

SBOA Update

Ryan Preston, Director of Audit Services

Chase Lenon, CPA, Asst. Director of Audit Services

State Board of Accounts

CONTACT INFORMATION



- Phone number – (317) 232-2513
- Address – 302 W. Washington St., RM E418
Indianapolis, IN 46204-2765
- Email – schools.townships@sboa.in.gov
- Website – www.in.gov/sboa

WEBSITE RESOURCES



- Public School Corporations Manual
- Extra-Curricular Accounts Manual
- School Administrator (Bulletins)
- Filed Audit Reports
- Meeting Materials
- Indiana Code Summaries

INTERNAL CONTROL STATUTE REQUIREMENTS



- IC 5-11-1-27
- (e) – “The internal control standards and procedures shall be developed to promote government accountability and transparency.”
- (g) – Any time after June 30, 2016, the School Board shall be able to ensure that (1) the minimum internal control standards have been adopted. (2) shall ensure that “personnel” have received training on the minimum internal control standards.
- (h) – Any time after June 30, 2016, the fiscal officer shall be able to certify in writing that (1) the minimum internal control standards have been adopted. (2) that “personnel” have received training on the minimum internal control standards. The certification shall be filed electronically as part of the Gateway Annual Financial Report.

INTERNAL CONTROL CERTIFICATION



- 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

INTERNAL CONTROL STATUTE REQUIREMENTS (Continued)



- What happens if you are in noncompliance with the statute?
 - After June 30, 2016, SBOA **will**
 - Issue a comment in the audit report
 - If during the second review period, you still have not complied, you will have 60 days to comply and let us know
 - If you still don't, we will notify the DLGF and they will not approve a budget or additional appropriations until you comply

BENEFITS OF AN INTERNAL CONTROL SYSTEM



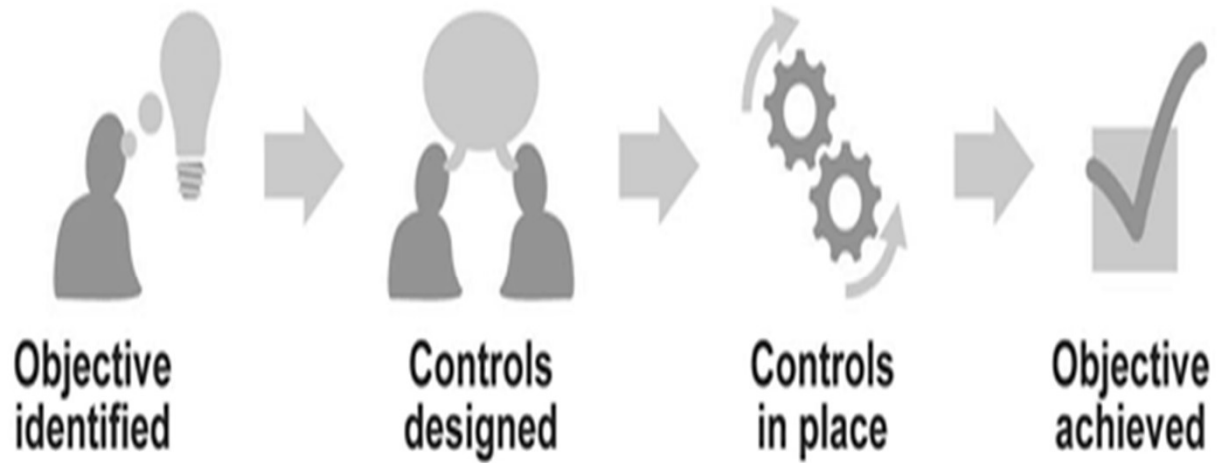
- Accountability and transparency
 - Internally – quickly evaluated; inefficiencies addressed and corrected
 - Externally – encourage efficient use of government time and resources
- Conveys to citizens commitment to detect fraud, waste, abuse
- Reduces costs – timely completion of responsibilities /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

COMPONENTS OF INTERNAL CONTROL



- **Control Activities**
 - Actual procedures performed
- **Risk Assessment**
 - Where could things go wrong?
- **Information and Communication**
 - If things go wrong, do you know?
- **Monitoring**
 - It needs to be continuous process
- **Control Environment**
 - 'Tone at the top'

C.R.I.M.E!



