

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

LOST RIVER CAREER COOPERATIVE

ORANGE COUNTY, INDIANA

July 1, 2009 to June 30, 2011



**FILED**  
04/18/2013



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sonya McKeighen	07-01-09 to 04-20-12
	(Vacant)	04-21-12 to 05-06-12
	Naomi S. Heinz	05-07-12 to 06-30-13
Director	David D. Embree	07-01-09 to 01-18-12
	Dr. Roberta Jackson	01-19-12 to 05-20-12
	Kevin Knies	05-21-12 to 06-30-13
President of the School Board	Rick Roberts	07-01-09 to 06-30-11
	Larry Pritchett (Deceased)	07-01-11 to 12-31-12
	Scott Blankenbaker	01-01-13 to 12-31-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE LOST RIVER CAREER COOPERATIVE, ORANGE COUNTY, INDIANA

We were engaged to examine the accompanying financial statement of the Lost River Career Cooperative (School Corporation), for the period of July 1, 2009 to June 30, 2011. The financial statement is the responsibility of the School Corporation's management.

The School Corporation did not properly maintain accounting records. The financial records and financial reports presented for examination were incomplete and not reflective of the activity of the School Corporation's funds. The School Corporation's records do not permit the application of other examination procedures to ascertain if the financial statement is fairly stated.

Since the School Corporation did not properly maintain accounting records and we were not able to apply other examination procedures to satisfy ourselves as to whether the financial statement is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statements. They have not been subjected to the examination procedures and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the School Corporation's management, School Board, and others within the entity 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

December 3, 2012

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

LOST RIVER CAREER COOPERATIVE  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2010 and 2011

	Cash and Investments 07-01-09	Receipts	Disbursements	Cash and Investments 06-30-10	Receipts	Disbursements	Cash and Investments 06-30-11
General	\$ 150,664	\$ 1,171,419	\$ 1,161,066	\$ 161,017	\$ 986,270	\$ 942,938	\$ 204,349
Basic Grant FY10/11	-	-	-	-	40,204	25,416	14,788
Basic Grant FY08/09	(8,119)	37,268	27,080	2,069	-	-	2,069
Career Majors FY09/10	-	66,421	17,453	48,968	-	34,787	14,181
Career Majors FY08/09	-	18,229	36,941	(18,712)	69,404	50,676	16
Career Majors FY07/08	-	-	438	(438)	23,191	11,200	11,553
First Steps	-	-	-	-	-	120	(120)
Totals	<u>\$ 142,545</u>	<u>\$ 1,293,337</u>	<u>\$ 1,242,978</u>	<u>\$ 192,904</u>	<u>\$ 1,119,069</u>	<u>\$ 1,065,137</u>	<u>\$ 246,836</u>

The notes to the financial statement are an integral part of this statement.

LOST RIVER CAREER COOPERATIVE  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the School Corporation.

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, school corporation activities, revenue from community services activities, and other revenue from local sources.

State sources which include distributions from the State of Indiana to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

LOST RIVER CAREER COOPERATIVE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Federal sources which include distributions from the federal government to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

*F. Fund Accounting*

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America.

Prior to June 30, the Treasurer submits to the School Board a proposed operating budget for the year commencing July 1. The School Board reviews and approves the budget.

The School Corporation's management cannot transfer budgeted appropriations without approval of the School Board.

LOST RIVER CAREER COOPERATIVE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 3. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 4. Risk Management**

The School Corporation may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the School Corporation by recording as a disbursement any replacement items purchased.

**Note 5. Pension Plans**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

LOST RIVER CAREER COOPERATIVE  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

*B. Teachers' Retirement Fund*

*Plan Description*

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 286-3544

*Funding Policy and Annual Pension Cost*

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation also contributes to additional pension plans unique to the School Corporation. Information regarding these plans may be obtained from the School Corporation.

## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

LOST RIVER CAREER COOPERATIVE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2010

	General	Basis Grant FY10/11	Basis Grant FY08/09	Career Majors FY09/10	Career Majors FY08/09	Career Majors FY07/08	First Steps	Totals
Cash and investments - beginning	\$ 150,664	\$ -	\$ (8,119)	\$ -	\$ -	\$ -	\$ -	\$ 142,545
Receipts:								
Local sources	1,123,865	-	-	-	-	-	-	1,123,865
State sources	47,554	-	-	35,321	18,229	-	-	101,104
Federal sources	-	-	37,268	31,100	-	-	-	68,368
Total receipts	<u>1,171,419</u>	<u>-</u>	<u>37,268</u>	<u>66,421</u>	<u>18,229</u>	<u>-</u>	<u>-</u>	<u>1,293,337</u>
Disbursements:								
Current:								
Instruction	844,453	-	27,080	17,453	36,941	438	-	926,365
Support services	304,999	-	-	-	-	-	-	304,999
Debt services	514	-	-	-	-	-	-	514
Nonprogrammed charges	11,100	-	-	-	-	-	-	11,100
Total disbursements	<u>1,161,066</u>	<u>-</u>	<u>27,080</u>	<u>17,453</u>	<u>36,941</u>	<u>438</u>	<u>-</u>	<u>1,242,978</u>
Excess (deficiency) of receipts over disbursements	<u>10,353</u>	<u>-</u>	<u>10,188</u>	<u>48,968</u>	<u>(18,712)</u>	<u>(438)</u>	<u>-</u>	<u>50,359</u>
Cash and investments - ending	<u>\$ 161,017</u>	<u>\$ -</u>	<u>\$ 2,069</u>	<u>\$ 48,968</u>	<u>\$ (18,712)</u>	<u>\$ (438)</u>	<u>\$ -</u>	<u>\$ 192,904</u>

LOST RIVER CAREER COOPERATIVE  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2011

	General	Basis Grant FY10/11	Basis Grant FY08/09	Career Majors FY09/10	Career Majors FY08/09	Career Majors FY07/08	First Steps	Totals
Cash and investments - beginning	\$ 161,017	\$ -	\$ 2,069	\$ 48,968	\$ (18,712)	\$ (438)	\$ -	\$ 192,904
Receipts:								
Local sources	940,183	-	-	-	-	-	-	940,183
State sources	46,087	40,204	-	-	69,404	23,191	-	178,886
Total receipts	986,270	40,204	-	-	69,404	23,191	-	1,119,069
Disbursements:								
Current:								
Instruction	648,528	25,416	-	34,787	50,676	11,200	120	770,727
Support services	290,210	-	-	-	-	-	-	290,210
Debt services	300	-	-	-	-	-	-	300
Nonprogrammed charges	3,900	-	-	-	-	-	-	3,900
Total disbursements	942,938	25,416	-	34,787	50,676	11,200	120	1,065,137
Excess (deficiency) of receipts over disbursements	43,332	14,788	-	(34,787)	18,728	11,991	(120)	53,932
Cash and investments - ending	\$ 204,349	\$ 14,788	\$ 2,069	\$ 14,181	\$ 16	\$ 11,553	\$ (120)	\$ 246,836

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS

**CONDITION OF RECORDS**

The following deficiencies relating to the recordkeeping were noted:

***Financial Reports***

Controls over the preparation and submission of the biannual financial reports (Form 9) were insufficient. The Form 9 for the periods January 1, 2010 through June 30, 2010, and January 1, 2011 through June 30, 2011, were incorrect. The Form 9 included receipts and expenditures for the period July 1, 2009 through December 31, 2009, and July 1, 2010 through December 31, 2010, respectively. Also, beginning fund balances were incorrect. The Form 9's were certified by the former Director and the former Treasurer that the reports were accurate, but the amounts reported did not agree with the financial records.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***Bank Reconciliations***

Depository reconciliations of the fund balances to the bank account balances were incorrect for the examination period. The outstanding check list provided by the School Corporation was incorrect.

