the various grants and subsequent receipting and disbursing of those grants.

Accounting for insurance loss payments has not been sufficient in that the Treasurer's staff does not coordinate with the Director of Buildings and Grounds on insurance loss payments. The Director has files for insurance losses; however, neither the Director nor the Treasurer's staff does a reconciliation between the amounts estimated as losses and the final accounting for the losses. There were instances where the School Corporation's insurance company paid the contractor/vendor directly and also instances where the insurance company paid the School Corporation.

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TAX ANTICIPATION WARRANTS

Tax anticipation warrants were issued by School Corporation Officials; however, the School Corporation records of the tax anticipation warrants were not organized and some records were not located. The Treasurer contacted their attorney to obtain copies of the prepared cash flow deficit worksheets.

We were unable to determine in some instances what information was used or how the information in the cash flow deficit worksheets was obtained. There were several instances where the handwritten amounts (apparently to determine the maximum amount which could be borrowed) on the spreadsheets were not traceable to the detail in the actual spreadsheets. We were also unable to determine whether some of the tax anticipation warrants were based on actual need, due to the lack of verifiable information on the paperwork.

Indiana Code 20-48-1-9 concerning the issuance of tax anticipation warrants for school corporations states in part:

"(a) If the governing body of a school corporation finds and declares that an emergency exists to borrow money with which to pay current expenses from a particular fund before the receipt of revenues from taxes levied or state tuition support distributions for the fund, the governing body may issue warrants in anticipation of the receipt of the revenues.

(b) The principal of warrants issued under subsection (a) is payable solely from the fund for which the taxes are levied or from the school corporation's general fund in the case of anticipated state tuition support distributions. However, the interest on the warrants may be paid from the debt service fund, from the fund for which the taxes are levied, or the general fund in the case of anticipated state tuition support distributions.

(c) The amount of principal of temporary loans maturing on or before June 30 for any fund may not exceed eighty percent (80%) of the amount of taxes and state tuition support distributions estimated to be collected or received for and distributed to the fund at the June settlement.

(d) The amount of principal of temporary loans maturing after June 30 and on or before December 31 may not exceed eighty percent (80%) of the amount of taxes and state tuition support distributions estimated to be collected or received for and distributed to the fund at the December settlement."

Whichever method is chosen, tax anticipation borrowing is to be based upon need. Requirements exist for the computation of a "cumulative cash flow deficit" in order to determine whether or in what amounts tax anticipation warrants may be issued. A cumulative cash flow deficit worksheet should be available at the school corporation. (The School Administrator and Uniform Compliance Guidelines, Volume 141, March 1998)

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

TIMELY PAYMENTS

The School Corporation passed a resolution authorizing the issuance of general obligation pension/severance bonds of 2004. Included in the documents for the 2004 bond issue was the amortization schedule for the payment of principal and interest for the years from July 1, 2005 through January 5, 2015.

However, timely payments were not made for the amounts due July 5, 2005, January 5, 2006, and June 5, 2006. The total principal and interest amounts due for these dates were \$193,809.89.

An electronic funds transfer payment in the amount of \$259,451.89 (including the January 5, 2007, payment) was made on January 5, 2007.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PERSONAL EXPENSES

There have been several instances where School Corporation funds have been used to pay for personal expenses of School Corporation Officials and, in some instances, spouses.

The Treasurer's staff does not have adequate internal controls over the payment of claims. The current unwritten policy is to notify the School Corporation employee of the amount of personal expenses charged to the School Corporation. The employee writes a personal check, which is then usually included with the School Corporation's check for payment of the credit card balance.

We noted charges to an American Express account for spouses' airline tickets and charges for a holiday dinner. A spreadsheet had been prepared by the former Treasurer concerning charges and payments; however, some of the personal checks that were submitted to American Express were returned because of insufficient information to identify what credit card account to be credited. Several of the returned checks were then receipted to the School Corporation's books. The spreadsheet was inaccurate since there was no final accounting for all the checks that had been submitted. We noted that the former Treasurer eventually authorized the payment of the remaining personal expenses balance due from School Corporation funds. One Board member was unable to determine the final disposition of her original check and issued a replacement check.

We were advised during our review of the American Express account that during the current school year airline tickets for a conference in San Francisco were purchased. The Superintendent, her spouse, Board members and their spouses did not attend this conference. As of June 4, 2007, there were still several Board members who had not yet paid for their tickets, and in at least one instance, a spouse's ticket, nor had the Superintendent paid for her unused ticket. We were also advised that the School Board had requested that the Superintendent not attend this conference.

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

We also noted that \$304.54 of the expenses for a holiday dinner was paid from the School Corporation's education license plate fees fund. The claim was dated January 24, 2006, and was signed by the former Treasurer.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

- Claims were not always adequately itemized.
- Claims or invoices did not always have evidence to support receipt of goods or services.
- There were numerous instances where there were either the Treasurer's or the Deputy Treasurer's signature or no signatures at all on the claim.
- We noted an outstanding check in the amount of \$4,733.58 dated June 17, 2005, was still outstanding as of June 30, 2006. We determined that another check had been issued and the documentation for the second check showed a prior balance outstanding as well as the current monthly balance due. There was no evidence that the Treasurer's staff had reviewed the vendor history to ensure that a duplicate payment would not be made.
- Two checks were issued (June 10, 2005, and August 19, 2005) for payment of an \$11,000 invoice for the Teaching American History Grant. One claim voucher included the signature of the grant coordinator; the other claim voucher included only the signature of the former Treasurer. One of the invoices was a copy of the original. Again, there was no evidence to show that the vendor history had been reviewed prior to payment. The second check in this instance was voided on November 28, 2006.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

AVERAGE DAILY MEMBERSHIP (ADM) (Incorrect Reporting to the State)

The information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2005.