Source: GAO. | GAO-14-704G

FINANCIAL STATEMENT ASSERTIONS



- Completeness – is all the activity included?
- Accuracy – is the activity accurate?
- Valuation – are the assets valued correctly.?
- Existence – does the fund balances exist?
- Classifications – were the transactions recorded in the proper accounts?
- Rights/Obligations – does the School have title to the accounts?
- Occurrence – did the transactions occur?
- Cut-Off – were the transactions recorded in the proper accounting period?

C.A.V.E C.R.O.C!

PURCHASING SYSTEM EXAMPLE



Responsibility	Duty Category	Ideal: 4-person Environment	Good: 3-person Environment	Minimal: 2-person Environment
Order initiation in CruzBuy	Asset handling	Coworker 1	Coworker 1	Coworker 1
Order approval in CruzBuy	Booking/ Recording	Coworker 2	Coworker 2	Coworker 2
Confirmation of the receipt of the product or service	Asset handling	Coworker 3	Coworker 1	Coworker 1
Expense-related ledger correction or adjustment (journal voucher) review and approval	Booking/ Recording	Coworker 2	Coworker 2	Initiation: Coworker 2 Approval: Coworker 1
Ledger transaction review and certification	Comparison/Review	Coworker 4	Coworker 3	Coworker 2*

* Ideally, the fund custodian or his or her authorized designee, either of whom should be someone other than coworkers 1 or 2, should review and certify the ledger transaction review.

DUTIES THAT “SHOULD” BE SEPARATED



- Receipt roles - **Collecting, Depositing, Recording and Disbursing** functions.
- Inventory roles - **Requisition, Receipt, Disbursement, Conversion to scrap and Receipt of scrap proceeds** functions.
- Loan roles – **Loan origination, Underwriting, Closing, Disbursements and Servicing segregation** functions.

PREVENTATIVE AND DETECTIVE CONTROLS



- *Preventative controls* are those such as requiring dual signatures on checks or having password-protected files. This type of control protects and limits access to business assets.
- *Detective controls* include reconciling the bank or inventory counts. Typically these internal controls are performed periodically to see if any need to be corrected. They will often turn up internal errors or problems, as well as any external errors (such as bank errors).



CORPORATION LEVEL CONTROLS

- 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

GRANTS HANDLED BY FISCAL AGENT



- Grant requirements and federal auditing requirements are the responsibility of the grantee.
 - We have been told that grant agreements for things like Special Ed and Title III have been signed between the IDOE and each member school with a Co-Op or Consortium as the fiscal agent.
 - The School Corporations would be required to report the grant expenditures on their Schedule of Expenditures of Federal Awards (SEFA).
 - The School Corporations would be required to have internal controls that ensure they and/or the fiscal agent is following the grant and auditing requirements.
 - Any problems with the grant will appear as a federal finding in the School Corporations' audit reports.
 - Corrective action would be submitted by the School Corporations and should specifically address the federal finding.

DOCUMENTATION



- 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

ECA LEVEL CONTROLS



- Common areas to address:
- Collections –
 - School Lunch
 - Athletic Events
 - Curricular Material Rental
 - School Dances
 - School Play
 - Vending Machines
 - Fundraisers
- Asset Protection –
 - Cash Balances
 - Purchase of Goods
 - Inventory of Goods
 - Information Technology

ECA LEVEL CONTROLS (Continued)



- Risks identified for Athletic Event collections:
 - Skimming of cash collections
 - Admission without payment
 - Charging incorrect admission
 - Not depositing collections intact
 - Destroying or not retaining accountable items (tickets, lists, deposit ticket, etc.)
 - Making cash payments out of collections



ECA LEVEL CONTROLS (Continued)

- Cash Change Fund
 - Set up properly
 - Use the SA-4 form properly
 - Monitoring
- Tickets
 - Proper accounting
 - Differentiate price groups
 - Prenumbered



ECA LEVEL CONTROLS (Continued)



