

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

AUDIT REPORT
OF

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
LAKE COUNTY, INDIANA

July 1, 2010 to June 30, 2012



FILED
04/17/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Business Services	Robert James	07-01-10 to 06-30-13
Superintendent of Schools	Dr. Lawrence Veracco	07-01-10 to 06-30-13
President of the School Board	George Baranowski Howard Marshall, Jr.	01-01-10 to 12-31-11 01-01-12 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LAKE CENTRAL SCHOOL CORPORATION

We have audited the records of the Extra-Curricular Accounts for the period from July 1, 2010 to June 30, 2012, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments.

STATE BOARD OF ACCOUNTS

November 27, 2012

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PRESCRIBED FORMS – RECEIPTS (Applies to All Schools)

Receipts issued for collections of full-day kindergarten fees, lost books, locks, gym uniforms, or due to the computer being down did not use the prescribed receipt Form SA-3. A generic prenumbered receipt book was used to issue receipts for these collections.

Receipts issued for collections of textbook rental fees did not use the prescribed receipt form TBR-2 (Official Receipt-Individual Textbook Rental List). Dependent upon the school, the following was used as receipts for Textbook rental:

1. generic prenumbered receipt book;
2. a computer generated receipt;
3. a print screen; or
4. an outdated, unnumbered TBR-2 was used to issue receipts for these collections.

At the High School, textbook rental receipts were not issued for collections received in the mail or for credit card payments received over the phone.

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)

RECEIPTS AND DEPOSITS (Applies to Protsman Elementary and Lake Central High School)

Protsman Elementary

1. Receipts for textbook rental and full-day kindergarten collections were not always issued at the time of the transaction. In some cases, a receipt was issued up to a month after the collections were received.
2. Some collections for textbook rental were posted in the payment tracking system as paid and receipted into the Extra-curricular account. However, no receipt was issued at the time of collection to the payer.
3. Textbook rental and full-day kindergarten collections were held up to between 2 weeks and 1 month, respectively, before being deposited in the bank.
4. Some checks received for full-day kindergarten fees were not deposited. These were held and noted that they later were shredded or returned to the parent. The checks should have been deposited and a check later issued for a refund, if needed.
5. Textbook rental collections of \$133.50 from August 2011 could not be traced to the Extra-curricular account or bank deposit. Textbook rental collections, receipts, and deposits were reviewed through the end of September, 2011 in an attempt to verify the posting and deposit of the \$133.50.

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

6. Two payments from August 2011 for textbook rental could not be traced to the payment tracking system. The Daily Fee Reports from the tracking system were reviewed into January 2012 and the two payments were not observed as being posted.

Lake Central High School

1. Receipts were not always deposited within a reasonable time, based upon the volume of collections received by the Extra-Curricular Treasurer. Receipts were usually deposited every 7 to 8 days. Receipts, in some cases, accumulated to over \$90,000 before a deposit was made.
2. ECA Receipts (Form SA-3) were not issued for collections until the date the collections were deposited in the bank.

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

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

ECA PURCHASE OF EQUIPMENT (Applies to Clark Middle School and Lake Central High School)

Disbursements of \$540 and \$2,191 were made from the Athletic Fund on February 1 and March 17, 2011, for a cash register and 8 by 8 track board, respectively. Disbursements of \$2,405 for scoring tables were made from the Athletic Fund on January 23, 2012. An iPad was purchased for \$738 from the 8th grade Team Fund on May 17, 2012.

Disbursements were made during the 2011-2012 school year for the purchase of equipment from various High School Extra-Curricular funds. The Athletic Fund made purchases throughout the year totaling \$58,856 for scoreboards, Honda and Subaru carts, iPads and more. The Bookstore Fund spent \$3,204 on February 16, 2012, for Smart Boards. The Student Services Fund spent \$7,520 on January 20, 2012, for security cameras.

A review of the School Board minutes did not determine authorization for the equipment purchases.

IC 20-26-5-4 states in part: "In carrying out the school purposes of each school corporation, its governing body acting on its behalf shall . . . acquire such personal property or any interest therein as the governing body deems necessary for school purposes . . ." Therefore, extra-curricular equipment purchases should be approved prior to purchase by the Board of School Trustees. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

FUNDRAISERS (Applies to Protsman and Kolling Elementary, Clark, Kahler, and Grimmer Middle School, and Lake Central High School)

Protsman Elementary conducted several fund raising events. The events included sale of Fannie May candy, Smencils (scented pencils), and Scholastic Book Fairs.

