

The background features a large, faint watermark of the Indiana State Board of Accountants seal. The seal is circular with the text "STATE BOARD OF ACCOUNTANTS" around the perimeter and "INDIANA" in the center. It is surrounded by a ring of stars.

IASP ECA Seminar

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Hot Topics

Hot Topics

Business Activity Considerations



- Business Activity Considerations - I.e. Business being ran in a school
- Ultimately the **responsibility for business activities in a school would fall to the school board**. The school board should authorize business activities and develop a policy outlining how these activities should be conducted along with any requirements that must be met for a group to be allowed to operate.
- Obtain an understanding of activities and what proceeds will be used for. Who is running the activity?
 1. **Student group** running a coffee stand,
 2. **Outside organization** running a store within the school that students/teachers run,
 3. **Woodworking class** selling products or a **business class** where students create a business plan and sell products,
 4. **Extracurricular clubs** providing services for a fee,

Hot Topics

Business Activity Considerations



- School Bookstores – Different than a business being ran in a school.
 - A school bookstore could be accounted for at the school corporation or extracurricular level.
- The extracurricular Student Activity (General) fund should be receiving revenue received from functions not generated by students for a specific class or organization.
- Common question – Should sales tax should be collected from bookstore sales?
 - Indiana Department of Revenue Sales Tax Bulletin #32 - <https://www.in.gov/dor/files/reference/sib32.pdf>
 - *“The sales tax shall not apply to sales by bookstores of tangible personal property intended primarily for the educational purpose of the organization and not used in carrying on a private or proprietary function.*
 - *The sales of textbooks and supplies by parochial, public, or private nonprofit schools are exempt if made to students of the school in grades 1 through 12. Such sales are primarily intended to further the educational purposes of the school. However, sales to persons who are not students or school personnel are subject to sales tax.*
 - *Sales by a bookstore of non-education-related items such as T-shirts, sweatshirts, hats, memorabilia, class rings, license plates, etc. are subject to sales tax, regardless of whether the purchaser is a student or non-student.”*

Hot Topics
Business Activity Considerations



- When determining where the activity will be accounted for (if the “business” is run by the school) – ask yourself the question:
- Will the proceeds be used for a curricular (school records) or extracurricular (ECA records) purpose?

Hot Topics
Business Activity Considerations



- OUTSIDE ORGANIZATION'S RECORDS – BOOSTER GROUPS

- *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 extracurricular in nature should be responsible for their own accounting and cash handling systems. **The extracurricular account should not collect, receipt, remit, or disburse outside organization's monies.***

Hot Topics

Business Activity Considerations



- **If a group of students are running a fundraiser** for an extracurricular club, the group could account for the fundraiser's transactions in their ECA fund. We would equate this example to an ECA club or High School Class fund running a concession stand at a sporting event. The school corporation would have paid for the concession stand, but the ECA club or Class fund runs the transactions through their account.
- **If a teacher wants to run this without a group of students**, we do not think that this activity should be ran through an extra-curricular account. This activity would be like a business being ran inside of the school.
- **If the activity's purpose was to generate funding for school staff**, then the group would be able to donate the activity's proceeds to a staff fund, which can be accounted for at the corporation or extracurricular level. If an extracurricular group would like to donate their funds to a staff appreciation fund SBOA would not take audit exception as long as the proper approvals are documented, per the compliance requirement on the next slide from the ECA Manual.