The enrollment count date for 2004-2005 was September 17, 2004. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2004-2005	Kindergarten	73.5	73.5	-
	1 through 12	2,168.45	2,169.95	(1.5)

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CONDITION OF RECORDS

There were numerous transactions which were recorded as "negative" receipts and disbursements. We determined for some of these transactions that the negative adjustment was made to correct prior posting problems. However, there was no clear audit trail and many of the transaction edit printouts were either not retained or were not always found. The "negative" disbursement in other instances was used to transfer disbursements either from one appropriation to another within the same fund, or in other cases, to transfer disbursements between funds, primarily from the General Fund to a grant fund. The "negative" disbursement was for a lump sum for which no documentation was found in some cases to show which actual disbursements were being transferred or why.

School Corporation Officials contracted with a financial consulting firm in the Fall of 2006 to assist with making corrections to the financial records. Numerous corrections and adjustments were made, including several "negative" disbursements to transfer disbursements from the General Fund to federal grant funds. The corrections included transferring disbursements from the 2004-2005 and the 2005-2006 school years. Due to the lack of internal controls over the grant funds, some grant funds had never been requested and in other instances Officials had not realized that the grants should have been paying for certain disbursements.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

LEAVE AND OVERTIME POLICY

No leave or overtime policy was presented for audit for the noncertified administrative staff.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ACADEMIC HONORS DIPLOMA (Incorrect Reporting to the State)

The information presented for audit indicates the number of academic honors diplomas awarded was incorrect for the school year ending June 30, 2005.

The difference between the Academic Honors Diplomas awarded as reported to the Indiana Department of Education (IDOE) and the verified count are shown below:

School Year	Count as Reported to IDOE	Actual Academic Honors Diplomas Awarded	Difference
2004-2005	35	33	2

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CONTRACTS

The contract for \$486,718 for the federal Fund for the Improvement of Education - Teaching American History grant between Brown County Schools and Indiana University (Indiana University Purdue University Indianapolis) was signed by the Superintendent and the former Treasurer.

Indiana Code 20-26-4-8 states: "Notwithstanding any other law, the president and secretary of the governing body of any school corporation are entitled, on behalf of the school corporation, to sign any contract, including employment contracts and contracts for goods and services. However, each contract must be approved by a majority of all the members of the governing body. In the absence of either the president or secretary of the governing body, the vice president is entitled to sign the contracts with the officer who is present."

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

TEACHER COMPENSATION

Several teachers received compensation which was not included in a teachers' contract. The additional compensation included amounts for an afterschool program and various projects/contractual arrangements. Certified staff who taught summer school were not paid through teacher contracts. We also noted instances where certified staff were paid through the claims process for personal services.

Indiana Code 20-28-6-2 states in part: "A contract entered into by a teacher and a school corporation must: . . . contain the . . . total salary to be paid during the school year . . ."

ADVANCE PAYMENTS (Gift Cards)

We noted that at least three gift cards were purchased with federal grant funds during the 2004-2005 school year. There were two \$1,500 gift type cards and one \$300 gift card. We determined that the gift cards were used to purchase supplies for the ROCK afterschool program.

We requested that the supporting documentation (register receipts) be provided. The program director brought in several files with multiple register receipts; however, there was no reconciliation of the register receipts in place of "tapes" to the original gift card balances. A bookkeeper in the Treasurer's office attempted to reconcile the tapes back to the original gift card balances, was able to reconcile some of the information, and also determined that there were other gift cards involved. There were still unresolved differences between the original amounts of the gift cards and the register of receipts which were provided.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TRANSFER TUITION

Several children of school employees who do not live in the school district attended Brown County Schools. School Corporation Officials had not yet billed these employees for the transfer tuition for school years 2004-2005 and 2005-2006 for the children who are being educated by the School Corporation. However, there was one employee with two children who had a payroll withholding for transfer tuition.

Indiana Code 20-26-11-6 states in part:

"(a) A school corporation may accept a transferring student without approval of the transferor corporation under section 5 of this chapter.

(b) A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . ."

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

INTERNAL CONTROLS

The controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient.

Starting in August 2006, debt service tax and intergovernmental revenues were inadvertently receipted into the Pension/Severance Bond Fund 62 while the Pension/Severance Bond debt service revenues were receipted into the regular Debt Service Fund 20. The Pension/Severance Debt Service Fund 25 had not been established by School Corporation Officials.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENT DOCUMENTATION

We noted several instances where the Superintendent instructed the Deputy Treasurer to pay credit card payments without supporting documentation. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TRAVEL CLAIMS

Some travel claims were paid without supporting documentation, such as receipts. Most travel claims were paid through credit cards, and in many instances, information was not presented for audit to determine what expenses went with what person and for what conference. There was no evidence that the Deputy Treasurer was checking the travel claims to the approved professional development forms. There was no copy of the conference information in most instances to verify that the travel was limited to an appropriate length of time for that specific conference.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

TIMELY RECORDKEEPING

Final appropriation transfers for the calendar year 2005 were not approved by the School Board until February 16, 2006.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN FUND BALANCES

The following funds had overdrawn fund balances as of June 30, 2005 and 2006:

Fund	June 30, 2005	June 30, 2006
General	\$ 1,982,365	\$ -
Transportation Operating	577,177	-
Debt Service	350,377	-
Capital Projects	232,755	-
Special Education Preschool	34,788	-
Co-op School 2003-2004	326,990	378,295
Co-op School 2004-2005	-	198,526
Gifted and Talented 2004-2005	-	335
BCJHS After School Donations	136	-
Technology USAC E-Rate	-	3,246
CSHP Coord School Health Program 2004	-	17
Even Start 2004-2005	12,536	-
Title VI Innovative 2003-2004	3,200	3,200
Adult Ed Outreach FY 2004-2005	-	961
Lilly Endowment Grant	7,000	7,000
Lilly Endowment Grant 2003	-	37
CAPE Grant 2004	-	76,092
Project Respect 2004-2005	7,482	608
ROCK Grant 2005-2006	-	3,911
LSTA Grant 2002-2003 (Library)	5,979	5,979
Title II Part D – Technology	-	2,148
Title II Part A Improve Teacher Quality	-	191

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

SEVERANCE PAY

The Board of School Trustees approved a severance package for the prior Superintendent which included a year's salary, reinstatement of sick days up to 90, and payment of the sick days. The severance pay was split into two payments with \$49,665 paid on January 26, 2007. The balance of the severance pay is scheduled to be paid on January 2, 2008. The prior Superintendent's last day of employment was June 30, 2007.