Kolling School conducted the sale of magazines as a fund raising event.

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Several activities were conducted as a fund raising event at Clark Middle School. These events included sale of Entertainment books, food, Scholastic Book Fairs, and a golf outing benefitting all three middle Athletic Departments.

Kahler Middle School conducted a fund raising event that included a Scholastic Book Fair. The collections for the book fair were not remitted initially to the Extra-Curricular Treasurer as the money was collected by the Parent Teacher Organization. Then the book fair receipts were remitted to the Extra-Curricular Treasurer as one collection.

Grimmer Middle School conducted fundraising activities that included the sale of cookie dough, pastries, and freeze pops benefitting the dance team, volleyball team, and drama club.

Various fundraisers were conducted at Lake Central High School, benefiting the Athletics department, cheerleading, Science Olympiad, and other school clubs. These events included sale of food products, mums, entertainment books, and a golf outing. Some fundraising proceeds were commingled with other fundraisers or fees, which weakens controls over the fundraisers in determining the results of activity.

The School Board minutes did not note approval of the events nor did the minutes contain designation of control procedures and the responsible officials or employees.

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

EDUCATIONAL FINES AND FEES (Applies to Protsman and Watson Elementary Schools, Clark and Grimmer Middle Schools, and Lake Central High School)

Library fines and fees, which are of an educational nature, were receipted to, retained in, and disbursed from an Extra-Curricular fund. The Library fines and fees were not remitted to the School Corporation. This applied to Protsman and Watson Elementary Schools, Clark Middle School, and Lake Central High School.

Each 6th grade student is provided a gym uniform, which was paid for through the student's textbook rental fee. Gym uniform fees collected from the sale of additional uniforms were receipted to, retained in, and disbursed from an Extra-Curricular fund. The additional uniform fees were not remitted to the School Corporation. This applied to Clark Middle School and Grimmer Middle School.

Lake Central High School collected parking fees, transcript fees, and PSAT fees. These fees were receipted to and retained in various Extra-Curricular funds without being remitted to the School Corporation. Some of these fees were used by the High School to purchase equipment, to repair equipment and for operating supplies.

IC 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer shall be the official custodian of all funds of the school corporation and shall be responsible for the proper safeguarding and accounting for all the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Extra curricular activities are defined as athletic, social or other school functions, the cost of which is not paid from public funds. These activities do not include functions conducted solely by any organization of parents and/or teachers (IC 20-41-1-7). Note that this statutory definition does not include any curricular or educational functions. All educational functions are the specific responsibility of the governing body (board of school trustees, etc.) of the school corporation acting on its behalf (IC 20-26-5-4), including providing the facilities and equipment therefore. All monies received for educational purposes, including those related to educational programs or facilities must be receipted to school corporation funds. The following items erroneously appear in funds of the extra curricular account. Accounting for them should be in the general fund of the school corporation. Examples are: . . . Facilities Rental . . . Library Fines and Fees . . . (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

The following types of items should not be assessed, collected or receipted to a school extra-curricular account: . . . Parking Fees, Instructional Fees . . . Fees for Payroll positions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

FUND SOURCES AND USES (Applies to Bibich and Peifer Elementary Schools, and Clark Middle School)

Bibich Elementary

Donations received from Target, Bibich Parent Teacher Organization, and other miscellaneous donations were used to pay for various conferences for professional development of various teachers. These transactions were accounted for in the Extra-Curricular Accounts, in the Professional Development Fund for the 2011-2012 school year.

These same types of donations were accounted for in the Office Supply Fund for the 2010-2011 school year. The following are some of the purchases that were made over the two year period from this fund:

<u>Year</u>	<u>Staff T-Shirts</u>	<u>Staff Pens</u>	<u>Volunteer Gifts</u>	<u>Staff Appreciation Day</u>	<u>Christmas Party Expenses</u>	<u>Totals</u>
2010-2011	\$ 480.00	\$ -	\$ -	\$ 720.84	\$ 60.00	\$ 1,260.84
2011-2012	495.50	324.95	230.95	-	511.37	1,562.77

The funds were also used to repair a microphone, speaker cables, and to have the piano tuned.

Kolling Elementary

Kolling Elementary School conducted a fundraiser each school year. Some of the proceeds were spent on teacher professional development conferences, vocabulary workshop books for 4th grade, lesson planners, dry eraser boards, and reading books. These items purchased were of an educational nature.