Hot Topics

Business Activity Considerations



- EXTRACURRICULAR - FACULTY/STAFF FUNDS
- *Our prior audit position disallowed staff funds to be accounted for in the extracurricular records. We have recently revised our opinion and **we will not take exception to an extracurricular account established for staff funds such as 'jean days', staff vending machine proceeds, or other funds that are received for the purpose of supporting staff purchases.***
- *This change in position does not affect our position on outside organizations, such as booster groups, parent teacher organizations etc.... There should not be any outside organizations' funds accounted for in the extracurricular records because these groups' funds do not meet the definition of an extracurricular fund per IC 20-41.*
- *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.*

Hot Topics
Business Activity Considerations



- ECA Donations

- *We will not take exception to club/organizations donating money to an outside organization **based on a majority vote of its members**. We would encourage that documentation be retained to provide approval of a majority of the members. Also, the warrant/**check should be written to an organization and not an individual**.*

Hot Topics

Business Activity Considerations



- Who is running the activity?
 - If it not a group of students, then the school is probably running a business inside the school (unless the only thing they are charging for are fees, if the activity is part of the curriculum).
- Does the group have a policy to document what prices will be charged as well as what the proceeds would be used for?
- Are students or staff running the business activity?
- Should this activity occur during normal working hours?
 - If individuals are paid for working the activity, are we in compliance with the State Ghost Employment Laws? (IC 35-44.1-1-3)
 - Are we complying with child labor laws (under the Fair Labor Standards Act (FLSA))?
 - Are we properly withholding payroll taxes?
- Do we have insurance that covers the group and corporation during the activity?
- Is the group running the activity an outside organization? If so, do we have a contract outlining responsibilities of both parties?
 - Is the organization incorporated as a business entity with the Indiana Secretary of State's office? <https://bsd.sos.in.gov/publicbusinesssearch>
- Does the activity require the group to obtain a Tax Identification Number, Retail Merchant Certificate, or remit sales tax collected to IDOR?
 - IDOR Sales Tax Bulletin #10 - <https://www.in.gov/dor/files/sib10.pdf>.
- Is the group selling prepared food? Are there additional requirements or filings required to be made to the Indiana State Department of Health?
<https://www.in.gov/health/food-protection/contact-information/>
- If the activity is ran by the school, is the group following guidelines prescribed by SBOA? <https://www.in.gov/sboa/library/>
 - Are there proper internal controls established and implemented over the activity?
 - Per the ECA Manual - *Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting.*
 - Are prescribed forms being used?
 - School forms - <https://www.in.gov/sboa/files/SCHMAN03-2019Updated.pdf>
 - Extracurricular forms - <https://www.in.gov/sboa/files/ECMAN02-2019Updated.pdf>

Hot Topics

Donation Programs



- Examples: Amazon Smile (**monetary** donations) or Wish Lists (**product** donations).
- Proceeds should be accounted for in a separate donations fund.
- We recommended that the school board develop a local policy over these programs
- School Board must approve any donations received,
 - Property received may come with costs such as repair, upkeep, or storage.
 - Accepted items to the school would become school property.
- If teachers are directly donated money and ask the extracurricular or school treasurers to account for these funds you may be accounting for an outside organization's money unless there is an established Staff Fund.

OUTSIDE ORGANIZATION'S RECORDS – BOOSTER GROUPS

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 extracurricular in nature should be responsible for their own accounting and cash handling systems. The extracurricular account should not collect, receipt, remit, or disburse outside organization's monies.

Hot Topics
Donation Programs – Staff Funds



- Our prior audit position disallowed **staff funds to be accounted for in the extracurricular records**. We have recently revised our opinion and we will **not take exception** to an extracurricular account established for staff funds.
- <https://www.in.gov/sboa/files/2018%20December%20School%20Bulletin.pdf>
- This change in position **does not affect our position on outside organizations**, such as booster groups, parent teacher organizations etc.... There should not be any outside organizations' funds accounted for in the extracurricular records.



How to Prepare for an Audit

How to Prepare for an Audit Entrance Conference



- Explanation of the objective of engagement.
 - Testing for assurance (opinion issued), limited compliance etc...
- Explanation of Management's responsibilities
- Informing management of fees, records to be requested, estimated timeline of engagement etc...
- **Please ask any questions** if you are not clear on anything the examiner provides or requires!