However, information was not presented for audit to indicate the School Corporation Attorney provided written guidance that the severance pay was in accordance with federal and state law, including Indiana Code 35-44-2-4 which states in part:

"(a) A public servant who knowingly or intentionally:

- (1) hires an employee for the governmental entity that he serves; and
- (2) fails to assign to the employee any duties, or assigns to the employee any duties not related to the operation of the governmental entity; commits ghost employment, a Class D felony.

(b) A public servant who knowingly or intentionally assigns to an employee under his supervision any duties not related to the operation of the governmental entity that he serves commits ghost employment, a Class D felony.

(c) A person employed by a governmental entity who, knowing that he has not been assigned any duties to perform for the entity, accepts property from the entity commits ghost employment, a Class D felony.

(d) A person employed by a governmental entity who knowingly or intentionally accepts property from the entity for the performance of duties not related to the operation of the entity commits ghost employment, a Class D felony.

(e) Any person who accepts property from a governmental entity in violation of this section and any public servant who permits the payment of property in violation of this section are jointly and severally liable to the governmental entity for that property. The attorney general may bring a civil action to recover that property in the county where the governmental entity is located or the person or public servant resides."

Unless specifically authorized by statute, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the governmental unit stating that the payments are in accordance with all federal laws and regulations and state laws, including IC 35-44-2-4, and a properly enacted Home Rule ordinance or resolution, as applicable. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RETIREMENT/SEVERANCE BOND FUND

The Board of School Trustees on January 17, 2007, and then again on January 24, 2007, approved a severance package for the prior Superintendent. The prior Superintendent's severance pay of \$49,665.00 (with 50% to be paid January 2, 2008) and payoff of sick days of \$35,528.79 were paid from the Retirement/Severance Bond Fund.

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 20-48-1-2 states in part:

"(c) . . . (3) The solution to which the bonds are contributing must be reasonably expected to reduce the school corporation's unfunded contractual liability for retirement or severance payments as it existed on June 30, 2001."

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FUNDRAISERS (All Extra-Curricular Accounts)

The controls over the receipting, disbursing, recording, and accounting for some fundraisers were insufficient. The procedures vary from school to school. The staff in some situations turns in detailed records and in other situations, the only information available is the total amount of money turned in to the Extra-Curricular Treasurer. There was no evidence in most cases that someone kept detailed records of the fundraisers, with comparisons to what was actually recorded in the financial records, nor that someone independent of the fundraising activity and the financial records reviewed those records. No information was presented for examination of School Board approval of fundraisers.

Governmental units which conduct fund raising events should have the express permission of the governing body for conducting the fund raiser as well as procedures in place concerning the internal controls and the responsibility of employees or officials. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

RECEIPT ISSUANCE (Nashville Elementary School)

Receipts were not always issued or recorded when the money was received. The ECA Treasurer had only been writing receipts at the end of the month or a few times a month.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

DEPOSITS (Applies to Brown County High School, Brown County Junior High School, Nashville Elementary School, Sprunica Elementary School, Van Buren Elementary School)

The classification of receipts as to the amount of cash and checks received did not always match the actual breakdown of cash and checks of the deposit. The electronic receipts that are issued by the Extra-Curricular Treasurers usually only designates if the money received is cash or check. The breakdown between the two classifications is not correct if the receipt contained both cash and checks.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

DISBURSEMENT DOCUMENTATION (Brown County High School)

Several payments were observed which did not contain adequate supporting documentation such as receipts, and invoices. Many claims also did not have a signature verifying that the goods were received. Only partial payments were made on some occasions without explanation. There were also instances where payments were not made timely and included instances where balances due were not paid before the close of the school year, but carried over into the new school year before payment was made.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

COMPUTER OUTPUT (Applies to Brown County High School)

Access to records and information generated by the computer system was limited due to the High School's computer system crash in the spring of 2005. Software backups were being done; however, School Corporation Officials were unsuccessful in the attempt to restore the data. As a result, the High School Treasurer was unable to generate a complete annual report (SA-5) for the school year 2004-2005. The report generated was only for the months of April and May 2005.

Public records, financial statement information and supporting information generated through a computer system should be printed out on paper, printed to disk or maintained on-line at the end of each reporting year and retained for audit. Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 8)

CONDITION OF RECORDS (Helmsburg Elementary School)

A posting correction of \$1,459.77 was made to the ledger during the summer of 2005. The correction was actually a combination of several errors in posting; however, individual corrections were not made to corresponding funds. Also, supporting documentation was not retained for audit purposes.

The prior Treasurer had been terminated due to several problems. A supplemental examination was performed for Helmsburg Elementary School, and several Audit Results and Comments involved problems with the financial records. However, there was no information presented for examination that the new Extra-Curricular Treasurer had requested assistance or notified the School Corporation's Treasurer's Office staff that she was having problems with the financial records.

