

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

AUDIT REPORT

OF

SWITZERLAND COUNTY SCHOOL CORPORATION

SWITZERLAND COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

11/15/2007

TABLE OF CONTENTS

<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
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	14-15
Statement of Cash and Investments – Fiduciary Funds	16-17
Notes to Financial Statements	18-28
Required Supplementary Information:	
Schedule of Funding Progress	29
Supplementary Information:	
Schedule of Capital Assets.....	30
Schedule of Long-Term Debt.....	31
Audit Results and Comments:	
Misappropriation of Funds	32-43
Bond Coverage.....	43
Additional Audit Cost	44
Retention of Public Records	44
Sale of Cafeteria Food Products.....	44-45
Overdrawn Fund Balances	45

TABLE OF CONTENTS
(Continued)

<u>Description</u>	<u>Page</u>
Audit Results and Comments (continued):	
Deposits	45
Optical Images of Checks	46
Claims	46-47
Educational Fees	47
Penalties, Interest, and Other Charges	47
Basketball Game Deposits	47
Form SA-1	47-48
Vending Machine Commissions and/or Profits	48
Fundraiser Fund.....	48-49
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	52-53
Schedule of Expenditures of Federal Awards.....	54
Note to Schedule of Expenditures of Federal Awards	55
Schedule of Findings and Questioned Costs.....	56-59
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	60
Corrective Action Plan.....	61-63
Exit Conference.....	64
Official Response	65
Summary	66
Affidavit	67

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Ann Geyman Melissa May Wilma Swango	07-01-04 to 05-09-07 05-10-07 to 07-15-07 07-16-07 to 06-30-08
Superintendent of Schools	Tracy Caddell	07-01-04 to 06-30-08
President of the School Board	Jack Ranz Andy Truitt	07-01-04 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE SWITZERLAND COUNTY SCHOOL
CORPORATION, SWITZERLAND COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Switzerland County School Corporation (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 October 11, 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 Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have 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 them.

STATE BOARD OF ACCOUNTS

October 11, 2007



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TO: THE OFFICIALS OF THE SWITZERLAND COUNTY SCHOOL
CORPORATION, SWITZERLAND COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Switzerland County School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated October 11, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2006-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items 2006-1 to be material weaknesses.

Compliance and Other Matters

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 grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

The School Corporation's responses to the findings identified in our audit are described in the accompanying sections of the report entitled "Corrective Action Plan" and "Official Response." We did not audit the School Corporation's corrective action plan and response and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the School Corporation's management, School Board, 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

October 11, 2007

SWITZERLAND COUNTY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,781,038
Restricted assets:	
Cash and investments	<u>803,799</u>
Total assets	<u>\$ 4,584,837</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 803,799
Unrestricted	<u>3,781,038</u>
Total net assets	<u>\$ 4,584,837</u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,648,229
Restricted assets:	
Cash and investments	<u>534,169</u>
Total assets	<u>\$ 4,182,398</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 534,169
Unrestricted	<u>3,648,229</u>
Total net assets	<u>\$ 4,182,398</u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
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	Totals
Governmental activities:				
Instruction	\$ 5,186,547	\$ -	\$ 103,335	\$ (5,083,212)
Support services	7,159,627	317,182	256,871	(6,585,574)
Community services	31,096	-	-	(31,096)
Nonprogrammed charges	949,388	-	-	(949,388)
Debt service	744,105	-	-	(744,105)
Total governmental activities	<u>\$ 14,070,763</u>	<u>\$ 317,182</u>	<u>\$ 360,206</u>	<u>(13,393,375)</u>
General receipts:				
Property taxes				3,531,215
Other local sources				1,640,698
State aid				6,805,796
Grants and contributions not restricted				657,319
Bonds and loans				145,931
Sale of property, adjustments, and refunds				38,391
Investment earnings				47,906
Intergovernmental transfers				<u>235,018</u>
				Total general receipts and intergovernmental transfers <u>13,102,274</u>
				Change in cash and investments (291,101)
				Net assets - beginning <u>4,875,938</u>
				Net assets - ending <u><u>\$ 4,584,837</u></u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
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	Totals
Governmental activities:				
Instruction	\$ 5,361,325	\$ -	\$ 610,085	\$ (4,751,240)
Support services	7,847,906	321,541	260,295	(7,266,070)
Community services	40,921	-	-	(40,921)
Nonprogrammed charges	1,200,999	-	250,000	(950,999)
Debt service	<u>729,412</u>	-	-	<u>(729,412)</u>
Total governmental activities	<u>\$ 15,180,563</u>	<u>\$ 321,541</u>	<u>\$ 1,120,380</u>	<u>(13,738,642)</u>
General receipts:				
Property taxes				4,068,128
Other local sources				1,227,721
State aid				6,907,926
Grants and contributions not restricted				443,469
Bonds and loans				271,035
Sale of property, adjustments, and refunds				6,325
Investment earnings				125,795
Intergovernmental transfers				<u>285,804</u>
				Total general receipts and intergovernmental transfers
				<u>13,336,203</u>
				Change in cash and investments
				(402,439)
				Net assets - beginning
				<u>4,584,837</u>
				Net assets - ending
				<u>\$ 4,182,398</u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Lilly Endowment Grant	Other	Totals
Receipts:								
Local sources	\$ 2,463,824	\$ 904,050	\$ 784,897	\$ 629,010	\$ 190,244	\$ -	\$ 512,774	\$ 5,484,799
Intermediate sources	743	-	-	-	-	-	51,458	52,201
State sources	6,896,117	-	-	-	-	-	176,611	7,072,728
Federal sources	-	-	-	-	-	-	750,594	750,594
Bonds and loans	-	145,931	-	-	-	-	-	145,931
Sale of property, adjustments and refunds	4,290	-	-	-	-	-	34,101	38,391
Intergovernmental transfers	27,511	155,888	-	-	-	-	51,619	235,018
Total receipts	<u>9,392,485</u>	<u>1,205,869</u>	<u>784,897</u>	<u>629,010</u>	<u>190,244</u>	<u>-</u>	<u>1,577,157</u>	<u>13,779,662</u>
Disbursements:								
Current:								
Instruction	4,720,501	-	-	-	-	-	466,046	5,186,547
Support services	4,325,079	1,046,301	-	413,319	160,041	-	1,214,887	7,159,627
Community services	31,096	-	-	-	-	-	-	31,096
Nonprogrammed charges	676,385	-	155,888	-	-	-	117,115	949,388
Debt services	-	161,831	582,274	-	-	-	-	744,105
Total disbursements	<u>9,753,061</u>	<u>1,208,132</u>	<u>738,162</u>	<u>413,319</u>	<u>160,041</u>	<u>-</u>	<u>1,798,048</u>	<u>14,070,763</u>
Excess (deficiency) of total receipts over (under) total disbursements	(360,576)	(2,263)	46,735	215,691	30,203	-	(220,891)	(291,101)
Cash and investments - beginning	<u>2,570,585</u>	<u>443,325</u>	<u>757,064</u>	<u>334,903</u>	<u>239,632</u>	<u>-</u>	<u>530,429</u>	<u>4,875,938</u>
Cash and investments - ending	<u>\$ 2,210,009</u>	<u>\$ 441,062</u>	<u>\$ 803,799</u>	<u>\$ 550,594</u>	<u>\$ 269,835</u>	<u>\$ -</u>	<u>\$ 309,538</u>	<u>\$ 4,584,837</u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Lilly Endowment Grant	Other	Totals
Receipts:								
Local sources	\$ 3,032,229	\$ 978,291	\$ 313,851	\$ 707,952	\$ 176,592	\$ 800,000	\$ 532,725	\$ 6,541,640
Intermediate sources	1,114	-	-	-	-	-	431	1,545
State sources	6,954,996	-	-	-	-	-	70,719	7,025,715
Federal sources	9,750	-	-	-	-	-	636,310	646,060
Bonds and loans	-	271,035	-	-	-	-	-	271,035
Sale of property, adjustments and refunds	-	1,687	-	-	-	-	4,638	6,325
Intergovernmental transfers	-	-	-	13,015	-	-	272,789	285,804
Total receipts	<u>9,998,089</u>	<u>1,251,013</u>	<u>313,851</u>	<u>720,967</u>	<u>176,592</u>	<u>800,000</u>	<u>1,517,612</u>	<u>14,778,124</u>
Disbursements:								
Current:								
Instruction	4,938,834	-	-	-	-	63,038	359,453	5,361,325
Support services	4,409,163	1,080,907	-	1,043,901	163,380	37,776	1,112,779	7,847,906
Community services	40,921	-	-	-	-	-	-	40,921
Nonprogrammed charges	607,357	-	-	-	-	250,000	343,642	1,200,999
Debt services	-	145,931	583,481	-	-	-	-	729,412
Total disbursements	<u>9,996,275</u>	<u>1,226,838</u>	<u>583,481</u>	<u>1,043,901</u>	<u>163,380</u>	<u>350,814</u>	<u>1,815,874</u>	<u>15,180,563</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,814	24,175	(269,630)	(322,934)	13,212	449,186	(298,262)	(402,439)
Cash and investments - beginning	<u>2,210,009</u>	<u>441,062</u>	<u>803,799</u>	<u>550,594</u>	<u>269,835</u>	-	<u>309,538</u>	<u>4,584,837</u>
Cash and investments - ending	<u>\$ 2,211,823</u>	<u>\$ 465,237</u>	<u>\$ 534,169</u>	<u>\$ 227,660</u>	<u>\$ 283,047</u>	<u>\$ 449,186</u>	<u>\$ 11,276</u>	<u>\$ 4,182,398</u>

