

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

REVIEW REPORT  
OF  
INDIANA DEPARTMENT OF EDUCATION  
June 1, 2008 to June 30, 2012



**FILED**  
09/14/2012



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AGENCY OFFICIALS

Office

Official

Term

Superintendent of Public Instruction

Dr. Suellen Reed  
Dr. Tony Bennett

06-01-08 to 01-11-09  
01-12-09 to 01-13-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA DEPARTMENT OF EDUCATION

We have reviewed the activities related to the receipts, disbursements, and assets of the Indiana Department of Education for the period of June 1, 2008 to June 30, 2012. The Indiana Department of Education's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

Based on our review, nothing came to our attention that caused us to believe that the activities related to the receipts, disbursements, and assets of the Indiana Department of Education are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations, except as stated in the review comments.

The Indiana Department of Education's response to the Review Result and Comment identified in our review is described in the accompanying section of the report entitled Official Response. We did not examine the Indiana Department of Education's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Indiana Department of Education's management, 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

July 20, 2012

INDIANA DEPARTMENT OF EDUCATION  
REVIEW RESULTS AND COMMENT  
JUNE 30, 2012

***LATE PAYMENT PENALTY***

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of the Department of Education as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$1,411.55 and for the current fiscal year through April 30 penalties were \$2,066.59. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency . . . fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Organizational Overview – General Guidelines and Policy, IV. Summary of Agency Accounting Responsibilities)

***EMPLOYEE vs. INDEPENDENT CONTRACTOR***

During our review of the Department of Education (DOE), we found that DOE entered into contracts with workers who performed duties for DOE that appeared to be routine employee duties.

Upon review of the criteria, we question whether these workers qualify as employees rather than as independent contractors. The DOE should evaluate the business relationship with individuals using the Internal Revenue Service (IRS) Publication 15-A, Employer's Supplemental Tax Guide, for the criteria to determine the employer-employee or independent contractor relationship. According to IRS Publication 15-A, the employer consequences of treating an employee as an independent contractor could result in additional employment tax liabilities.

Each agency, quasi, department, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

INDIANA DEPARTMENT OF EDUCATION  
EXIT CONFERENCE

The contents of this report were discussed on August 2, 2012, with Andrew Kossack, Deputy Chief of Staff, Kent Hatcher, Chief Financial Officer, and Beverly Flanagan, Director of Finance. The official response has been made a part of this report and may be found on page 6.

The contents of this report were discussed on July 26, 2012, with Dr. Suellen Reed, former Superintendent of Public Instruction.



# Indiana Department of Education

SUPPORTING STUDENT SUCCESS

August 10, 2012

State Board of Accounts  
Mr. Bruce Hartman, State Examiner  
302 Washington St., Room E418  
Indianapolis, Indiana 46204-2765

Dear Mr. Hartman:

On August 2, 2012, Mr. John Jacob shared with the Indiana Department of Education (IDOE) the Review Results and Comment on our recent State Board of Accounts Review for June 1, 2008 to June 30, 2012. Please consider this letter the official response for the IDOE to the State Board of Accounts' written findings.

#### Late Payment Penalty

The IDOE takes very seriously its responsibility to Indiana taxpayers to be stewards of the funds entrusted to the agency. In 2012, the Indiana General Assembly appropriated over \$6.5 billion to IDOE to provide for education in the state. Notwithstanding this massive amount of funding and the myriad accounts and programs IDOE manages, the interest paid was just over \$2,000, which is about three hundred-thousandths of a percent or 0.00003% of the funds for which IDOE is responsible. Nevertheless, IDOE will revisit its current procedures and make every attempt to completely eliminate interest payments.

#### Employee vs. Independent Contractor

The IDOE is committed to strict compliance with all applicable state and federal laws. The IDOE is unaware of any contracts that are not compliant with the Internal Revenue Service (IRS) Publication 15-A. As always, the IDOE will take appropriate action to comply with all laws and ensure its employees are appropriately classified under the Fair Labor Standards Act.

Please contact me if you have questions or if further information is needed.

Sincerely,

Dr. Tony Bennett  
Superintendent of Public Instruction