- (1) Record balances were not reconciled to depository balances.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

- (2) There were a considerable number of posting errors. These errors included deposits not receipted, checks and receipts not recorded in the proper amounts, interest not posted, and nonsufficient funds checks incorrectly posted.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF BROWN COUNTY SCHOOLS, BROWN COUNTY, INDIANA

Compliance

We have audited the compliance of the Brown County Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

As described in items 6, 7, and 8, in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding period of availability, and allowable costs that are applicable to its Title I, Grants to Local Educational Agencies; and Title II, Part A. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2, 3, 4, 5, 9, 10, 11, 12, and 13.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider items 6, 7, and 8, to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 13, 2007

BROWN COUNTY SCHOOL CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 6/30/2005	Total Federal Awards Expended 6/30/2006
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	N/A	\$ 62,574	\$ 66,945
National School Lunch Program	10.555	N/A	<u>271,883</u>	<u>291,839</u>
Total for cluster			<u>334,457</u>	<u>358,784</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
Direct Grant				
Fund for the Improvement of Education				
Teaching American History	84.215	U215X 40232	<u>69,187</u>	<u>432,335</u>
Pass-Through Indiana Department of Education				
Adult Education State Grant Program				
FY 2003-2004	84.002	Project 8121	1,333	-
FY 2004-2005		Project 8121	<u>20,755</u>	<u>-</u>
Total for program			<u>22,088</u>	<u>-</u>
Title I Grants to Local Educational Agencies				
FY 2003-2004	84.010	04-0670	67,092	-
FY 2004-2005		05-0670	162,600	114,342
FY 2005-2006		06-0670	<u>-</u>	<u>214,372</u>
Total for program			<u>229,692</u>	<u>328,714</u>
Safe and Drug Free Schools and Communities-State Grants				
FY 2004-2005	84.186	N/A	9,731	761
FY 2005-2006		N/A	<u>-</u>	<u>7,500</u>
Total for program			<u>9,731</u>	<u>8,261</u>
Even Start State Educational Agencies				
FY 2004-2005	84.213	N/A	<u>134,516</u>	<u>-</u>
State Grants for Innovative Programs				
FY 2004-2005	84.298	03-200	2,400	-
FY 2005-2006		04-237	<u>11,067</u>	<u>-</u>
Total for program			<u>13,467</u>	<u>-</u>
Education Technology State Grants				
FY 2004-2005	84.318	N/A	<u>5,565</u>	<u>9,967</u>
Improving Teacher Quality State Grants				
SY 03-04	84.367	N/A	78,896	17,346
SY 04-05		N/A	<u>-</u>	<u>90,000</u>
Total for program			<u>78,896</u>	<u>107,346</u>
Hurricane Recovery Education Act				
FY 2004-2005	84.938	N/A	<u>-</u>	<u>2,500</u>
Total for federal grantor agency			<u>563,142</u>	<u>889,123</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
Pass-Through Indiana Department of Health				
Abstinence Education				
FY 2004-2005	93.235		25,660	-
FY 2005-2006		N/A	<u>-</u>	<u>8,027</u>
Total for program			<u>25,660</u>	<u>8,027</u>
Pass-Through Indiana Department of Family and Social Services				
Block Grants for Prevention and Treatment of Substance Abuse				
FY 2003-2004	93.959	N/A	3,837	-
FY 2004-2005		N/A	28,446	8,368
FY 2005-2006		N/A	<u>-</u>	<u>34,544</u>
Total for program			<u>32,283</u>	<u>42,912</u>
Total for federal grantor agency			<u>57,943</u>	<u>50,939</u>
Total federal awards expended			<u>\$ 955,542</u>	<u>\$ 1,298,846</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

BROWN COUNTY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Brown County Schools (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2005 and 2006:

Program Title	Federal CFDA Number	2005	2006
Fund for the Improvement of Education	84.215	\$ -	\$ 255,370

III. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2004-2005	2005-2006
Child Nutrition Cluster	10.555	\$ 41,262	\$ 41,875

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	no

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified for all programs except Title I Grants to Local Educational Agencies and Title II, Part A which were qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.215	Fund for the Improvement of Education
84.367	Title II, Part A

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Finding

FINDING 2006-1, INTERNAL CONTROLS OVER FINANCIAL REPORTING

There was a lack of internal controls over the receipting, disbursing, recording, and accounting for financial activities.

Receipts were issued several times a month, and dated to correspond to the date for which the money was received. There were numerous errors noted, and corrections or adjustments made. Also, there were many instances where the correction was difficult to trace back to the original entry. There was a lack of documentation as to why some adjustments were made. Also, as a result of the receipts not being issued timely, there was a lack of timely information concerning financial information for School Corporation officials and staff.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Internal controls over expenditures were weak in that account payable vouchers were not consistently approved or reviewed by someone other than the Treasurer or her staff. There was no evidence that the goods or services had been received in some instances. There were several occasions noted on claim forms where the Superintendent had requested that the Treasurer's staff make payments on the credit card balances. Most of the supporting documentation had not yet been received and reviewed, in these instances and the payments were made to ensure that other staff members using the credit cards would have adequate balances available for subsequent travel expenses. As a result, any internal controls which may have existed were circumvented.

There were also numerous instances of expenditures transferred between different appropriation line items within the same fund or between funds. Again, there was no documentation presented for audit as to the reason for these transfers of expenditures. We determined that, in some instances, the transfers were to move salaries and other expenditures from the General Fund to federal grant funds.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transaction, inaccurate records and financial statements and incorrect decision-making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-2, ALLOWABLE COSTS

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies; Title II, Part A  
CFDA Number: 84.010; 84.367  
Pass-Through Entity: Indiana Department of Education

We reviewed payroll transactions to determine whether salaries and benefits charged to the grants were supported by adequate time and effort documentation. There were no time and effort documentation presented for audit for the payroll costs charged to the grant programs.

The School Corporation did not have adequate internal controls in place to ensure compliance with federal time and effort reporting requirements.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment B, Section 8(h) , states in part:

"Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
  - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee. . . .
- (7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards."

The School Corporation did not present records for audit that met the federal requirements for time and effort documentation. Officials were not aware of the time and effort regulations or maintenance of records requirement.

We recommended School Corporation Officials establish and follow internal controls to ensure compliance with federal grant requirements.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

FINDING 2006-3, REPORTING

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

School Corporation Officials either did not complete most of the Title I quarterly monitoring reports or did not retain copies of the reports filed.

34 CFR 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

Failure to comply with federal program requirements and the requirements of the Indiana Department of Education could cause School Corporation Officials to jeopardize approval of future funding under federal assistance programs.