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

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

	<u>Private-Purpose Trust Funds</u>
Cash and investments - beginning	\$ <u>1,008</u>
Cash and investments - ending	\$ <u><u>1,008</u></u>

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

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

	<u>Private-Purpose Trust Funds</u>
Cash and investments - beginning	\$ <u>1,008</u>
Cash and investments - ending	\$ <u><u>1,008</u></u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>1,008</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>1,008</u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>1,008</u>
 <u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>1,008</u>

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

SWITZERLAND COUNTY SCHOOL CORPORATION
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 School Corporation (primary government). There are no significant component units which require inclusion.

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 seven other school corporations in a joint venture to operate Madison Area Special Services Unit (Special Services Unit) which was created to provide special education services to handicapped children. The School Corporation is obligated by contract to remit \$472,303 annually to supplement the Special Services Unit. Complete financial statements for the Special Services Unit can be obtained from the Special Services Unit's Administration Office in Madison, Indiana.

The School Corporation is a participant with nine other school corporations in a joint venture to operate Southeastern Career Center (Career Center) which was created to provide vocational education services. The School Corporation is obligated by contract to remit \$151,497 annually to supplement the Career Center. Complete financial statements for the Career Center can be obtained from the Career Center's Administration Office in Versailles, Indiana.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

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.

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

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

The Lilly endowment grant fund accounts for grant funds received from the Lilly Foundation which were used to establish and maintain a school wide computerized educational network system.

Additionally, the School Corporation reports the following fund types:

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

Agency funds account for assets held by the School Corporation as an agent for various federal and state governmental agencies, and various private insurance companies serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

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.

SWITZERLAND COUNTY SCHOOL CORPORATION
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 or internal service 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. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 to 12 days per year based on months of service. Unused sick leave may be accumulated to a maximum of 190 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to a maximum of 3 days. Accumulated personal leave in excess of 3 days is converted to sick leave.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund 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 and proprietary 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.

E. Receipts and Disbursements

Program Receipts

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

F. Interfund Balances and Activities

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

SWITZERLAND COUNTY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Fund Financial Statements

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
2. 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 and Investments and the Statement of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and 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.

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 and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guideline:

Fund	2005	2006
Textbook Rental	\$ <u>97,269</u>	\$ <u>111,882</u>

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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.

2. Investments

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

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>2005</u>	<u>2006</u>
General Fund	Capital Project Fund	\$ -	\$ 13,015
General Fund	Other governmental	17,412	-
Debt Service Fund	Transportation Fund	155,888	-
Other governmental	General Fund	27,511	-
Other governmental	Other governmental	<u>4,000</u>	<u>-</u>
Totals		<u>\$ 204,811</u>	<u>\$ 13,015</u>

The School Corporation typically uses transfers for cash flow purposes as authorized by various statutes.

C. Reclassifications

The following schedule presents a summary of restated beginning balances by opinion unit:

<u>Opinion Unit</u>	<u>Balance as Reported June 30 2004</u>	<u>Fund Reclassification</u>	<u>Balance as Restated July 1, 2004</u>
Governmental funds	\$ 4,391,042	\$ 484,896	\$ 4,875,938
Private-Purpose trust funds	485,904	(484,896)	1,008

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; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; 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.

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Job Related Illnesses or Injuries to Employees

During 2005, the School Corporation joined with other governmental entities in the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for its member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of workers' compensation claims. The School Corporation pays an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Holding Corporation

The School Corporation has entered into a capital lease with Switzerland County 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. Lease payments during the year totaled \$101,000.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 52 with at least 10 years of service. Currently, 12 retirees meet these eligibility requirements. The School Corporation provides \$2,500 a year of these postemployment benefits for each retiree. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$30,000 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

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:

SWITZERLAND COUNTY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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	\$ 97,970
Interest on net pension obligation	(3,248)
Adjustment to annual required contribution	3,702
Annual pension cost	98,424
Contributions made	92,608
Increase in net pension obligation	5,816
Net pension obligation, beginning of year	(44,803)
Net pension obligation, end of year	\$ (38,987)
Contribution rates:	
School Corporation	5.5%
Plan members	3%
Actuarial valuation date	07-01-06
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

SWITZERLAND COUNTY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Actuarial Assumptions	PERF
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	06-30-04	\$ 88,370	101%	\$ (44,803)
	06-30-05	98,424	105%	(38,987)
	06-30-06	124,710	99%	(11,291)

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.