The financial records used to compile depository reconciliations often included numerous versions, as a result the accuracy of the reconcilements and financial records could not be determined. For the period ending June 30, 2010, the folder contained five different depository reconciliations. In addition, the financial data presented for examination consisted of four different detailed revenue and disbursement budget history reports for the month ending June 30, 2010. General fund disbursements differed on all four reports. The reconcilements presented for examination included adjustments that could not be traced to any supporting data. Therefore, the validity of these adjustments could not be determined.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***Posting Errors***

There were a considerable number of posting errors during the examination period. These errors included deposits not receipted, checks and receipts not recorded in the proper amounts. Payroll transactions not posted to the ledger. Bank errors were not timely identified, corrected, and resolved. Adjustments identified and communicated to the School Corporation during the prior examination were either not made or recorded incorrectly.

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***Payroll Withholding Accounts***

The individual payroll withholding accounts were not reconciled to amounts owed the various agencies as of June 30, 2011. A review of the accounts for the examination period indicated that numerous posting errors had been made during the examination period and remain uncorrected.

Adjustments pertaining to the payroll withholding accounts identified and communicated to the School Corporation during the prior examination, were either not made or recorded incorrectly.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***Supporting Documentation***

During the review of disbursements for the examination period, there were three instances in which no accounts payable vouchers, along with any corresponding receipts or invoices could be located for the checks written. The total amount disbursed for these three checks was \$4,029.40. Due to the lack of supporting information, the validity and accountability for these money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***Claims Approval***

Some claims did not have School Board approval. The School Board approved Accounts Payable Docket/Listing was not provided for all disbursements.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

***Service Records and Leave-Time Benefits***

Employee time, attendance, or service records were not posted properly. Leave-time accrued did not comply with the noncertified employee policy approved by the School Board.

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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 Indiana Public School Corporations, Chapter 9)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

**FINANCIAL REPORT OPINION MODIFICATIONS**

Accurate financial records and bank reconciliations for the years ending June 30, 2010 and 2011, were not presented for examination. Due to numerous posting errors and reconciling adjustments that were material to the financial statements and could not be verified to any supporting documentation, the accuracy of the fund balances could not be determined. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

**PENALTIES, INTEREST, AND OTHER CHARGES**

Penalties, interest, and other charges totaling \$21,316.19 were assessed upon and paid by the School Corporation during the examination period. Penalties, interest, and other charges were assessed by and paid to the Internal Revenue Service; Indiana Department of Revenue; Old National Bank; and Indiana Department of Workforce Development as follows:

Date	Payor	Description	Penalty	Interest	Other Charges	Totals
11-10-08	Internal Revenue Service	1st Quarter 2008 Federal Tax Deposit Penalty	\$ 810.26	\$ -	\$ -	\$ 810.26
03-09-09	Internal Revenue Service	2nd Quarter 2008 Federal Tax Deposit Penalty and Interest	2,285.42	0.28	-	2,285.70
03-07-11	Internal Revenue Service	4th Quarter 2008 Federal Tax Deposit Penalty and Interest - IRS Tax Levy (Levied from School's Extra-Curricular Bank Account)	720.68	16.70	-	737.38
02-01-10	Internal Revenue Service	2nd Quarter 2009 Federal Tax Deposit Penalty	2,334.39	-	-	2,334.39
04-05-10	Internal Revenue Service	3rd Quarter 2009 Federal Tax Deposit Penalty	37.65	25.13	-	62.78
04-12-10	Internal Revenue Service	3rd Quarter 2009 Reduced Penalty and Interest charged for Late Payment	(0.13)	(0.42)	-	(0.55)
07-19-10	Internal Revenue Service	3rd Quarter 2009 Federal Tax Deposit Penalty	1,211.66	-	-	1,211.66
06-20-12	Internal Revenue Service	2nd Quarter 2010 Federal Tax Deposit Penalty and Interest	1,638.48	-	-	1,638.48
06-20-12	Internal Revenue Service	3rd Quarter 2010 Federal Tax Deposit Penalty and Interest	4,141.99	445.56	-	4,587.55
08-27-12	Internal Revenue Service	Civil Penalty Failure to File Form W-2 for year ending December 31, 2008	5,332.45	-	-	5,332.45
Total for Internal Revenue Service			18,512.85	487.25	-	19,000.10

**LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)**

Date	Payor	Description	Penalty	Interest	Other Charges	Totals
11-23-09	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 02-28-09	263.32	-	-	263.32
08-24-09	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 06-30-09	571.77	-	-	571.77
08-24-09	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 07-31-09	36.17	-	-	36.17
10-08-10	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 03-31-10	275.06	-	-	275.06
10-08-10	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 04-30-10	6.55	-	-	6.55
09-06-12	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 01-31-11	243.30	-	-	243.30
09-06-12	Indiana Department of Revenue	Late Payment of withholding taxes for period ending 10-31-11	347.90	-	-	347.90
Total for Indiana Department of Revenue			<u>1,744.07</u>	-	-	<u>1,744.07</u>
10-07-09	Old National Bank	NSF/OD Item Fee	-	-	105.00	105.00
10-07-09	Old National Bank	NSF/OD Item Fee	-	-	35.00	35.00
10-08-09	Old National Bank	NSF/OD Item Fee	-	-	35.00	35.00
10-09-09	Old National Bank	Daily Overdraft Fee	-	-	8.00	8.00
10-09-09	Old National Bank	NSF/OD Item Fee	-	-	70.00	70.00
10-13-09	Old National Bank	Daily Overdraft Fee	-	-	8.00	8.00
10-13-09	Old National Bank	NSF/OD Item Fee	-	-	35.00	35.00
10-14-09	Old National Bank	Daily Overdraft Fee	-	-	32.00	32.00
10-14-09	Old National Bank	NSF/OD Item Fee	-	-	70.00	70.00
02-14-11	Old National Bank	IRS Tax Levy Processing Fee	-	-	75.00	75.00
04-11-11	Old National Bank	IRS Tax Levy Processing Fee	-	-	75.00	75.00
Total for Old National Bank			-	-	<u>548.00</u>	<u>548.00</u>
07-21-09	Indiana Department of Workforce Development	3rd Quarter 2008 Unemployment Tax	18.48	5.54	-	24.02
Total Penalties, Interest, and Other Charges Assessed and Paid			<u>\$ 20,275.40</u>	<u>\$ 492.79</u>	<u>\$ 548.00</u>	<u>\$21,316.19</u>

**Payments to Internal Revenue Service (IRS)**

The School Corporation paid \$19,000.10 in penalties and interest to the IRS. The IRS penalties and interest were the result of late payment of payroll withholdings, failure to file Form 941 Employer's Quarterly Federal Tax Return (IRS Form 941) timely, and payment of a portion of a civil penalty assessed for the failure to submit Form W-2 and W-3 Tax Settlement Statements to the IRS for 2008.

The School Corporation paid penalties and interest of \$13,180.40 and \$487.25, respectively, to the IRS for late payment of payroll withholdings taxes or failure to file IRS Form 941, as shown in the above schedule.

The School Corporation has been assessed a civil penalty and interest from the IRS in the amount of \$64,929.21 (\$63,744.37 civil penalty and \$1,184.84 interest) due to the failure to submit IRS Form W-2 and W-3 Tax Settlement Statements for 2008. A portion of the IRS civil penalty has been paid by applying a refund as discussed in the following paragraph.

A refund from the Quarterly 941 Report for the period ending June 30, 2010, in the amount of \$5,516.90 had been issued to the School Corporation on May 23, 2011. The refund could not be traced to a bank deposit or the School Corporation's records. School Corporation officials contacted the IRS regarding the refund and according to the IRS the refund check had not been cashed or deposited and expired on May 23, 2012. As a result, the recalculated overpayment refund amount for the June 30 2010 reporting period was \$5,523.77 plus additional interest earnings of \$117.37 for a total of \$5,641.14. Of this amount, \$5,332.45 was applied against the civil penalty mentioned above. The remaining refund balance of \$308.69 was applied to penalties and interest from the late payment of payroll withholding tax from the IRS Form 941 for the period ending September 30, 2010.