We recommended School Corporation Officials design and implement internal control procedures that will ensure the timely filing of accurate reports.

FINDING 2006-4, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

School Corporation Officials have not implemented adequate internal controls to minimize the time elapsing between the transfer of funds and the subsequent disbursements. Eight months for the 2004-2005 school year had surplus cash balances on hand at the end of the month. Cash draws for the 2005-2006 school year were not started until March 2005. The remaining months of the school year had surplus balances.

34 CFR 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administration Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended School Corporation Officials monitor their cash balances and modify their cash drawdown requests as necessary to minimize the amount of cash on hand at the end of the month.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

FINDING 2006-5, MATCHING, LEVEL OF EFFORT, EARMARKING

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

School Corporation Officials did not file a comparability report for the 2005-2006 school year.

The Title I grant application, Statement of Assurances, states in part: "D. The LEA will maintain the fiscal responsibility under Title I in section 1120(a)(c) by E. . . 3. meeting comparability requirements by: (a) establishing (1) a district wide salary schedule; (2) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies; and (b) biennially submitting to the SEA on or before November 15 a detail report demonstrating comparability among schools . . ."

As a result, School Corporation Officials did not determine whether the schools met the comparability requirements for Title I purposes.

We recommended School Corporation Officials establish sufficient internal controls to ensure that a comparability report is prepared as directed by the Indiana Department of Education.

FINDING 2006-6, PERIOD OF AVAILABILITY

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

School Corporation Officials made after the fact transfers of expenses from the General Fund to the Title I Fund. The grant application was not approved until November 18, 2006, due to the late submission of the final fiscal year 2005 Title I expenditure report. As a result, School Corporation Officials paid Title I expenses from the General Fund for the beginning of the 2005-2006 school year. However, even after the Title I grant application was approved, the Officials did not immediately determine the appropriate costs which could be transferred from the General Fund to the Title I Fund.

The former Treasurer made a transfer of expenses from General Fund to the Title I Fund by posting "negative" disbursements to the General Fund dated June 30, 2006. However, the actual transfer was made at a later date (August 2006) and backdated to June 30. Various reports and printouts which were actually printed in early July did not contain the adjustments. The Form 9 did contain the revised expenditures. Subsequently, in September 2006, the current Title I Administrator and the Superintendent determined that there were expenditures paid from General Fund, which should be transferred to the Title I Fund. A financial consultant made the adjustments as requested. However, upon review during the audit, we determined that the adjustment was an almost identical match to the prior one that was backdated to June 30, 2006.

Questioned costs for the salaries and benefits are \$76,044.81. The costs were calculated by abstracting the teacher salaries from the beginning of the school year through November 17, 2006. We then calculated the related benefits by using the appropriate percentage for FICA and teachers' retirement fringe benefits.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

34 CFR 80.23 states: "(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period."

We recommended School Corporation Officials implement internal controls to ensure that only allowable costs are charged to the grant.

FINDING 2006-7, ALLOWABLE COSTS

Federal Agency: U.S. Department of Education  
Federal Program: Title II, Part A  
CFDA Number: 84.367  
Pass-Through Entity: Indiana Department of Education

School Corporation Officials used Title II, Part A professional development funds of \$8,947.36 to attend the Joan L. Curcio International Women's Leadership Conference in London. Also, \$6,555.00 in registration fees for the conference was paid in the 2003-2004 school year. The Superintendent, the Assistant to the Superintendent, and one of the elementary principals went on the trip. We also noted that there were two family members for whom some costs were paid from the Grant Funds. A later claim voucher included a note that the amount being reimbursed to the Superintendent for some other expenses had been reduced by a specified amount; however no detail was given as to what the specified amount consisted of.

Also, \$3,492 was used to pay for a trip to Australia for the Superintendent, to accompany a student group in the summer of 2005. However, due to health issues, the Superintendent did not take the London trip. Trip insurance reimbursed \$3,122 of these costs. (See also the Brown County Schools Supplemental Report)

We are questioning the costs for the conferences. The travel costs for the 2004-2005 school year for the London conferences totaled \$8,947.36. Additionally, there were \$6,555.00 registration costs for the conference paid in the 2003-2004 school year. The travel costs for the Australia trip were \$3,492. The total of the questioned costs is \$18,994.36.

The Title II, Part A application as revised through an e-mail clarification to the Indiana Department of Education, showed the professional development funds would be spent as follows: "stipends, registrations (and costs to attend conferences), materials (books and software) all to support Key Action 1 develop strategy to improve standardized test results while continuing to focus on individual achievement; Key Actions 2 develop and expand the staff evaluation tool; and Key Action 3 develop and expand programs of the Brown County Schools' Strategic Plan."

The effect of using professional development funds for purposes which do not appear to comply with the type of training as specified in the grant application may result in jeopardizing future grant awards.

We recommended School Corporation Officials use grant funds as specified in the grant application for future grants.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

FINDING 2006-8, ALLOWABLE COSTS

Federal Agency: U.S. Department of Education  
Federal Program: Title II, Part A  
CFDA Number: 84.367  
Pass-Through Entity: Indiana Department of Education

School Corporation Officials made transfers of expenditures on October 9, 2006, from the General Fund to the Title II, Part A Fund. School Corporation Officials made a transfer of expenses of \$67,927.09 from General Fund to Title II funds by posting "negative" disbursements to the General Fund. The information provided showed the amount was for the salaries for the 2004-2005 school year of the two teachers for class size reduction purposes. The salaries were originally paid from the School Corporation's General Fund.

We determined that the two teachers whose salaries were the ones which were transferred as noted above, were not the two teachers whose salaries should have been transferred.

Therefore, questioned costs for the class size reduction portion of the grant is the entire amount of \$67,927.09.

The effect of charging undocumented salaries to the class size reduction program means that the grant may not have been used for the purpose intended, and could jeopardize the School Corporation's ability to obtain future federal awards.