How to Prepare for an Audit

What we will ask for



- Contracts
- Financial Records
- Reconcilements supporting documentation
- Register of Investments
- Asset Records
- Payroll records
- Receipt/disbursement supporting documentation

How to Prepare for an Audit

Pre-Audit Checklist



- Before an audit starts be sure to have the following things in order:
 1. Monthly bank accounts **reconciled**.
 2. Make sure all **schedules are complete** (capital asset listing, investments, inventory etc...).
 3. **Supporting documentation** for expenses are in an **orderly** fashion.
 4. Check that **employee pay was correct**.
 - Withholding filings (W-2/941/WH3), salary schedules, and entries in the ledger to paychecks and contracts.
 5. Verify **policies are updated**.
 6. Come with a list of questions!

How to Prepare for an Audit Tips



- During the year track restricted grants, gifts, donations etc...
- Keep internal control documentation and supporting documentation together.
- Respond quickly to inquiries – smaller audit bill.
- Establish an ‘auditor’ file:
 - Could include: regulatory agency correspondence, contracts, lawsuits, reconciliations...

How to Prepare for an Audit What else should I do?



- **ASK QUESTIONS!!**
- HB 1031 (2017) – repeat comments have consequences.
 - Make sure to get an idea on how to fix problems before the examiner leaves.
 - If not, contact us at schools.townships@sboa.in.gov
- Implement fixes immediately!
 - Multiple-year audit cycles: a comment could only pertain to one year, overshadows compliant years.

How to Prepare for an Audit What should I not do?



- Panic!
- Try to hide things – we are here to help!
 - The auditor should be viewed as a resource, not an adversary.
- Be afraid to ask questions.
- Try not to look at an audit as something to complicate your life!
 - An audit is an irreplaceable tool to ensure your finances are in order.

How to Prepare for an Audit Exit Conference



- **Draft** report provided and discussed.
- Official given chance to respond to comments (Form 4) – 10 days.
- Official's term, email and physical addresses verified.
- Again, please ask any questions if you are not clear on anything the examiner talks about!
 - In an exit conference there really shouldn't be any surprises!



ECA Compliance

Custodian Responsibilities



- ECA accounts may be used for athletic, social, class, or other school functions.
- ECA accounts may not be used for functions which are educational in nature.
- Accounts for educational functions must be maintained in the school corporation records.

Custodian Responsibilities



- ECA accounts may not be established for functions conducted by outside organizations, for example PTOs, Booster Clubs.
- A report of the ECA account (SA-5) must be submitted within two weeks after the close of the school year to the school board.
- This report is a public record open to inspection by any interested person at any reasonable time during office hours.

General (Student Activity) Funds



- 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 would be convocations, field trips which the entire student body has the opportunity to take during the course of the school year, etc.

General (Student Activity) Funds



- 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.).
- 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.).

ECA Investments



- Investments and Investment Income Fund:
 - The money in the school extracurricular account may be invested under the conditions specified in IC 5-13-10 and IC 5-13-10.5 for investment of state money.
 - Investments are at the discretion of the principal.
 - The interest earned from any investment may be credited to the school extracurricular account and need not be credited proportionately to each separate extracurricular fund.

Investments: Continued



- The interest earned from the investment may be used for any of the following:
 - (1) A school purpose approved by the principal.
 - (2) An extracurricular purpose **approved by the principal.**
- Receipts shall be deposited in the same form in which they are received.
- All disbursements from ECA funds must be made by check or credit card, if you have a board approved policy.

Forms



- All ECA forms and records shall be prescribed or approved by the SBOA.
- As of April 1, 2014, there is a new form approval process detailed in the March 2014 School Administrator.
- The cost of prescribed or approved ECA records and the bond of the ECA treasurer shall be paid for from the Operations Fund of the School Corporation.
- Separate funds are required for each class or activity.
- ECA records shall be examined by SBOA as determined by the State Examiner.

Deposits and Accounts



- The treasurer shall deposit all receipts in **one bank account**.
- The receipts shall be deposited without unreasonable delay.
- The account is known as the school extracurricular account.
- The records of each organization, class, or activity shall be kept separate so that the balance in each fund may be known at all times.

