

# SBOA UPDATE

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2017 IASBO Annual Meeting

May 11<sup>th</sup> and 12<sup>th</sup> , 2017

# Contact Information

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# State Examiner Directives

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- 2017-1
  - The purpose of this Directive is to establish procedures and a timeline for the receipt of draft financial statements and supporting documentation and the assignment of audit teams for CAFR engagements, excluding the state audit.
- <http://www.in.gov/sboa/4488.htm>

# Recent Audit Positions

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- SBOA audit costs -
  - We have made a decision to not take exception to schools using any of the property tax funds to cover the audit costs because of the process detailed in IC 5-11. We are also not taking exception to the General fund reimbursing the property tax fund in which it was withheld by the county, which would conform with the statutes for each property tax fund in IC 20-40.
- Local Income Tax Distributions –
  - Our understanding is that Local Income Tax revenue is not restricted in statute. Therefore, our general expectation would be that distributions should be receipted into the General fund. However, we would not take exception to the School Board declaring/restricting the distributions to be receipted in a specific local fund, for example Transportation.
  - Continue to use Receipt Account #1130 (Income Taxes-Local Option Tax) or #1232 (Local Option-Property Tax Replacement until we get the chart of accounts updated.

# Recent Audit Positions cont.

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- Curricular Rental and Educational Fees
- 1. The school board would be required to adopt a rental charge and fee schedule for all amounts assessed to students.
  - Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public Schools Ch. 9)

# Recent Audit Positions cont.

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- 2. The school would be able to establish a rental charge based on the requirements of IC 20-26-12-2 for items that meet the definition of a “curricular material”.
  - IC 20-18-2-2.7 states, “Curricular materials means systematically organized material designed to provide a specific level of instruction in a subject matter category, including:
    - (1) books;
    - (2) hardware that will be consumed, accessed, or used by a single student during a semester or school year;
    - (3) computer software; and
    - (4) digital content.”
  - IC 20-26-12-2 states in part: “...The annual rate may not exceed twenty-five (25%) of the retail price of the curricular materials.

# Recent Audit Positions cont.

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- 3. The school would be able to establish an educational fee for items that meet IDOE's definition of "consumable curricular material".
  - IDOE has defined "consumable curricular materials" as a consumable core instructional curricular material used by students for no more than one (1) school year. In addition, consumable kit materials that are part of an adopted curricular material are considered part of this category.
  - Allowable costs included, but are not limited to standard workbooks; activity logs; practice sets; manipulatives; authentic literature; materials used for laboratory courses; instructional materials used for high ability or special education; and high ability or special education books selected locally.

# Recent Audit Positions cont.

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- 4. The school would be able to establish an educational fee for items in which they receive a written legal opinion that the fee would not violate the Indiana Constitution.
  - IC 20-26-4-1 concerning duties of the School Corporation Treasurer, 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 . . ." 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 Ch. 6)
- 5. The school can only charge rental and educational fees to students that receive the good/service in which the fee was based.
- Finally, we have given our opinion that all educational fees should be accounted for in the School Corporation records because they are established to pay curricular expenses. So even if the ECA Treasurer collects fees along with rental charges and the Textbook Rental fund is accounted for in the ECA records, our expectations are that the educational fees are remitted to the School Corporation Treasurer for inclusion in the School Corporation records.



# USDA Memos

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- SP 46-2016 (Issued July 8, 2016)
  - To address the need for Schools to institute and communicate a meal charge policy.
- SP 47-2016 (Issued July 8, 2016)
  - Clarifies the process of designation of delinquent debt that has been determined to be uncollectible as bad debt.
- SP 57-2016 (Issued September 16, 2016)
  - Provides additional guidance and Q&A.
- Summarized in the December 2016 School Bulletin
  - <http://www.in.gov/sboa/files/2016%20December%20School%20Bulletin.pdf>

# Internal Control Certification

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- Adopt minimum standards via Resolution, By-laws, or School Policy
- Personnel, as defined in IC 5-11-1-27(c) required to be trained by using approved training found on SBOA website
  - Additional approved training contact following vendors:
    - Central Indiana Education Service Center (CIESC)
    - Safe Schools
- Certify on FY 2016 Gateway Annual Financial Report, due August 29, 2017
  - Check “Yes” for items listed in the Unit Questions section