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Peifer Elementary

Donations received from Target, as well as the Peifer Elementary Staff Development Account, were used to pay for a conference for professional development of various teachers for the 2010-2011 school year. This transaction was accounted for in the Extra-Curricular Accounts in the Target Donation Fund.

Clark Middle

Donations received from Target (the Take Charge of Education program), and commissions received from the sale of student pictures, were receipted into the Extra-Curricular Administration Fund. The funds were disbursed for Staff appreciation day (\$850 in 2010-2011 and \$886 in 2011-2012 school year) and staff holiday breakfast (\$1,225) for the 2011-2012 school year.

Extra-curricular activities are defined as athletic, social or other school functions, the cost of which is not paid from public funds. These activities do not include functions conducted solely by any organization of parents and/or teachers (IC 20-41-1-7). Note that this statutory definition does not include any curricular or educational functions. All educational functions are the specific responsibility of the governing body (board of school trustees, etc.) of the school corporation acting on its behalf (IC 20-26-5-4), including providing the facilities and equipment therefore. All monies received for educational purposes, including those related to educational programs or facilities must be receipted to school corporation funds. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

Accordingly, with the above references to receipts, all disbursements for educational purposes must be made from school corporation funds and not from extra-curricular funds. (See General Fund, Student Activity Fund and Investments and Investment Income Fund) These include disbursements for building equipment, repairs and maintenance; educational and library materials, supplies and equipment; meeting and conference expense of employees; copiers; and, the repair and maintenance of same. Curricular and extra-curricular, though associated, are totally separate functions and each has a purpose and authorizing statute and must be treated separately. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

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 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, etc.). Naturally, we would not take audit exception to a public policy of a school corporation which would provide that a general fund does not exist and that money from these type of functions be used to offset the cost of the function (reduced prices of vending machine items, reduce the costs of pictures, etc.). (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

FEDERAL AND STATE AGENCIES – COMPLIANCE REQUIREMENTS
(Applies to Lake Central High School)

Individuals were compensated for services they performed for the High School Athletic Department. The compensation for several individuals exceeded \$600 per year. The school did not issue a 1099-MISC as required by Internal Revenue Service (IRS) regulations.

EXTRA-CURRICULAR ACCOUNTS
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AUDIT RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Non-compliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

REFERENDUM DONATION (Applies to Lake Central High School)

The School Board adopted a resolution on June 13, 2011, for the proposal of construction and demolition projects at Lake Central High School and Protsman Elementary School, with estimated project costs of \$160,000,000. In order for the project to move forward, local residents had to approve the construction on a referendum. Local residents, who supported the proposed construction, organized a group called "Friends of Lake Central Schools."

Friends of Lake Central Schools received \$5,124.52 on October 10, 2011, from the Athletic Fund of the High School Extra-Curricular Account. The paperwork to support the disbursement stated that it was a donation. Although the disbursement was later reimbursed on February 2, 2012, this disbursement did not comply with statute. The School Corporation could not expend money from a fund to support a position on the referendum; disbursements from Extra-Curricular Accounts fall under this statute since the disbursement could be subject to review by the School Board.

Indiana Code 6-1.1-20-10.1 states in part:

"(a) This section applies only to a political subdivision that, after June 30, 2008, adopts an ordinance or a resolution making a preliminary determination to issue bonds or enter into a lease subject to sections 3.5 and 3.6 of this chapter.

(b) Except as otherwise provided in this section, during the period beginning with the adoption of the ordinance or resolution and continuing through the day on which a local public question is submitted to the voters of the political subdivision under section 3.6 of this chapter, the political subdivision seeking to issue bonds or enter into a lease for the proposed controlled project may not promote a position on the local public question by doing any of the following: . . . (2) Making an expenditure of money from a fund controlled by the political subdivision to promote a position on the local public question."

Indiana Code 20-41-1-4(b) states:

"The funds of all accounts of any organization, class, or activity shall be accounted separately from all others. Funds may not be transferred from the accounts of any organization, class, or activity except by a majority vote of its members, if any, and by the approval of the principal, sponsor, and treasurer of the organization, class, or activity. However, in the case of athletic funds:

EXTRA-CURRICULAR ACCOUNTS
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AUDIT RESULTS AND COMMENTS
(Continued)

- (1) approval of the transfer must be made by the athletic director, who is regarded as the sponsor; and
- (2) participating students are not considered members. All expenditures of the funds are subject to review by the governing body of the school corporation."