We recommended School Corporation Officials develop sufficient internal controls to ensure that costs charged to federal grants are appropriate and properly documented.

FINDING 2006-9, SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

School Corporation Officials did not identify Indiana University as a subrecipient of grant funds, therefore, the School Corporation did not monitor the activities of Indiana University (Indiana University Purdue University Indianapolis) to provide reasonable assurance that officials have administered the grant in accordance with federal requirements.

The review of the budget prepared by the grant personnel disclosed that there were several budget areas that might lend themselves to duplicate payments. One example would be IUPUI's three year budget for out of state travel of \$15,800; however, there were several instances where School Corporation Officials paid for IUPUI staff travel expenses. We also noted that there were at least two purchase orders which had been issued for costs which appeared to have been included in IUPUI's budget, which were later cancelled by School Corporation Officials.

The federal Office of Management and Budget's Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations", Subpart D, Section 400(d) states in part:

"A pass-through entity shall perform the following for the Federal awards it makes:

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (1) Identify federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year . . . and name of Federal agency.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations and the provisions of contract or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records."

Without proper monitoring, School Corporation Officials cannot ensure that the subrecipient is complying with federal requirements and are using funds appropriately, and could jeopardize future federal funding to the School Corporation.

We recommended School Corporation Officials review the contract with Indiana University to ensure that the terms and conditions are consistent with federal requirements concerning subrecipient monitoring. We also recommended School Corporation Officials establish adequate policies and procedures to conform with the requirements.

FINDING 2006-10, REPORTING

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

Expenditures as reported for the Teaching American History grant could not be traced to the School Corporation's financial records. The amounts reported were greater than the financial records maintained by the School Corporation Treasurer. The report was prepared by a representative of Indiana University Purdue University Indianapolis.

34 CFR 80.20 states in part: "(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Failure to file reports accurately and timely prevents the U.S. Department of Education from effectively monitoring the program in an effective and efficient manner and could cause the School Corporation to be deemed ineligible to receive federal awards in the future.

We recommended School Corporation Officials design and properly monitor procedures to ensure that required reports are accurate and timely remitted.

FINDING 2006-11, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

School Corporation Officials drew down the entire grant award of \$983,623 on December 13, 2004. A copy of the Gapsweb.ed.gov payment request – confirmation sheet was found in the grant files. Included on the confirmation sheet was "Please be advised that the amounts you drawdown must be spent within 3 working days after the deposit date. Please obtain prior approval from your program office for exceptions. I certify, by processing this payment request and/or re-allocation, that the funds are being expended within three business days of receipt for the purpose and condition of the grant or agreement. Are you sure you want to submit the request?"

As of June 30, 2005 and 2006, the cash balance of the Grant Fund was \$903,436 and \$480,440. We observed a copy of a letter dated November 18, 2005, from the former School Treasurer to the U.S. Department of Education concerning the drawdown and attempting an explanation. However, no action was taken by the School Treasurer to return the excess funds. We were unable to locate a return letter from the U.S. Department of Education.

34 CFR 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administration Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended School Corporation Officials return the excess cash balance to the U.S. Department of Education, and then submit subsequent cash drawdown requests as necessary.

FINDING 2006-12, ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

There were several issues noted during the review of cash expenditures.

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The approved grant budget that was set up was broken down by the various categories, including salaries and fringe benefits, supplies, travel, and other categories. However, grant personnel compiled an alternate version of the approved budget. The alternate version of the budget was not traceable to the original approved grant budget. Additionally, the amounts payable to Indiana University Purdue University Indianapolis were posted as a lump sum in Brown County School's financial records. The budget that was set up was broken down by the various categories. There was no evidence presented for examination that School Corporation Officials were actually monitoring the expenditures to ensure that the budget was not over expended.

Travel cost reimbursement (including per diem) of \$655.95 was made to an out of state presenter's organization and was to be paid through Indiana University's (Indiana University Purdue University Indianapolis) portion of the grant funds. However, Indiana University would not pay the travel costs without the appropriate documentation. Also noted during the review of the reimbursement was correspondence indicating the payment was to be sent to one of the organization's staff member's home address.

Honoraria for IUPUI facility presenters were included in Brown County School's budget. Honoraria for non-IUPUI presenters was included in IUPUI's budget.

A check in the amount of \$11,000 was issued to the National Council on Public History on June 10, 2005. Subsequently, a second check for \$11,000 was issued on August 19, 2005. The claim voucher for both expenditures included the same documentation; one of which was a copy. One claim voucher was only signed by the former Treasurer. The check dated August 19, 2005, was voided in the financial records on November 28, 2006.

A set amount of \$1,000 per participant was designated for project materials and supplies for history projects. However, in one instance, the participant did not use the \$1,000 for materials and supplies for the project. The \$1,000 was paid directly to this participant, contrary to the original plan for the funds.

34 CFR 80.20(b)(2) states: "Accounting Records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant."

FINDING 2006-13, ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

A contract in the amount of \$486,718 for the period from June 1, 2004 to June 30, 2007, with Indiana University was signed on July 8, 2005, by the Superintendent and on July 12, 2005, by the former Treasurer. There was no evidence that the Board of School Trustees had approved the contract.

34 CFR 80.20(b)(6) states in part: "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

BROWN COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Failure to follow federal regulations could jeopardize future federal grant awards.

We recommended School Corporation Officials develop internal controls to ensure that contracts are approved and signed by the Board of School Trustees in a timely manner.