# Benefits of an Internal Control System

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- Accountability and transparency
  - Internally – quickly evaluated; inefficiencies addressed and corrected
  - Externally – encourage efficient use of government time and resources
- Conveys to citizens commitment to detect fraud, waste, abuse
- Reduces costs – timely completion of responsibilities / prevents fraud, waste, abuse
- Better internal controls can result lower audit costs



**Objective  
identified**



**Controls  
designed**



**Controls  
in place**



**Objective  
achieved**

Source: GAO. | GAO-14-704G

# Documentation

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- For audit purposes one of the key elements of internal controls that is forgotten is to document the process.
  - Who does what and when
  - Proof that procedures and policies are being followed
  - Evaluation of how effective the policies and procedures are
  - Corrective actions taken to address identified problems

# Internal Control Tips

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- Creating an overall environment and specific policies and procedures that will prevent, deter, or detect material errors and/or fraud.
- Significant Areas to Consider:
  - Financial Statements and SEFA
  - Grant Reimbursements
  - School Lunch Applications
  - Receipting/Collections
  - Disbursements/Purchases
  - Payroll

# Public Law Changes for 2017

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[www.in.gov/legislative/](http://www.in.gov/legislative/)

House Enrolled Act 1031  
State Examiner Findings  
Adds IC 5-11-5-1.5  
Effective July 1, 2017

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Specifies requirements for corrective action when audited entities fail to comply with certain guidelines or laws. Requires an audited entity to file a corrective action plan following findings of noncompliance in two consecutive examination reports. Specifies actions that the audit committee may take if an audited entity fails to comply with a corrective action plan.



House Enrolled Act 1523  
Search Fee for Public Records Requests  
Amends IC 5-14-3-3 and IC 5-14-3-8  
Effective July 1, 2017

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Allows a state or local government agency (agency), with certain exceptions, to charge a maximum hourly fee for any records search that exceeds two hours. Prohibits, with certain exceptions, an agency from charging a fee for providing a public record by electronic mail. Provides that if a public record is in an electronic format, an agency (excluding the office of the county recorder) shall provide an electronic copy or a paper copy, at the option of the person making the request for a public record.

Senate Enrolled Act 182

Superintendent Contracts

Amends IC 20-23-6-4, IC 20-28-7.5-2, and IC 20-28-8-6

Effective July 1, 2017

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Provides that a contract entered into or renewed after June 30, 2017, between a governing body and its superintendent is subject to the following conditions: (1) The contract must, with an exception for an extension, be for a term of at least one year and not more than three years. (2) If the contract contains a provision that establishes an amount the governing body must pay to the superintendent to buy out the contract, the amount may not be more than an amount equal to the lesser of: (A) the superintendent's salary for any one year under the contract; or (B) \$250,000. Provides that a superintendent (in addition to a principal under current law) may initiate the cancellation of a teacher's contract by providing notice to the teacher of the superintendent's preliminary decision.

## Senate Enrolled Act 248

### Consolidation of School Administrative Functions

Adds IC 20-23-6-0.5, IC 20-23-6-5.5, and IC 20-23-6-12.5;

Amends IC 20-23-6-2, IC 20-23-6-3, IC 20-23-6-5, IC 20-23-6-8, IC 20-23-6-11, and IC 20-46-7-4

Effective July 1, 2017

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Allows two or more school corporations situated in the same or adjoining counties to consolidate in a manner in which debts or obligations paid by a debt service levy incurred by a school corporation before the new consolidated school corporation comes into existence may be levied only on the taxpayers of the subunit that initially incurred the debt or obligation before consolidation. Provides that each school corporation is considered a subunit of the consolidated school corporation. Provides that the resolution consolidating the school corporations may declare: (1) that administrative functions of each subunit will be consolidated in the proposed consolidated school corporation; and (2) that the name or attendance area of each school within a subunit may remain unchanged after the date the consolidated school corporation comes into existence. Provides that, if two or more school corporations consolidate under the new consolidation provision, the department of local government finance shall set for the consolidated school corporation: (1) new maximum levies, which must equal the sum of the existing maximum levies adjusted for assessed value growth; and (2) a maximum capital projects levy rate. Relocates and amends the provision that provides that 20% of the legal voters residing in the district of any school corporation, jointly with 20% of the legal voters residing in the district of each of one or more other school corporations, may petition the trustees of their respective school corporations to consolidate the school corporations. Provides that the meeting that the governing bodies of the school corporations are required to hold one week after the date of the appearance of the last publication of notice of intention to consolidate must be a public meeting.