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

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$154,784, \$125,152, and \$131,045, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

E. Criminal Complaint

The School Corporation's Treasurer was charged with embezzlement of School Corporation Funds in a Criminal Complaint, Case Number 4:07-mj-20, filed in the United States Court, Southern District of Indiana. The following is a schedule of funds that a state audit agency reported as being misappropriated:

<u>School Year</u>	<u>Amount</u>
2002-2003	\$ 144,607.21
2003-2004	269,702.64
2004-2005	240,534.26
2005-2006	246,862.26
2006-2007	<u>211,793.97</u>
Total	<u>\$ 1,113,500.34</u>

F. Court Order

The School Corporation obtained a Preliminary Injunction Order on May 17, 2007, regarding the theft of funds (See Note IV. E.) that the defendant, her agents and others are enjoined from encumbering, transferring, conveying or otherwise pledging certain assets.

SWITZERLAND COUNTY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 1,748,667	\$ 1,919,307	\$ (170,640)	91%	\$ 1,745,900	(10%)
07-01-05	1,821,794	2,254,742	(432,948)	81%	1,766,170	(25%)
07-01-06	2,053,177	2,443,378	(390,201)	84%	1,701,529	(23%)

SWITZERLAND COUNTY SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 359,889
Buildings	35,092,374
Machinery and equipment	<u>2,152,470</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 37,604,733</u>

SWITZERLAND COUNTY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Switzerland County Elementary School	\$ 240,000	\$ 101,000
Common School Fund Loans	4,984,179	476,702
 Total governmental activities long-term debt	 \$ 5,224,179	 \$ 577,702

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

MISAPPROPRIATION OF FUNDS

Ann Geyman, former Treasurer, manually wrote 200 Switzerland County School Corporation checks totaling \$1,113,500.34 to various credit card companies for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation. The following is a summary of the checks written:

<u>Period</u>	<u>Number of Checks</u>	<u>Amount</u>
02-11-03 to 06-30-03	33	\$ 144,607.21
07-01-03 to 06-30-04	51	269,702.64
07-01-04 to 06-30-05	40	240,534.26
07-01-05 to 06-30-06	42	246,862.26
07-01-06 to 04-16-07	34	211,793.97
Totals	<u>200</u>	<u>\$ 1,113,500.34</u>

The 200 checks scheduled above were written in a manner which concealed from School Corporation Officials and Auditors payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation as described below:

1. Checks Not Posted to Computerized Accounting System

The School Corporation processes nearly all checks (other than the 200 checks referenced above and as further described below) through a computer accounting system designed to report checks on a computer generated Expenditure Report and Accounts Payable Voucher Register. The Expenditure Report is used by Auditors to perform various audit procedures and the Accounts Payable Voucher Register documents School Board approval of expenditures. Melissa May, Deputy Treasurer, was responsible for preparing computer generated checks.

The 200 checks manually written by Ann Geyman were not posted to the computerized accounting system. The checks were not reported on monthly Expenditure Reports and were not listed on Accounts Payable Voucher Registers approved by the School Board.

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)

Indiana Code 20-26-4-1 (d) states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds. The treasurer shall: . . . issue all warrants in payment of expenses lawfully incurred on behalf of the school corporation. However, except as otherwise provided by law, warrants described in this subdivision must be issued only after proper allowance or approval by the governing body."

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-14-3 states in part: "A public officer who knowingly fails to deposit public funds, or knowingly deposits or draws any check or negotiable order of withdrawal against the funds except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

2. Checks Written on the Primary School Corporation Bank Account

The primary School Corporation bank account was used mainly to process checks written to School Corporation vendors through the computer accounting system. However, checks obtained directly from the bank showed 40 of the 200 checks scheduled above were manually written checks totaling \$215,148.96 made payable to credit card companies for payments which were not obligations of Switzerland County School Corporation.

Melissa May maintained a record to track current series check numbers written on the primary bank account and posted to the accounting records. Ann Geyman bypassed the system Melissa May used to track checks by using (1) an old batch of checks that had been discontinued, and (2) a series of checks Melissa May stated were missing from a new check order.

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)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

3. Retention of Funds in School Corporation Payroll Bank Account

The School Corporation payroll bank account was used to process payroll checks written to employees for their net pay and to remit payroll withholdings to withholding authorities. Checks were also written from the payroll bank account to reimburse the primary bank account for withholdings that were electronically remitted to withholding authorities from the primary bank account. Therefore, funds should not normally be available in the payroll bank account to process checks other than employee payroll checks and payroll withholding checks.

Melissa May stated that one of her responsibilities was writing authorized checks on the payroll bank account, except for checks written to reimburse the primary bank account for electronic remittance of state and county tax withholdings and teacher annuity withholdings. Melissa May also stated that Ann Geyman was responsible for writing checks to remit various payroll withholdings including reimbursing the primary bank account for electronic remittances of state and county taxes and teacher annuity withholdings.

We performed an analysis of electronic remittance of withholdings to determine if the primary bank account was properly reimbursed from the payroll bank account. Our analysis showed the primary bank account was not reimbursed for teacher withholding annuities. Consequently, additional funds were retained in the payroll bank account and checks were

SWITZERLAND COUNTY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

written to credit card companies for payments which were not obligations of Switzerland County School Corporation. (See 4., Writing Checks on the School Corporation Payroll Bank Account)

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)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

4. Writing Checks on the School Corporation Payroll Bank Account

Our review of manually written checks from the payroll bank account to credit card companies for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation showed that a combination of (1) an old batch of checks that had been discontinued, and (2) current series checks were used. The following is a summary of the 160 of the 200 checks scheduled above written to credit card companies from the payroll bank account for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation:

Check Series	Number of Checks	Amount
Discontinued series	109	\$ 597,453.39
Current series	51	300,897.99
Totals	160	\$ 898,351.38

Melissa May stated that she did not track or account for the current series check numbers because she did not process all payroll bank account checks.

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)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SWITZERLAND COUNTY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

5. Bank Reconcilements

Ann Geyman was responsible for the preparation of the reconciliation of all month end bank balances with the record balances. Tracy Caddell, Superintendent of Schools, had a policy requiring the Treasurer to submit month end bank reconcilements to him. Tracy Caddell stated the purpose of his policy was to help ensure that the reconcilements were being performed in a timely manner.

A review of the bank reconcilements presented for audit showed several months where the bank balances reported in the bank reconcilements prepared by Ann Geyman were in excess of the actual bank balances we confirmed directly from the bank. The following schedule shows examples of the variances of the bank balances reported on the bank reconcilements prepared by Ann Geyman compared to the balances reported on the confirmed bank statements:

Date	Bank Balances		Variance
	Actual Confirmed Bank Statement	Reported on Reconcilement	
08-31-05	\$ 3,698,498.82	\$ 3,918,496.02	\$ (219,997.20)
11-30-05	2,714,286.39	2,939,802.69	(225,516.30)
12-31-05	4,877,801.80	5,089,277.70	(211,475.90)
01-31-06	4,191,630.17	4,409,478.82	(217,848.65)
02-28-06	4,668,256.43	4,863,900.88	(195,644.45)
05-31-06	3,086,780.42	3,146,439.22	(59,658.80)

The bank reconcilements prepared by Ann Geyman allowed payments which were not obligations of Switzerland County School Corporation to be made to credit card companies and unsupported adjusting entries to expenditure accounts (See 6., Unsupported Adjustments to Expenditure Accounts) to go undetected until uncovered by our audit.