**Brown County Schools**

*Superintendent*  
Dr. D. Lynn Reed

*Assistant Superintendent*  
David Shaffer

*Director of  
Facilities/Transportation*  
Doug Cauble

*Director of Student Services*  
Alan Kosinski

*Director of Technology*  
John Emkes

*Food Service Director*  
Sharon Wilkerson

*Interim Treasurer*  
Susie Owens

**Board of School Trustees**

*President*  
Teresa Waltman

*Vice President*  
Zac Gredy

*Secretary*  
Connie Weddle

*Members*  
Judy Hardwick  
John Mills

*P. O. Box 38  
357 E. Main Street  
Nashville, IN 47448*

*Phone: (812) 988-6601  
Fax: (812) 988-5403  
cscbc@brownco.k12.in.us*

Brown County Schools  
357 E. Main Street  
PO Box 38  
Nashville, Indiana 47448  
April 2, 2007

**Response to Audit Findings 2002-2004**

**Brown County Schools  
Summary Schedule of Prior Audit Findings**

Federal Agency: U.S. Department of Education  
Pass-Through Agency: Indiana Department of Education  
Federal Program: Even Start State Educational Agencies  
CFDA No.: 84.213  
Federal Award No.: FY2001-2002; FY 2002-2003; FY 2003-2004  
Original State Board of Accounts Audit Report No. B26737  
Auditee Contact Person: Carol S. Owens  
Title of Contact Person: Interim Treasurer  
Phone Number: 812-988-6601

**FINDING 2004-1, INTERNAL CONTROL OVER DISBURSEMENTS**

Brown County Schools realizes gift cards are not an improved expenditure and has discontinued the practice of allowing gift card purchases.

**FINDING 2004-2, INTERNAL CONTROL OVER FINANCIAL RECORDS AND REPORTING**

Brown County Schools have implemented a procedure in regards to the Literacy Records. All support documentation are examined and reviewed prior to processing of claims. Documentation from the Literacy Coalition are reviewed prior to filing of reports.

**FINDING 2004-3, ALLOWABLE COST**

Brown County Schools realizes that grant funds received for grants, must be expended on only approved uses as written in the grant guidelines. All claims are reviewed for approved grant expenditures. As per the findings all purchases of gift cards has been discontinued.

**FINDING 2004-4, CASH MANAGEMENT**

Brown County Schools realizes federal grants cannot be co-mingled with other funds. Separate funds have been set up for all local contributions to any federal program. Brown County Schools strives to maintain minimum funds for each federal grant. Cash flow is being monitored and a request to reduce distribution of monthly funds is requested to keep the fund balance to a minimum. Brown County Schools has not

entered into any new agreements where other entities have become involved in the administration of federal grant funds. Administration of all Brown County Schools grants has remained under our cash management and financial reporting systems. We strive to maintain accurate and complete records for these grants and their ledgers.

FINDING 2004-5, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Brown County Schools review grant plans prior to purchases from federal grant funds, this has eliminated non approved purchases. All equipment purchases are tagged and added to the corporation asset records and labeled as federal purchases, if applicable.

FINDING 2004-6, PERIOD OF AVAILABILITY OF FEDERAL FUNDS

The last audit revealed a cash balance remained at the end of the grant period. Subsequently an outstanding invoice, that was received prior to the end of the grant period, was found and paid. All grants are reviewed monthly to ensure that disbursements are expended within the appropriate time period.

FINDING 2004-7, REPORTING

Brown County School realizes the importance of maintaining financial and budgetary records. Grant reports are sent to the appropriate authority in a timely manner. All financial records are kept to support the quarter and final expenditures reports.

Respectfully submitted by:



\_\_\_\_\_  
Carol S. Owens  
Interim Treasurer  
Brown County Schools

**Brown County Schools**  
**357 E. Main Street**  
**PO Box 38**  
**Nashville, Indiana 47448**  
**August 22, 2007**

**CORRECTIVE ACTION PLAN**  
**SECTION II FINDING**

**FINDING 2006-1, INTERNAL CONTROL OVER FINANCIAL REPORTING**

Receipting will be made to the correct fund when received with documentation attached.  
Posting of receipts will be done on a timely basis.

Controls are in place to ensure that any accounts payable has been reviewed and approved for payment by the appropriate source. No vouchers will be paid without supporting documentation.

Appropriations for Federal Grants will be set up on a timely basis to eliminate the need to expend from the general fund and then transferred to the appropriate grant.

**Brown County Schools  
357 E. Main Street  
PO Box 38  
Nashville, Indiana 47448  
August 22, 2007**

**CORRECTIVE ACTION PLAN  
SECTION III FINDINGS**

**FINDING 2006-2, ALLOWABLE COSTS**

Federal Agency: U.S. Department of Education  
Pass-Through Agency: Title I Grants to Local Educational Agencies; Title II, Part A  
CFDA Number: 84.010; 84.367  
Audi tee Contact Person: Carol S. Owens  
Title of Contact Person: Treasurer  
Phone Number: 812-988-6601

Documentation for Title I and Title II time and effort will be kept for all employees working in shared programs and employees' working solely will be supported by periodic certifications.

**FINDING 2006-3, REPORTING**

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

Compliance with Title I quarter and annual compliance reports are being met by the new Title I Coordinator and Treasurer.

**FINDING 2006-4, CASH MANAGEMENT**

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

The Treasurer will monitor expenditures for Title I and adjust cash drawdown when necessary to minimize the amount of cash on hand at the end of the month.

FINDING 2006-5, MATCHING, LEVEL OF EFFORT, EARMARKING

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Education Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

The new Title I Coordinator is experienced and will comply with all reports necessary to meet Title I requirements.

FINDING 2006-6, PERIOD OF AVAILABILITY

Federal Agency: U.S. Department of Education  
Federal Program: Title II, Part A  
CFDA Number: 84.367  
Pass-Through Entity: Indiana Department of Education

Title II grants will be written and set up once approved on a timely basis with little or no transfers being necessary from fund to fund.

FINDING 2006-7, ALLOWABLE COSTS

Federal Agency: U.S. Department of Education  
Federal Program: Title II, Part A  
CFDA Number: 84.367  
Pass-Through Entity: Indiana Department of Education

England trip Title II, Part A  
Administrative Prof. Development

In reviewing the narrative for Administration travel we feel the England trip fits the guidelines intent. Title II grants are expended per budget guidelines for Administration professional development. (Please see attached letter from Dr. Lynn Reed, former Superintendent of Brown County Schools.)