Expenditures by the treasurer of the extra-curricular account are limited to those approved by the principal of the school and they should be in accordance with the general administration policies of the school corporation since the law provides that all expenditures shall be subject to review by the local school board. [IC 20-41-1-4]. Distribution of extra-curricular funds to students, teachers or others should not occur unless authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

DONATIONS RECEIVED WITHOUT BOARD APPROVAL (Applies to Clark Middle School)

Various donations were received at the school from a fraternal organization and other organizations, benefiting the band, chorus, art, theatre, and the library. Acceptance of these donations did not have School Board approval.

Cash donations that are extra-curricular in nature may be accounted for in the Extra-Curricular Account. Any School Corporation donations shall be accounted for in the school corporation records. The acceptance of these donations shall have prior approval by the Board of School Trustees. Either the School Corporation Treasurer or Extra-Curricular Treasurer will be responsible for the accounting of these funds as applicable. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

USE OF FORM SA-8, SUMMARY COLLECTION FORM (Applies To Clark Middle School and Lake Central High School)

Summary Collection Forms (Form SA-8) presented for audit at Clark Middle School were prepared by the ECA bookkeeper. These forms were to be prepared by the staff members/sponsors when they remitted money to the ECA Treasurer.

At Lake Central High School, three different reports were used to remit money to the ECA Treasurer. None of these forms complied with the requirements as noted:

1. A single report of collections was used for many remittances of collections to the ECA Treasurer. This form did not breakdown amounts remitted for cash and check, was not prenumbered, and did not contain other information required by the prescribed SA-8.
2. The form SA-8 in use for some collections was a photocopy. The form was not in duplicate or prenumbered as required.
3. One department made their own computerized version of the SA-8, which stated that it was prescribed by the State Board of Accounts. This form did not contain all the required information of the prescribed form.

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)

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

A sponsor for the purpose of Form (SA-8) is the teacher or other person in charge of a classroom or function collecting money. Form SA-8 is to be used as a transmittal document each time fundraiser or field trip money is reported from the sponsor to the extra-curricular treasurer. Form SA-8 can be used at the discretion of school officials to account for other items. Space is provided to list check numbers and amounts as applicable. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

GYM UNIFORMS (Applies to Kahler and Grimmer Middle Schools)

Inventories for gym uniforms were not maintained and the number of uniforms ordered by the School Corporation for the schools did not coincide with the number of students needing uniforms.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PETTY CASH FUND (Applies to Lake Central High School)

No documentation was available to support that the Petty Cash Fund for the High School Athletic department had been authorized by the school board.

Indiana Code 36-1-8-3(a) states: "The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by section 2 of this chapter."

Indiana Code 36-1-8-2(a) states in part: ". . . Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body . . ."

RECORD RETENTION – TICKETS (Applies to Lake Central High School)

The Athletic Department sold tickets for admission to athletic events. The tickets were scanned and a Attendance report was generated. The report totaled the expected collections by ticket type and compared the expected collections to actual gate receipts. The report also detailed the first and last number of the tickets scanned.

The scanned tickets issued for the athletic event admissions were not retained for audit.

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ADVANCE PAYMENTS (Applies to Lake Central High School)

The band director assessed a fee to the students in the marching band. Students had the option to pay in one lump sum or pay in installments over the school year. Traditionally, the students began paying in May for the upcoming season.

The marching band started their season in the summer and ended approximately in November. The Band Boosters (Boosters), a parent organization, paid many of the related expenses in the summer. As the fees were collected, the Boosters were reimbursed for some of the expenses.

In May 2012, the band director advanced the Boosters a portion of the fees prior to any expenses being paid by the Boosters. The Boosters had not supplied supporting documentation for any expenses subsequently paid using the advance made by the band director.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

All claims, invoices, receipts, and accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

IC 20-41-1-7 states in part: "The treasurer has charge of the custody and disbursement of any funds . . . incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers) . . ." Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organization's monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

EXTRA-CURRICULAR ACCOUNTS
LAKE CENTRAL SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 4, 2012, with Robert James, Director of Business Services; Howard Marshall, Jr., President of the School Board; and Dr. Lawrence Veracco, Superintendent of Schools. The officials indicated that they would be responding to the report, but an official response was not received.