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)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SWITZERLAND COUNTY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

6. Unsupported Adjustments to Expenditure Accounts

We identified unsupported adjustments totaling \$219,920 (part of the \$259,660.84 listed in the schedule below) which increased expenditures in the school year 2005-2006 for the federal Title I and Title 2 grant programs. We questioned Ann Geyman as to the purpose of the entries. Ann Geyman stated the entries were made to reimburse the General Fund for salaries payable from federal Title 1 and Title 2 grants. However, no corresponding receipt transactions to the General Fund were shown in the accounting ledger for reimbursements made from federal funds. Adjustments increasing expenditures without offsetting receipts being recorded in the accounting ledger reduced the record cash balance. These unsupported adjustments also affected the accuracy of the cash reconcilements presented for audit.

The following is a summary of identified unsupported adjustments which reduced the record balances.

<u>School Year</u>	<u>Amount</u>
2002-2003	\$ 227,346.11
2003-2004	278,144.00
2004-2005	143,318.25
2005-2006	<u>259,660.84</u>
Total	<u>\$ 908,469.20</u>

Findings regarding unsupported adjustments to the accounting records and reconcilements of record balances to depository balances were reported in prior Report B25233 which resulted in a qualified opinion on the financial statements being issued.

The Official Response and Corrective Action Plans to Report B25233 were provided by Superintendent Tracy Caddell and Ann Geyman and are on pages 51-56 of Report B25233, applicable portions of which are shown in part below:

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Switzerland County School Corporation

Switzerland Co. High School
1020 W. Main Street
Vevay, Indiana 47043

Office of Superintendent
305 West Seminary Street
Vevay, Indiana 47043
(812) 427-2611
Fax (812) 427-3695

Jefferson - Craig Elementary School
1002 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Middle School
1004 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Elementary School
1390 Hwy. 250
East Enterprise, Indiana 47019

CORRECTIVE ACTION PLAN(S)

Finding No. 2004-1

Unidentified Adjustments to Ledger Accounts

Auditee Contact Person
Title of Contact Person
Phone Number
Expected Completion Date

Mr. Tracy Caddell
Superintendent
(812) 427-2611
July, 2005

Corrective Action:

We are implementing procedures so that all adjustments to the ledger accounts are identified with a proper explanation.

Signed *J. Caddell*

Signed *Don Heyman*

Title: Superintendent
Date: 5/24/05

Title: Business Manager
Date: 5/24/05

Switzerland County School Corporation is committed to equal opportunity and does not discriminate on the basis of age, race, color, sex, handicapping conditions, or national origin including limited English proficiency, in any employment opportunity. No person is excluded from participation in, denied the benefits of, or otherwise subjected to unlawful discrimination on such basis under any educational program or student activity.

A Commitment To Excellence
www.switzerland.k12.in.us

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Switzerland County School Corporation

Switzerland Co. High School
1020 W. Main Street
Vevay, Indiana 47043

Office of Superintendent
305 West Seminary Street
Vevay, Indiana 47043
(812) 427-2611
Fax (812) 427-3695

Jefferson - Craig Elementary School
1002 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Middle School
1004 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Elementary School
1380 Hwy. 250
East Enterprise, Indiana 47019

Finding No. 2004-4

**Reconciliation of Record Balances to Depository
Balance**

Auditee Contact Person
Title of Contact Person
Phone Number
Expected Completion Date

Mr. Tracy Caddell
Superintendent
(812) 427-2611
July, 2005

Corrective Action:

We are implementing monthly reconciliation procedures
with appropriate controls.

Signed *[Signature]*

Signed *[Signature]*

Title: Superintendent
Date: 5/24/05

Title: Business Manager
Date: 5/24/05

Switzerland County School Corporation is committed to equal opportunity and does not discriminate on the basis of age, race, color, sex, handicapping conditions, or national origin including limited English proficiency, in any employment opportunity. No person is excluded from participation in, denied the benefits of, or otherwise subjected to unlawful discrimination on such basis under any educational program or student activity.

A Commitment To Excellence
www.switzerland.k12.in.us

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Tracy Caddell, Superintendent of Schools, presented us with an e-mail he received from Ann Geyman dated September 21, 2005. The e-mail shows Ann Geyman stating the following to Tracy Caddell:

"Controls are in place as you and I have talked about that adjustments or reclassifications will be approved by you with a full explanation of why they are being done and you will sign off on the adjustments."

Tracy Caddell confirmed that Ann Geyman did not submit any adjustments to expenditure accounts for his review and he was unaware that adjustments were made to expenditure accounts.

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)

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)

The governing body of a governmental unit should have a written policy concerning a procedure for . . . any adjustments to record balances. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

7. Bank Statements

The bank statements presented for audit by Ann Geyman compared with bank statements obtained directly from the bank for the period February 1, 2003 through April 30, 2007, showed the following:

- a. Checks to credit card companies for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation were not shown in the detailed listing of checks on the bank statements presented for audit by Ann Geyman.
- b. Optical images of checks payable to credit card companies for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation were not included in the bank statements presented for audit by Ann Geyman.

SWITZERLAND COUNTY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

8. Changes to Bank Records Presented for Audit After Discrepancies Identified

The following is a description of events that led to additional changes being made to bank records, presented for audit by Ann Geyman, after discrepancies were identified during our audit:

a. We noted Check 020830, dated June 23, 2006, in the amount of \$12,102.37 and payable to "Med Ben" (an insurance provider). Check 020830 was located separately in a folder flap and was not filed in the same manner as other optical images of checks. The markings on the check showed Check 020830 was processed through the payroll bank account in June of 2006. We attempted to trace the check to the June 2006 bank statement on file at the School Corporation. However, the check was not listed on the bank statement on file at the School Corporation. We brought the discrepancy to the attention of Ann Geyman. Ann Geyman stated the bank had computer problems and she presented for audit an updated bank statement that listed Check 020830. The updated bank statement presented by Ann Geyman also showed a hand written notation stating "glitch in system."

b. We requested Melissa May provide an explanation for two unsupported payroll entries shown on the June 2006 Expenditure Report. Melissa May did not find an error in her preparation of the payroll. However, Melissa May did find a discrepancy on the bank statement presented for audit by Ann Geyman. The June 2006 bank statement's detail listing of checks subsequently presented for audit by Ann Geyman was \$23,737.16 less than the total amount of checks that had cleared the bank account.

c. Taking into account Check 020830, there was an \$11,634.79 unidentified difference between the updated bank statement's detail listing of checks presented for audit by Ann Geyman and the amount shown as the total checks cleared. We requested Darin Gullion, Assistant Superintendent, to obtain documentation identifying any other checks not shown on the June 2006 updated bank statement presented for audit by Ann Geyman. Darin Gullion stated Ann Geyman faxed copies of the following two checks to the School Corporation's Office:

<u>Payee</u>	<u>Check Number</u>	<u>Date</u>	<u>Amount</u>
Aflac	18940	Not legible	\$ 2,012.87
Fidelity	18941	Not legible	Not legible

Since portions of the above checks were not legible, Darin Gullion requested Melissa May to contact Ann Geyman, who was not in the School Corporation Office at the time, and have Ann Geyman mail the check copies to the School Corporation Office. Darin Gullion stated the check copies Ann Geyman mailed were exactly the same as the faxed copies received the day before.