- Concessions
 - Reconciliation
 - Limit access
 - Accountable items review (SA-9 Form)
- Reviews
 - Analytical Reviews
 - “Surprise” SA-4 form reviews
 - Sample receipts/disbursements/reconcilements



RESOURCES FOR REFERENCE



- Resources for Reference
 - SBOA Internal Controls Standards webpage
 - www.in.gov/sboa/5071.htm and/or www.in.gov/sboa/4445.htm
 - SBOA Internal Controls webinar
 - Embedded on above pages and can be found on YouTube:
<https://www.youtube.com/watch?v=LON80PBbPHQ>
 - Standards for Internal Control in the Federal Government (the Green Book)
 - www.gao.gov/assets/670/665712.pdf

STANDARD AND POOR'S AUDITS



- S&P will institute a policy change for the governmental units that it provides ratings
 - Units will be required to have audited financial statements within 3 years or they will downgrade the unit's bond rating
 - Therefore, the SBOA has made it a priority to complete audits for units on S&P's list that have not been done through 2014
 - All schools in the state have been audited through 2014
 - As the S&P audits are completed, then our FE's will go back to any units that they had to leave with the next priority being schools that are on the FY 15 – FY 16 period

EXTRA-CURRICULAR ACCOUNTS



- ECA with Receipts > \$1,000,000 will be examined during the School Corporation audit.
 - FOR 2016 REPORT = 76 ECAS
- ECA with receipts between \$1,000,000 - \$100,000 will be examined in our office in a centralized compliance engagement.
 - FOR 2016 REPORT = 682 ECAS
 - Will be done on a 4 year rotation coinciding with the school corporation audit.
- ECA with receipts < \$100,000 and not having a specific risk identified will be examined in a centralized review process
 - Approximately 10% of Statewide Activity

HEA 1031



- Adds IC 5-11-5-1.5:
 - Requires entities to take action to resolve noncompliance noted in an SBOA audit report
 - If the same or similar noncompliance is found in a subsequent report, then the entity must file a corrective action plan with the SBOA
 - If the corrective action plan is not submitted or completed within 6 months, then the SBOA is required to notify the legislative audit committee
 - Subsection (f) provides actions the legislative audit committee may take when notified

HEA 1009



- Highlights –
 - No longer required to do public notices for capital projects and bus replacement plans
 - Schools in excess of 15,000 ADM that want to issue bonds after August 15, 2020 will have to submit an Annual Financial Report based on the modified accrual basis of accounting
 - Outdated checks shall be receipted into the fund in which they were drawn. However if the fund no longer exists or cannot be determined then they shall be receipted to the Operations fund
 - Dormant funds may be receipted/transferred to any fund

HEA 1009 (cont.)



- Highlights (cont.) –
 - School Board required to establish an Education fund and an Operations fund
 - Eliminates numerous funds and places their activity in the Education or Operations fund
 - General, Capital Projects, School Transportation, School Bus Replacement, Textbook Rental, Art Association, Historical Society, Playground, School Technology, Technology Plan Buddy, Tech Grants, Technology Planning Grant, Senator David Ford Technology

HEA 1009 (cont.)



- Highlights (cont.) –
 - On January 1, 2019, the school corporation is required to transfer the balance of the General fund to the Education fund
 - Before March 1, 2019, the corporation can transfer a portion of the General fund balance that has not been allocated to educational expenses to the Operations fund at a public meeting and reported to IDOE
 - Expenditures must be reported at school building level

Education Fund
IC 20-40-2



- Revenue
 - All state tuition support
 - Curricular materials rental
- Expenses
 - Expenses allocated to student instruction
 - 10000s, 22000s, 25500s

Operations Fund IC 20-40-18



- Revenue
 - Property tax distributions
 - Excise tax distributions
 - Transportation fees
 - Facilities rental
 - Real and personal property disposal proceeds
 - Debt issuance proceeds
- Expenses
 - Expenses allocated for operating the school system not associated with the classroom instruction
 - 21000s, 23000-27999 (excluding 25500s), 30000s, 40000s, and 50000s



Questions?