Bonds



- Bond amount: Should cover the approximate amount of funds that will come into the possession of the Treasurer at any one time.
- Superintendent and principal set the bond amount (or the school board if School Lunch or Curricular Materials are accounted for in the ECA).
- May have an individual or position bond. See School Bulletin 212-4.
- **Anyone else** who receives over \$5,000 and has access to public funds – they **must be bonded** as well.

Equipment Purchases



- Extracurricular equipment purchases should be approved prior to purchase by the Board of School Trustees.
- IC 20-26-5-4 School Board duty to acquire property.

School Libraries



- A Library is a facility provided by the school board.
 - Does not meet the definition of an ECA Fund per IC 20-41-1.
- Fines/fees should be remitted to School Corporation
- Books purchases should be budgeted and spent by the corporation
- Exception: School Reading Program – could meet definition of an ECA fund if not a curricular expense and is voluntary participation.

Vending, Concessions or Other Sales Controls



- Internal controls over vending operations, concessions or other sales should include, at a minimum, **a regular reconciliation** of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received.
- Any discrepancies noted should be immediately documented in writing to proper officials.
- The reconciliation should provide an accurate accounting.
- Persons with access to vending should be properly designated and access should be limited to those designated.

Vending Machine Commissions and/or Profits



- 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 restricted areas** (areas other than those available to the public) and if the governmental body and chief executive officer wish for those revenues to be restricted for the **use and benefit of those employees** who use the machines and generate the revenues, the State Board of Accounts takes no exception to such action in an audit.

Vending Machine Commissions and/or Profits



- The decisions must be authorized by proper resolution or ordinance of the governing body.
- 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.

Vending Machine Commissions and/or Profits



- In the event personnel other than the governmental unit's personnel maintain, stock, and clean up around vending machines, we take no audit exception when such persons are paid for these services.
- A written agreement should be entered into listing the services to be rendered, the amount to be paid for such services, timing of payments, and any other areas deemed necessary by the governmental unit.

Transfers



- 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.
- Approval of the transfer of **athletic funds** must be made by the principal, treasurer, and the **athletic director, who is regarded as the sponsor**; participating students are not considered members.
- All expenditures of the funds are subject to review by the governing body of the school corporation.

DORMANT FUNDS



- IC 20-41-1-4(b)
- Approval must be given from majority of group/class.
- If the ECA Treasurer is unsuccessful in attempts to get all required approvals, **take situation to school board.**

Overdrawn Funds



- No fund shall be overdrawn.
- The ECA treasurer should provide the activity sponsor with the monthly transactions and balances of their respective funds. The bank reconciliation should be prepared prior to providing the reports to ensure the correctness of the fund transactions and balances.
- If done monthly, comparisons can be made and differences reconciled before transactions become past due or particulars are difficult to recall.

Grant Funds and Educational Fees



- 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 . . ."
- 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 regard to Constitutional provisions.

Non-Session School Activities- Camps



- Examples: Athletic Camps, Cheerleading Camps, Band Camps, Summer Weightlifting, etc.
- According to IC 20-30-15-6: “(a) When public schools are not in session, a governing body may employ personnel to supervise the following: (1) Agricultural education club work. (2) Industrial education club. (3) Home economics education club work. (4) Music activities. (5) Athletics. (b) Activities described in subsection (a) **must be open and free to all individuals of school age residing in the attendance unit of the school corporation** that is paying all or part of the cost of the activity.

Non-Session School Activities - Camps



- Any camps that charge a fee would be considered to be hosted by a Booster Club or Outside Organization.
- Therefore, accounting for the receipts and disbursements should not be recorded in the Extra-Curricular Accounts.
- We have seen individual coaches “donate” proceeds from summer camps to their subaccount in the Athletic Fund, but would not be required.