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

d. We requested Darin Gullion to obtain copies of the checks directly from the bank. The copies obtained from the bank showed that Checks 020830, 18940, and 18941 were written to credit card companies for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation and not to the payees shown on the mailed check copies.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Accounting Environment – Segregation of Duties

Accounting duties were not adequately segregated. The School Corporation's Accounting Office has only two employees. The following is a description of some of the activities, all of which the Treasurer performed, for which compensating controls were not in place:

- a. Ann Geyman had access to unused checks and was also authorized to sign checks.
- b. Ann Geyman had access to the accounting records allowing her to physically make financial transaction entries and adjustments to the accounting records without prior approval of the Superintendent of Schools and the School Board.
- c. Ann Geyman was responsible for preparing the month end reconcilements between the record balance of cash and bank balances.

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)

The governing body of a governmental unit should have a written policy concerning a procedure for . . . any adjustments to record balances. Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Investigation by State and Federal Law Enforcement Agencies

An investigation of the misappropriation of funds is also being performed at the request of the State Board of Accounts by federal and state law enforcement agencies. The following information was obtained from an affidavit signed by Charles L. Cohen, Special Deputy United States Marshal, that was made part of a Criminal Complaint, Case Number 4:07-mj-20, filed in the United States Court, Southern District of Indiana. The affidavit states in part the following:

SEARCH WARRANT

Paragraph 35: "On June 7, 2007, I participated in the execution of a federal search warrant issued for residence of Ann Geyman . . . During the execution of the search warrant, property was located that constitutes evidence of criminality."

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Paragraph 36: "During the course of the search, a day planner was located . . . The contents of the day planner included credit card statements and documents for the specific accounts paid with Switzerland County School Corporation checks. . . ."

Paragraph 37: "During the course of the search, a plastic tub was located . . . The contents of the tub included credit card statements and documents for the specific accounts paid with Switzerland County School Corporation checks . . ."

Paragraph 38: "During the search of a dresser . . . credit cards, credit card statements, and documents for the specific accounts paid with Switzerland County School Corporation checks . . . were located."

Paragraph 39: "During the course of the search, a canvass bag was located . . . Inside the bag a significant volume of altered Switzerland County School Corporation bank statements and altered check images that accompanied the statements was located. Based on my training, education, and experience, the contents of this bag were consistent with altered bank records used for the specific purpose of perpetuating and concealing the embezzlement scheme detailed in this affidavit . . ."

Paragraph 40: "I observed that the alterations were made using White Out-type covering, cut and taped covering legitimate information with false information on the documents. I observed that the manner in which the alterations were made appeared to be consistent with the scheme to conceal the embezzlement . . . Based on my training, education, and experience, this was a sophisticated, skilled, and time consuming methodology of embezzlement. . . ."

INTERVIEW OF ANN GEYMAN

Paragraph 43: ". . . In part Ann Geyman made statements and admissions as follows:

- Geyman admitted to embezzling from the Switzerland County School Corporation by taking payroll checks from the school corporation and that as part of the scheme 'I'd write checks to pay credit card bills'.
- Geyman said that every one of the credit cards for which she paid the bills with Switzerland County School Corporation funds was in her name and her social security number.
- When asked how she concealed the embezzlement from being discovered, Geyman said, 'I made entries on the books . . .'
- Geyman admitted to intercepting and altering Switzerland County School Corporation bank statements furtherance of the fraud scheme. Geyman said, 'I made copies of them and taped over them and made copies of them and put things on the page' . . .
- Geyman stated that she engaged in the embezzlement because she had a 'spending problem' . . .
- Geyman was given and reviewed an image of each Switzerland County School Corporation checks . . . Geyman said that each and all checks represented money she embezzled and that all of the money went to her personal benefit. . . ."

SWITZERLAND COUNTY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

CONCLUSION

Paragraph 49: "I have probable cause to believe that ANN GEYMAN, being an agent of Switzerland County School Corporation embezzled, stole, obtained by fraud, or otherwise without authority, knowingly converted to the use of a person other than the rightful owner or intentionally misapplied property that is \$5,000 or more, and is owned by, or is under the care, custody, or custody of the Switzerland County School Corporation, which received in any one year period, benefits in excess of \$10,000 under a federal program involving a grant, contract, subsidy, loan, guarantee, insurance, or other form of Federal assistance as detailed in Title 18 United States Code 666 in violation of Title 18 United States Code 666."

Paragraph 50: "I have probable cause to believe that ANN GEYMAN, having devised a scheme or artifice to defraud or for obtaining money or property, by means of false or fraudulent pretenses, representations, or promises, for such purpose of executing such scheme or artifice or attempting so to do, placed in any post office or authorized depository for mail matter, a matter or thing to be sent or delivered by the Postal Service, or deposited or caused to be deposited a matter or thing to be sent or delivered by a private or commercial interstate carrier, or knowingly causes to be delivered by mail or such carrier according to the direction thereon, a matter detailed or thing detailed in Title 18 United States Code 1341 in violation of Title 18 United States Code 1341."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

On October 11, 2007, we requested Ann Geyman, former Treasurer, through her attorney, Darrell Auxier, to refund \$1,113,500.34 to the Switzerland County School Corporation. (See Summary, page 66)

BOND COVERAGE

The following is a schedule of bond coverage the School Corporation obtained on Ann Geyman, former Treasurer:

Surety	Period of Coverage	Bond Number	Bond Amount
Ohio Casualty Insurance Company	01-01-03 to 01-01-04	3-768-532	\$ 100,000.00
Ohio Casualty Insurance Company	01-01-04 to 01-01-05	3-768-532	100,000.00
No coverage	01-02-05 to 01-20-05	N/A	-
Fidelity and Deposit Company of Maryland	01-21-05 to 01-21-06	8750124	100,000.00
Fidelity and Deposit Company of Maryland	01-21-06 to 01-21-07	8750124	100,000.00
Fidelity and Deposit Company of Maryland	01-21-07 to 01-21-08	8750124	100,000.00

N/A Not applicable

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ADDITIONAL AUDIT COST

Additional audit costs were incurred during the current audit due to the misappropriation of funds. The additional time and cost to investigate and document the misappropriation of funds was \$55,442.81.

RETENTION OF PUBLIC RECORDS

Entries were made to expenditure accounts that did not represent a financial transaction supported by a check. A representative from the School Corporation's software vendor stated that an Edit Report should be printed out after an adjustment entry is made but prior to a final posting. The Edit Report would show the user who entered the information. Edit Reports identifying adjustments to expenditures accounts were not presented for audit.

Indiana Code 5-15-6-3(f) states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

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.

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 Corporation, Chapter 9)

SALE OF CAFETERIA FOOD PRODUCTS

Food items paid for from the School Lunch Fund were sold to cooks and other school employees for personal use at various schools within the School Corporation. Gayla Bullock, Food Service Director, collected monies from the sale of cafeteria food products at all schools within the School Corporation except for Switzerland County Elementary School. Marcia Locke, School Lunch Secretary, collected monies from the sale of cafeteria food products at Switzerland County Elementary School.