FINDINGS 2006-8, ALLOWABLE COSTS

Federal Agency: U.S. Department of Education  
Federal Program: Title II, Part A  
CFDA Number: 84.367  
Pass-Through Entity: Indiana Department of Education

Currently Federal Grants are being appropriated in a timely matter eliminating the need to transfer expenditures after the fact. The transfers of salaries in October 2006 were based on information given by the Title II administrator. During the 2004-2005 year the teachers paid by this grant changed. The same expenditures would have been used given the transfer of those salaries.

FINDINGS 2006-9 SUB RECIPIENT MONITORING

Federal Agency: U. S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

The monitoring of sub recipients for federal grants will be a top priority. Budgets, expenditures, activities will be reviewed for accuracy periodically during the period of the grant.

FINDINGS 2006-10 REPORTING

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

Financial records from sub recipients will be monitored for accuracy and balanced back to the school corporation records.

FINDINGS 2006-11 CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

The excess cash balance in the Teaching American Grant was returned to the Dept. of Education and corrective measurer is in place to comply with the cash management drawdown regulations.

FINDINGS 2006-12 ALLOWABLE COSTS/COST PRINCIPALS

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

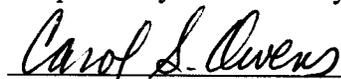
Budgets for all Federal Grants will set up by their approved guidelines to allow better monitoring of expenditures and all records will be maintained to eliminate any un-obligated liability.

FINDINGS 2006-13 ALLOWABLE COSTS/COST PRINCIPALS

Federal Agency: U.S. Department of Education  
Federal Program: Fund for the Improvement of Education  
CFDA Number: 84.215  
Award: U215X040232

All contracts for sub-recipients will be approved by the School Board of Trustees and all accounting records will be monitored and maintained for accuracy.

Respectively submitted by:



Carol S. Owens

Treasurer

Brown County Schools

BROWN COUNTY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on July 30, 2007, with D. Lynn Reed, former Superintendent of Schools; David Shaffer, Superintendent of Schools; Carol S. Owens, Treasurer; and Teresa Waltman, President of the School Board. The official response has been made a part of this report and may be found on pages 71 through 73.

August 17, 2007

David Shaffer  
Superintendent of Brown County Schools  
P.O. Box 38  
Nashville, IN 47448-0038

Re: Audit Response  
Title II, Part A – England Trip

Dear Mr. Shaffer:

Part of Title II grant was written for administrative professional development.

*The grant goals included:*

*A. Lead Learning*

*Team members will participate in regular, collaborative, professional learning experiences to improve teaching and learning. They will develop a broad knowledge base in curriculum, instruction, and assessment.*

*B. Focus on Teaching and Learning*

*Team members will maintain and model a focus on improving teaching and learning by helping teachers improve their instructional practices and by making student achievement their highest priority.*

*C. Develop Leadership Capacity*

*Team members will devote significant time to developing instructional leadership capacity in others.*

*D. Create Conditions for Professional Learning*

*Team members will create conditions that encourage professional learning communities.*

*E. Use Data to Make Informed Decisions*

*Team members will develop the skills to collect and use data from a variety of sources to make informed school improvement decisions.*

*F. Use Resources Creatively*

*Team members will make creative uses of all resources--people, time, and money to support school improvement.*

Three administrators from Brown County Schools attended the National Women's Leadership Conference that was sponsored, in part, by Virginia Tech

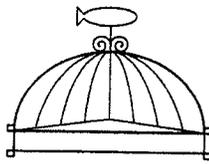
Topics studied at this conference included:

- making data driven decisions
- the impact of mentors on student achievement (presented by a Rhodes Scholar)
- developing your own leaders
- gender issues (ex. Historical review of the study of genetics and its impact on women leaders)
- building national and international educational networking
- empowerment of women as leaders in education
- diversity
- embedded professional development strategies (which Brown County has used since)
- the leader's role in student achievement
- technology, and
- Strategic planning.

Additionally, the administrators visited universities and schools to gain a better understanding of education outside the US.

Very truly yours,

Dr. D. Lynn Reed  
Superintendent of  
Salem Community Schools



Ronald L. Chapman

**Chapman & Nelson, P.C.**

Susan H. Nelson

ATTORNEYS AT LAW

205 North College Avenue Suite 212 P.O. Box 521 Bloomington, Indiana 47402-0521  
Voice: 812/333-9900 Fax: 812/333-9902 Web: www.cnbloomington.com

August 17, 2007

Dr. David Shaffer  
Superintendent Brown County Schools  
P.O. Box 38  
Nashville, IN 47448-0038

Re: Severance Payment due Dr. Lynn Reed

Dear Dr. Shaffer:

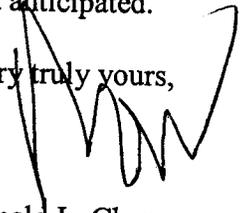
In the last 12 months, the School Board renegotiated Dr. Lynn Reed's contract on two separate occasions and at two different levels.

As Superintendent, Dr. Reed had an extensively long multiple year, automatically renewable and automatically extendable contract.

The School Board negotiated at length with Dr. Reed in an attempt to shorten the multiple year contract and then ultimately to cancel her contract.

The severance package agreed upon by Dr. Reed, by me and by the School Board included a substantial payment from the Severance Bond Fund. We believed then and I believe now that this was in fact a payment of liquidated damages to cancel a multiple year contract. This is exactly what that Severance Bond money was designed to accomplish. Had Dr. Reed insisted on full payment of her multiple year contract, it could have cost the corporation several hundred thousands of dollars. To be forced to pay this liquidated damage amount to Dr. Reed from general operating funds will induce a particular economic hardship on the Corporation which is unnecessary and was certainly not anticipated.

Very truly yours,

  
Ronald L. Chapman

RLC:pjb