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

***Payments to Indiana Department of Revenue (INDOR)***

The School Corporation paid penalties and interest of \$1,744.07 to the INDOR for late payment of state and county payroll withholdings taxes as shown in the above schedule.

***Payments to Old National Bank***

The School Corporation paid \$398.00 in bank overdraft fees to Old National Bank. The overdraft fees levied upon the School Corporation were the result of overdrawing the School Corporation's operating bank account on several occasions from October 7, 2009 to October 14, 2009, as shown in the above schedule.

The School Corporation paid a total of \$150.00 in IRS Tax Levy Fees to Old National Bank for processing a Notice of Tax Levy issued by the IRS on two occasions. The \$75.00 bank fees were levied from the School Corporation's Extra-Curricular bank account on February 14, 2011, and April 11, 2011. The IRS Notice of Tax Levy issued February 14, 2011, originated from an unpaid assessment of federal tax deposit penalties and interest from the period ending December 30, 2008. The IRS Notice of Tax Levy issued April 11, 2011, originated from a federal payroll withholding tax payment for the period ending June 30, 2011.

***Payments to Indiana Department of Workforce Development***

The School Corporation paid \$18.54 in penalties and \$5.54 in interest for a total of \$24.02 to the Indiana Department of Workforce Development as a result of late payment of unemployment taxes for the period ending September 30, 2008, as shown in the above schedule.

***Pending Penalties, Interest, and Other Charges***

The School Corporation has outstanding penalties, interest, and other charges of \$60,993.37. The IRS has assessed a \$58,411.92 penalty and \$1,184.84 in interest for the failure to submit Form W-3 and Form W-2 Tax Settlement Statements for 2008; and a \$1,214.18 penalty for the failure to submit Form W-3 and Form W-2 Tax Settlement Statements for 2009. Indiana Department of Workforce Development has assessed a \$14.09 penalty and \$18.32 in interest and a \$136.38 penalty and \$13.64 in interest for the late payment of unemployment taxes for the periods ending March 31, 2011, and March 31, 2012, respectively.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Sonya McKeighen, former Treasurer, was requested to reimburse the School Corporation for penalties, interest, and other charges in the amount of \$21,316.19. (See Summary of Charges, page 24)

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

**FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS**

The School Corporation did not collect state sales tax. The failure to properly submit monthly state sales tax Form ST-103 resulted in the School Corporation incurring estimated taxes, penalties, and interest in the amount of \$1,489.56 for the months ending January 31, 2010, February 28, 2010, and March 31, 2010. Current officials were instructed to resubmit corrected forms ST-103 and request abatement from the Indiana Department of Revenue (INDOR).

The Indiana Department of Revenue (INDOR) levied four Auditor of State distributions belonging to the School Corporation due to outstanding tax liabilities in the amount of \$2,184.26. Of that amount, \$1,489.56 of the distributions levied originated from estimated sales tax, penalties, and interest which were the result of the failure to file monthly state sales tax form ST-103. The remaining \$694.70 was levied for estimated taxes, penalties, and interest for state and county payroll withholding taxes not submitted in a timely manner.

The Internal Revenue Service (IRS) levied a total of \$1,707.49 from the School Corporation's Extra-Curricular bank accounts. The Notice of Tax Levy issued February 14, 2011, for \$737.38 originated from an unpaid assessment of penalties and interest from the period ending December 30, 2008. The Notice of Tax Levy issued April 11, 2011, for \$970.11 was for a federal tax payment for the period ending June 30, 2011. The School's Extra-Curricular funds did not process any type of payroll transactions. The School Corporation will need to reimburse the Extra-Curricular funds from the School Corporation's General Fund in the amount of \$1,857.49 (\$1,707.49 IRS tax levy's plus \$150.00 bank levy fees).