Gayla Bullock and Marcia Locke provided the following information regarding the sale of cafeteria food products:

1. Selling of cafeteria food products to employees has been a practice for several years. No receipts were written and given to the employees who purchased the food items.
2. No records were maintained by either Gayla Bullock or Marcia Locke showing the amount of proceeds derived from the sale of cafeteria products.
3. Gayla Bullock would go to the School Corporation's Administrative Office and remit the amount she collected to Ann Geyman, former Treasurer. Ann Geyman did not write a receipt to Gayla Bullock for monies remitted.
4. Marcia Locke would remit the amount she collected to the School Corporation's Administrative Office through inter-office mail. No receipt was given to her at a later date for the amount she remitted.

SWITZERLAND COUNTY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

We reviewed receipts issued by the School Corporation and found instances of receipts on file that were signed by Ann Geyman. These receipts showed payees such as "Misc-Café"; "Café"; "Café Workers." No receipts were presented for audit showing Gayla Bullock or Marcia Lock as the payee.

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)

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)

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)

OVERDRAWN FUND BALANCES

The cash balance of the Textbook Rental Fund was overdrawn as follows:

<u>Date</u>	<u>Deficit Cash Balance</u>
06-30-04	\$ 122,498
06-30-05	97,269
06-30-06	111,882

The fund 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)

Indiana Code 5-11-10-1.6(d) states: "The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements: (1) processed in accordance with this section; and (2) for which funds are appropriated and available."

A similar comment was included in prior Report B25233.

DEPOSITS

We compared receipts issued in June 2006 to deposits and found instances of funds deposited up to six days after the date of receipts.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

OPTICAL IMAGES OF CHECKS (Applies to the School Corporation,
Jefferson/Craig Elementary School, Middle School and High School)

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks for the School Corporation's and the extra-curricular bank accounts.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks, states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

CLAIMS

We found the following deficiencies regarding the processing of vendor claims for payment:

1. There were instances of vendor claims that did not include supporting invoices or other documentation to equal the amount paid. These errors were found on 11% of the claims reviewed representing less than 1% of the total dollar value of vendor claims reviewed.
2. There were instances of claims paid prior to board approval, and then would be submitted for approval to the School Board at their next meeting.

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;

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) the invoice or bill is approved by the officer or person receiving the goods and services . . .
- (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."

EDUCATIONAL FEES

Educational fees were collected as part of the textbook rental fees collected. The educational fees were receipted to and retained in the Textbook Rental Fund.

All educational fees must be receipted to the general fund of the school corporation and included as miscellaneous revenues when preparing the school corporation budget. The anticipated expenditure of these fees for educational materials and supplies should be included in the appropriation for that purpose. Consequently, provision would be made for the furnishing of the materials and supplies by the board of school trustees in the prescribed manner and would not affect the tax rate if the collections are sufficient to offset the expenditures as estimated. (The School Administrator and Uniform Compliance Guidelines, Volume 145, dated March 1999)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$332 for late payments of state withholding taxes for the period ending December 31, 2002, were paid to the Indiana Department of Revenue on June 24, 2005.

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)

BASKETBALL GAME DEPOSITS (Applies to Switzerland County Middle School)

Receipts from boys and girls basketball were not always deposited within a reasonable time. Receipts, in some instances, were held for periods from 2 to 33 days before depositing. A similar comment was included in the prior Report B25233.

Indiana Code 20-41-1-9(a) states in part: ". . . receipts shall be deposited without unreasonable delay . . ."

FORM SA-1 (Applies to Jefferson/Craig Elementary School, Middle School, and High School)

We found the following deficiencies regarding the use of Form SA-1 (Purchase Orders/Accounts Payable Voucher):

- 1. Not all Form SA-1s were being signed by the person receiving the goods or services at the High School and they were not being signed at all at Jefferson/Craig Elementary School.

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

2. Form SA-1 was not being signed by the Extra-Curricular Treasurers at the High School and Middle School certifying that the attached invoices or bills are true and correct and that the Extra-Curricular Treasurer had audited the claim.

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 . . . check for payment of a claim unless: . . .

- (2) the invoice or bill is approved by the officer or person receiving the goods or services . . .
- (4) the fiscal officer audits or certifies before payment that the invoice or bill is true and correct . . ."

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)

VENDING MACHINE COMMISSIONS AND/OR PROFITS (Applies to Switzerland County Middle School and Switzerland County High School)

Vending machines are located in the lobbies of the middle school building and the high school building. Revenues from the vending machines are receipted to various funds such as the General Fund, Athletic Fund, Vending Fund and Staff Fund. Minutes of the School Board does not indicate procedures have been adopted concerning use, maintenance, and commissions and/or profits of the vending machines.

There should be a clearly defined procedure adopted by the governmental unit concerning placement, use, maintenance, and commissions and/or profits of vending machines on their property. All revenues generated and costs incurred in operating vending machines located on the government premises should be accounted for through the governmental unit's records.

If vending machines are located in areas where the public makes use of the machines and generates the resulting revenues, we advise officials to place the revenues in the general fund for the benefit of the general public, the machine users. Any alternative procedure should be authorized by resolution or ordinance of the governing body. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FUNDRAISER FUND (Applies to Jefferson/Craig Elementary School)

The Jefferson/Craig Elementary School conducts a school-wide fund raising event each school year. All students of the School participate in the annual fundraiser. According to the Extra-Curricular Treasurer, the proceeds were used at the School Principal's discretion for student awards, field trips and convocations. Additionally, each teacher at the School would have \$100 available for them to purchase classroom materials and supplies. We noted in reviewing the disbursements, other purchases; such as, food, shirts and awards for teachers; and television sets and DVD/VCR combos.

SWITZERLAND COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

The State Board of Accounts consistently has been of the audit position to not take an audit exception to a school extra-curricular account having a General Fund or any other student fund if the fund consists of revenues received from functions (vending machines or sales of a similar nature, etc.) not generated by students for a specific class or organization (for which a fund should be established). Our audit position has been with the provision that the functions for which the expenditures are made benefit the student body as a whole (as opposed to a select group of students, school employees or administrators). Examples of appropriate expenditures in the past would be convocations, field trips which the entire student body has the opportunity to take during the course of the school year, etc. Our audit position has been based in part upon the substance of the transaction (the revenues are primarily from students or parents paying into vending machines, picture money, school wide fundraisers, etc.).

Inquiries have questioned the use of a General Fund or Student Activity Fund for educational expenditures (copy machines, computers, educational materials, supplies, etc.) which would normally be from School Corporation funds. The State Board of Accounts' audit position is as stated above. However, we will not take audit exception to a school having disbursements from an extra-curricular "general fund" or "student activity fund" for authorized corporation type expenditures, such as equipment, supplies, etc., with the following conditions:

1. A policy has been adopted by a school board in a public meeting authorizing these types of expenditures.
2. Providing there are no objections from a majority of an applicable student body to these types of expenditures.
3. Equipment purchases would still require separate approval from the local school board.