## Engrossed Senate Bill 567

### Distressed Political Subdivision

Amends IC 4-6-2-1.5, IC 5-11-1-24.4, IC 6-1.1-20.3 and IC 20-26-7-1;

Adds IC 5-11-1-24.5, IC 6-1.1-20.3-6.8, IC 6-1.1-20.3-9.9, and IC 6-1.1-20.3-13

### Effective Upon Passage

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Designates the Gary Community School Corporation and Muncie Community Schools as distressed political subdivisions subject to control by the distressed unit appeal board (DUAB). Adds and modifies the duties and powers of the DUAB. Authorizes the treasurer of state to file a petition with the DUAB to have a school corporation designated as distressed unit if the treasurer of state has reason to believe that the school corporation will not be able to pay the school corporation's debt service obligations as those debt service obligations become due. Allows the Indiana education employment relations board (EERB) to petition the DUAB to consider a school corporation for designation as distressed. Replaces and adds conditions for terminating a political subdivision's distressed status. Adds, removes, modifies, and rearranges the duties and powers of an emergency manager regarding all political subdivisions and makes certain changes with regard to a distressed school corporation, including the employment of a chief financial officer and a chief academic officer by the emergency manager. Requires notice by the emergency manager to the Mayor of Gary regarding the sale of assets or the transfer of property of the Gary Community School Corporation. Requires various reports. Establishes a fiscal management board in the case of a distressed school corporation. Specifies the fiscal management board's membership and qualifications to serve on the board. Requires the fiscal management board to make recommendations to the emergency manager and advise the emergency manager as requested by the emergency manager. Provides a procedure for residents who want to appeal a decision of an emergency manager. Allows a school corporation to opt out of a state board of accounts examination and have an independent examination that meets certain criteria. Permits an already completed independent audit for certain school corporations for 2015 and 2016.

## House Engrossed Bill 1009

### School Financial Management

Adds and Amends numerous provisions throughout Indiana Code

Effective Upon Passage, July 1, 2017, January 1, 2018, July 1, 2018, and January 1 2019

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Does the following, effective January 1, 2019: (1) Eliminates the school general fund. (2) Creates an education fund to be used as the exclusive fund to pay expenses allocated to student instruction and learning. (3) Creates an operations fund to replace the capital projects fund, the transportation fund, the school bus replacement fund, an art association or a historical society fund, and the public playground fund. Provides that the state board of accounts shall before January 1, 2019, develop a chart of accounts to be used by school corporations to reflect the implementation of the education fund and the operations fund. Provides that the levy for a school corporation's operations fund consists of the following separately calculated levies: (1) A transportation levy. (2) A school bus replacement levy. (3) A capital projects levy. (4) For certain schools, levies to provide funding for an art association, a historical society, or a public playground. Provides that on January 1, 2019, the balance in the school corporation's general fund shall be transferred to the education fund. Specifies that before March 1, 2019, the governing body of a school corporation may transfer to the school corporation's operations fund, from the amounts transferred from the school corporation's general fund, any amounts that are not allocated to student instruction and learning. Allows transfers between the education fund and operations fund. Eliminates the requirement to publish the entire capital projects plan and school bus replacement plan. Removes the approval of the plans and appropriations by the department of local government finance. Creates the school corporation referendum controlled project tax levy fund to pay for projects approved by a voter referendum. Makes corresponding changes. Extends (through 2019) the ability in current law for a school corporation to allocate circuit breaker credits proportionately (without taking protected taxes into account) under certain circumstances. Provides that a school corporation that has an ADM of more than 15,000 may not issue bonds after August 15, 2020, unless the school corporation has for its preceding budget year prepared an annual financial report using the modified accrual basis of accounting in accordance with generally accepted accounting principles. Allows the state examiner to waive these requirements if the state examiner determines that a waiver is in the best interest of the school corporation. Replaces the provisions in current law (which would be phased in during 2017-2020) concerning annual financial report requirements that must be met before a school corporation, county, or municipality may issue bonds. Provides that effective July 1, 2017, a school corporation may not issue any bonds unless it has filed its annual financial report with the department of education.