RECORD RETENTION



- Maintain ALL documentation until after documentation has been audited
- After documentation have been audited, follow Retention and Disposition Schedule for IARA
- <http://www.in.gov/iara/2359.htm>

Cash Change



- Procedures:

- Draw a check from Student Activity Fund
- Designate a custodian
- Convert to cash and safekeep cash
- Account for receipts and cash change
- Reconcile amounts received and cash change
- Deposit within 1 week

Report of Misappropriation

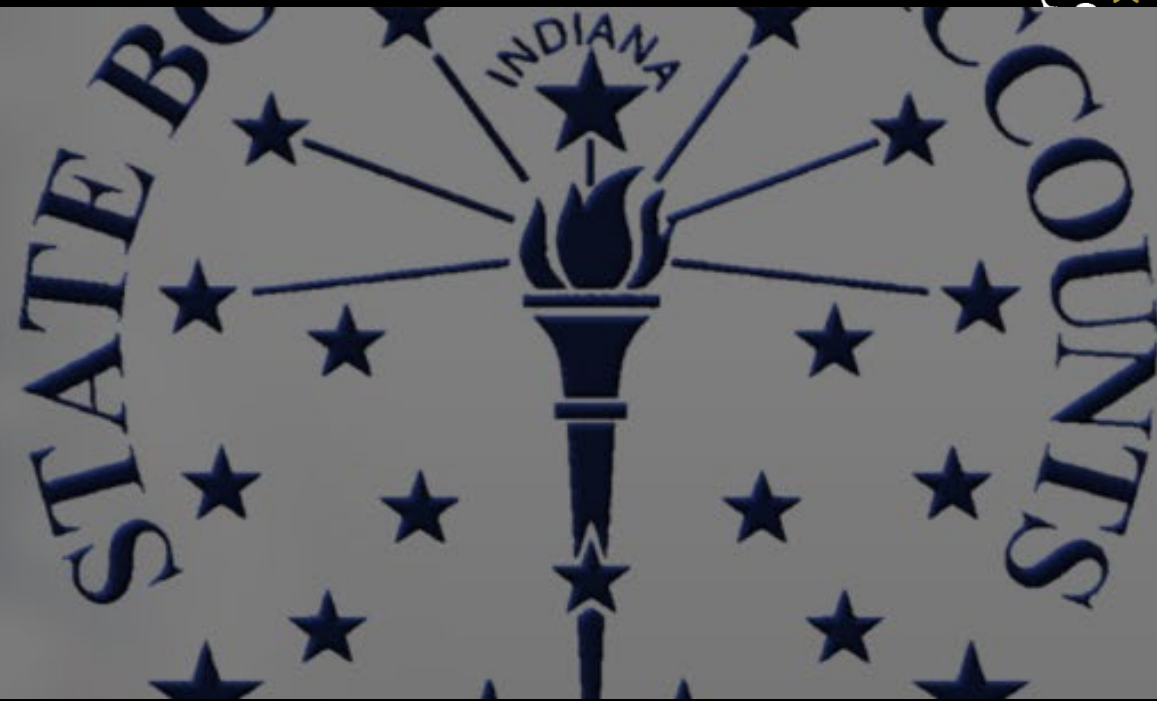


- Indiana Code 5-11-1-27(l) requires a public officer who has actual knowledge or reasonable cause to believe that there has been a misappropriation of public funds or assets to **immediately** send a written notice to the state board of accounts and the prosecuting attorney.

Recent Charge Report – Over \$1,000,000!
<https://www.in.gov/sboa/WebReports/B59259.pdf>



- Unauthorized Transaction - \$976,773.29
 - Penalties and Interest - \$20,109.64
- Special Investigation Costs - \$121,442.33
 - Total - \$1,118,325.26
- What happened???????
 - Lack of internal controls.....
- **Do you know how your ECAs are operating?**
- Do you have internal controls in place and review ECA activity periodically?



Resource Library

Resource Library - Tutorial Video



<https://www.youtube.com/watch?v=bf82lq6pQZk>

Website Overview



<https://www.in.gov/sboa/>

Website template has been updated!

SBOA Email List



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Questions?