Since alternatives exist for funding educational expenditures (i.e., taxes, authorized investment income expenditures, etc.) and other alternatives for the use of a general fund are available (i.e., reducing the cost of items to students and/or parents), we must emphasize the adoption of the aforementioned would be a public policy decision for which the local board of school trustees must accept any and all responsibility. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 THE SWITZERLAND COUNTY SCHOOL
CORPORATION, SWITZERLAND COUNTY, INDIANA

Compliance

We have audited the compliance of the Switzerland County School Corporation (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 of America; 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.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its 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 which 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 2006-2 and 2006-3.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in items 2006-2 and 2006-3 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2006-2 and 2006-3, to be material weaknesses.

The School Corporation's responses to the findings identified in our audit are described in the accompanying sections of the report entitled "Corrective Action Plan" and "Official Response." We did not audit the School Corporation's corrective action plan and response and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the School Corporation's management, School Board 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

October 11, 2007

SWITZERLAND 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 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY05	\$ 61,457	\$ -
		FY06	-	63,823
National School Lunch Program	10.555	FY05	203,820	-
		FY06	-	198,488
Total for federal grantor agency			<u>265,277</u>	<u>262,311</u>
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>				
Pass-Through Indiana State Library				
Grants to States	45.310	05-01	<u>5,669</u>	<u>6,694</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title 1 Grants to Local Educational Agencies	84.010	05-7775	376,356	-
		06-7775	-	320,028
Total for program			<u>376,356</u>	<u>320,028</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	02-217	1,922	-
		03-143	10,217	214
		04-193	9,788	-
		05-104	-	9,878
Total for program			<u>21,927</u>	<u>10,092</u>
State Grants for Innovative Programs	84.298	02-102	5,135	-
		03-153	10,661	-
		04-151	-	530
Total for program			<u>15,796</u>	<u>530</u>
Education Technology State Grants	84.318	FY04	9,975	-
		FY05	570	9,121
		FY06	-	4,436
Total for program			<u>10,545</u>	<u>13,557</u>
Improving Teacher Quality State Grants	84.367	02-133	29,533	-
		03-206	66,374	35,905
		04-246	-	93,402
		05-084	-	13,403
Total for program			<u>95,907</u>	<u>142,710</u>
Hurricane Education Recovery	84.938	FY06	-	9,750
Total for federal grantor agency			<u>520,531</u>	<u>496,667</u>
Total federal awards expended			<u>\$ 791,477</u>	<u>\$ 765,672</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

SWITZERLAND COUNTY SCHOOL CORPORATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Switzerland County School Corporation (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.

SWITZERLAND COUNTY SCHOOL CORPORATION
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?	yes
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

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	Child Nutrition Cluster Title I Grants to Local Educational Agencies

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 Findings

FINDING 2006-1, MISAPPROPRIATION OF FUNDS AND SEGREGATION OF ACCOUNTING DUTIES

Ann Geyman, former Treasurer, manually wrote 200 Switzerland County School Corporation checks totaling \$1,113,500.34 to various credit card companies for payments which School Corporation Officials have confirmed are not obligations of Switzerland County School Corporation. The following is a summary of the checks written:

SWITZERLAND COUNTY SCHOOL CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

<u>Period</u>	<u>Number of Checks</u>	<u>Amount</u>
02-11-03 to 06-30-03	33	\$ 144,607.21
07-01-03 to 06-30-04	51	269,702.64
07-01-04 to 06-30-05	40	240,534.26
07-01-05 to 06-30-06	42	246,862.26
07-01-06 to 04-16-07	34	211,793.97
Totals	<u>200</u>	<u>\$ 1,113,500.34</u>

In a Criminal Complaint, Case Number 4:07-mj-20, filed in the United States Court, Southern District of Indiana, Ann Geyman was charged with embezzlement of funds in connection with writing the above checks.

Accounting duties were not adequately segregated. The School Corporation's Accounting Office has only two employees. The following is a description of some of the activities, all of which the Treasurer performed, for which compensating controls were not in place.

- (a) Ann Geyman had access to unused checks and was authorized to sign checks.
- (b) Ann Geyman had access to the accounting records allowing her to physically make financial transaction entries and adjustments to the accounting records without prior approval of the Superintendent of Schools and the School Board.
- (c) Ann Geyman was responsible for preparing the month end reconciliements between the record balance of cash and bank balances.

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)

The School Board has established an internal control committee for the purpose of implementing compensating internal controls in areas where accounting duties may not be adequately segregated.

Section III - Financial Statement Findings

FINDING 2006-2, FINANCIAL MANAGEMENT SYSTEM - ALLOWABLE COSTS

Federal Agency: U.S. Department of Education
 Federal Program: Title 1 Grants to Local Educational Agencies
 CFDA Number: 84.010
 Federal Award Number: 06-7775
 Pass-Through Entity: Indiana Department of Education

The following entries were made on June 23, 2006, to the Title 1 Funds Ledger expenditure accounts:

SWITZERLAND COUNTY SCHOOL CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

<u>Description of Entry</u>	<u>Amount</u>
Payroll transaction	\$ 63,786.63
Payroll transaction	1,480.00
Payroll transaction	7,496.54
Payroll transaction	<u>24,067.48</u>
 Total	 <u>\$ 96,830.65</u>

No supporting documentation such as a payroll check register or payroll distribution report was presented for our examination. Ann Geyman, Treasurer, stated the entries were made to reimburse the General Fund for Title 1 salaries paid from the General Fund. No receipt transactions were shown in the accounting ledger to the General Fund for reimbursements made from federal funds.

We reported the above information to other School Corporation Officials. School Corporation Officials were able to document a sufficient amount of Title 1 expenditures paid from the General Fund to support the June 23, 2006, entry made to the Title 1 Funds Ledger.

The above entries were made to the accounting records in a manner which concealed a misappropriation of funds from the School Corporation. The entries were able to occur due to accounting duties not being adequately segregated (See Finding 2006-1).

The unsupported entries also could result in the inaccurate reporting on the Indiana Department of Education's "Annual Expenditure Report."

34CFR 80.22 (Standards for Financial Management Systems) states in part the following:

- "(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."
- "(2) Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities . . ."
- "(3) Internal control: Effective control and accountability must be maintained for all grant and subgrant cash . . . and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."
- "(6) Source documentation: 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."

The School Board has established an internal control committee for the purpose of implementing compensating internal controls in areas where accounting duties may not be adequately segregated.

SWITZERLAND COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2006-3, ALLOWABLE ACTIVITIES - NON - MAJOR PROGRAM

Federal Agency: U.S. Department of Education
Federal Program: Title II Improving Teacher Quality State Grants
CFDA Number: 84.367
Federal Award Number: 04-246
Pass-Through Entity: Indiana Department of Education

We found the following expenditures paid from the Title II Improving Teacher Quality State Grants program (Title II) in school year 2004-2005:

<u>Description of Expenditure</u>	<u>Amount</u>
Education service center dues	\$ 9,377.65
Copy of machine toner	<u>12,662.18</u>
Total	<u>\$ 22,039.83</u>

The above expenditures represent School Corporation wide expenditures benefiting several funds. The above expenditures do not represent a direct benefit to the Title II program.

Dr. Illene G. Block, Coordinator Title II, Part A, Indiana Department of Education, stated in a letter (dated June 6, 2007) to the School Corporation: ". . . to clarify the requirements of Title II, Part A. Under the guidelines, these funds cannot be expended for dues for the education service center. . . ."

Payment of School Corporation type expenditures from a federal grant program fund reduce the ability for the grantee to accomplish program objectives stipulated in the grant agreement.

We consider the above costs to be known questioned costs.

OMB Circular A-87 (Cost Principles for State, Local and Indian Tribal Governments), Section C-3 titled "Basic Guidelines-Allocable Costs" states in part the following:

"A cost is allocable to a particular cost objective if the goods or services are chargeable or assigned to such cost objective in accordance with relative benefits received."

We recommended the School Corporation implement a system where persons familiar with program allowable activities are involved with the review of expenditures paid from federal programs.

Switzerland County School Corporation

Switzerland Co. High School
1020 W. Main Street
Vevay, Indiana 47043

Office of Superintendent
305 West Seminary Street
Vevay, Indiana 47043
(812) 427-2611
Fax (812) 427-3695

Jefferson - Craig Elementary School
1002 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Middle School
1004 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Elementary School
1390 Hwy. 250
East Enterprise, Indiana 47019

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2004-7

Original SBA Audit Report Number: B25233

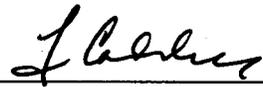
Fiscal Years July 1, 2002 to June 30, 2004

Auditee Contact Person Tracy Caddell

Title of Contact Person Superintendent

Phone Number 812-427-2611

Status of Finding: On September 23, 2005, Darrel Hansel, Title I Director, and Ann Geyman, Treasurer, met with Linda Ricketts, Title I Director, and Hazel Beasley, Title I Director. The 2003-04 Final Expenditure Report was reviewed and it was decided that it was not necessary to file an amended report.



Tracy Caddell

Superintendent

Switzerland County School Corporation is committed to equal opportunity and does not discriminate on the basis of age, race, color, sex, handicapping conditions, or national origin including limited English proficiency, in any employment opportunity. No person is excluded from participation in, denied the benefits of, or otherwise subjected to unlawful discrimination on such basis under any educational program or student activity.

A Commitment To Excellence

www.switzerland.k12.in.us

CORRECTIVE ACTION PLAN(S)

Finding No. 2006-1

Misappropriation of Funds and Segregation of Accounting Duties

Auditee Contact Person

Mr. Tracy Caddell

Title of Contact Person

Superintendent

Phone Number

812-427-2611

Expected Completion Date

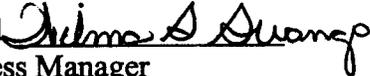
May, 2007

Corrective Action:

Ann Geyman's employment was terminated on May 21, 2007 for stealing public funds. A civil suit has been filed by the Switzerland County School Corporation as well as criminal charges which have been filed the U.S. Attorney's Office.

The school board has established an audit committee for establishing appropriate internal controls including segregation of duties. These policies will be recommended to the school board for their approval by November 2007.

Signed 
Superintendent
8/28/07

Signed 
Business Manager
8/28/07

Finding No. 2006-2

Financial management System (Title 1)

Auditee Contact Person Mr. Tracy Caddell
Title of Contact Person Superintendent
Phone Number 812-427-2611
Expected Completion Date May, 2007

Corrective Action:

Ann Geyman's employment was terminated on May 21, 2007 for stealing public funds. A civil suit has been filed by the Switzerland County School Corporation as well as criminal charges which have been filed the U.S. Attorney's Office.

The school board has established an audit committee for establishing appropriate internal controls including ledger expenditure accounts. These policies will be recommended to the school board for their approval by November 2007.

Signed *J. Adams*
Superintendent
8/28/07

Signed *Julia S. Swango*
Business Manager
8/28/07

Finding No. 2006-3

Allowable Costs

Auditee Contact Person

Mr. Tracy Caddell

Title of Contact Person

Superintendent

Phone Number

812-427-2611

Expected Completion Date

September, 2007

Corrective Action:

Ann Geyman's employment was terminated on May 21, 2007 for stealing public funds. A civil suit has been filed by the Switzerland County School Corporation as well as criminal charges which have been filed the U.S. Attorney's Office.

The school board has established an audit committee for establishing appropriate internal controls including segregation of duties. These policies will be recommended to the school board for their approval by November 2007.

A system is being implemented where individuals familiar with the specific grant program will review expenditures paid from federal programs with the business manager.

Signed *J. C. Caddell*
Superintendent
8/28/07

Signed *Debra S. Swango*
Business Manager
8/28/07

SWITZERLAND COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on October 11, 2007, with Darrell M. Auxier, Attorney for Ann Geyman, former Treasurer.

The contents of this report were discussed on October 16, 2007, with the following School Corporation officials:

Tracy Caddell, Superintendent of Schools
Wilma Swango, Treasurer
Virgil McKay, School Board member
Darin Gullion, Assistant Superintendent of Schools
Melissa May, Deputy Treasurer
Ronald Hocker, Attorney

The official response has been made a part of this report and may be found on page 65.

Switzerland County School Corporation

Switzerland Co. High School
1020 W. Main Street
Vevay, Indiana 47043

Office of Superintendent
305 West Seminary Street
Vevay, Indiana 47043
(812) 427-2611
Fax (812) 427-3695

Jefferson - Craig Elementary School
1002 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Middle School
1004 W. Main Street
Vevay, Indiana 47043

Switzerland Co. Elementary School
1390 Hwy. 250
East Enterprise, Indiana 47019

Official Response

Comments to be included:

The administration supports the findings of this audit and we appreciate the diligent work of the State Board of Accounts in uncovering the embezzlement of funds by the school's former business manager, Ann Geyman. Corrective action plans were put in place with the audit findings in 2005 but were circumvented by Mrs. Geyman as part of her scheme to embezzle funds.

However, with respect to the sale of cafeteria food products the administration does not believe that any current employees paid for personal items with public funds. Due to this audit finding employees, in the future, may only purchase items directly from the vendor. As we move forward the other audit findings are being addressed by the administration and business office.

Thank you

J. Cardwell

Switzerland County School Corporation is committed to equal opportunity and does not discriminate on the basis of age, race, color, sex, handicapping conditions, or national origin including limited English proficiency, in any employment opportunity. No person is excluded from participation in, denied the benefits of, or otherwise subjected to unlawful discrimination on such basis under any educational program or student activity.

A Commitment To Excellence

www.switzerland.k12.in.us

SWITZERLAND COUNTY SCHOOL CORPORATION
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Ann Geyman, former Treasurer: Misappropriation of Funds, pages 32 through 43	<u>\$ 1,113,500.34</u>	<u>\$ -</u>	<u>\$ 1,113,500.34</u>

AFFIDAVIT

STATE OF INDIANA)
)
SCOTT COUNTY)

We, Richard N. Ahlrich, Karen S. Kelleher, and David L. Stainbrook, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Switzerland County School Corporation, Switzerland County, Indiana, for the period from July 1, 2004 to June 30, 2006, is true and correct to the best of our knowledge and belief.

Richard N. Ahlrich

Karen S. Kelleher

David L. Stainbrook
Field Examiners

Subscribed and sworn to before me this 13th day of November, 2007.

Sean Sautterwhite
Clerk of the Circuit Court