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. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9) (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 Indiana Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

**DEPOSITS**

The Internal Revenue Service refunded \$5,516.90 to the School Corporation on May 23, 2011. No record of the School Corporation depositing or recording these funds could be identified at the School Corporation. The refund was issued from an overpayment of Federal, Social Security, and Medicare payroll taxes from the period ending June 30, 2010. School Corporation officials contacted the IRS regarding the refund and according to the IRS the refund check had not been cashed or deposited and expired May 23, 2012.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

**UNAUTHORIZED PAYROLL DISBURSEMENTS**

Payments were made to Sonya McKeighen, former Treasurer, for unused vacation leave time and another additional unidentified payroll amount. The following schedule details the seven payroll checks issued to Sonya McKeighen, former Treasurer, in excess of her approved salary and authorized overtime pay:

Check Number	Check Date	Net Payroll Amount	Gross Payroll Amount	Description of Payment
4188	06-30-09	319.90	\$ 356.60	No explanation for payment provided
4620	04-29-11	942.85	1,071.20	Two week unused vacation leave
4641	05-13-11	942.85	1,071.20	Two week unused vacation leave
4662	05-27-11	942.85	1,071.20	Two week unused vacation leave
4682	06-03-11	942.85	1,071.20	Two week unused vacation leave
5152	03-23-12	912.70	1,071.20	Two week unused vacation leave
5154	04-06-12	941.94	1,071.20	Two week unused vacation leave
Total unauthorized payroll disbursements			<u>\$ 6,783.80</u>	

There were six payroll checks issued in addition to actual time worked that indicated they were for payment of unused vacation leave. The School Corporation's Personnel Policy did not authorize payment of unused leave time and no authorization was granted by the School Board. There was also one other payroll check issued to Sonya McKeighen, former Treasurer, in addition to her regular payroll. No support or written authorization was provided for this additional payroll disbursement.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

Sonya McKeighen, former Treasurer, was requested to reimburse the School Corporation for unauthorized payroll disbursements in the amount of \$6,783.80. (See Summary of Charges, page 24)

**OVERDRAWN CASH BALANCES**

The cash balance of the School Corporation's operating bank account was overdrawn on several occasions from October 7, 2009 to October 14, 2009.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

**CONDITION OF RECORDS - EXTRA-CURRICULAR ACCOUNT**

Financial records presented for examination were incomplete and not reflective of the activity of the Extra-Curricular Accounts (ECA). The records presented did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. No ECA funds ledger was provided for the 2010-2011 fiscal year and only the control account

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

could be located for the 2009-2010 fiscal year. No monthly bank reconciliations of the record balances to the bank balances were provided for the examination period. Only ten monthly bank statements could be located for the two year period being examined. Annual Financial Reports (Form SA-5) were not prepared for the 2009-2010 and 2010-2011 school years.

Indiana Code 5-15-6-3(f) states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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)

**EXAMINATION COSTS**

Additional costs were incurred by the State of Indiana during the current examination due to the investigation of unauthorized payroll disbursements and payments of penalties, interest and other charges due to poor recordkeeping by Sonya McKeighen, former Treasurer. The State of Indiana is requesting reimbursement of the additional costs incurred in the amount of \$7,429.50. (See Summary of Charges, page 24)

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Audit costs or other costs incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

**OFFICIAL BOND/COMMERCIAL CRIME COVERAGE**

No official bonds for Sonya McKeighen, former Treasurer, were provided for the examination period, nor were they filed in the Office of the County Recorder.

The School Corporation did have blanket employee dishonesty coverage that was part of their Commercial Crime Coverage for each year as shown in the schedule below:

LOST RIVER CAREER COOPERATIVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Insurance Company	Period of Coverage	Policy Number	Coverage Amount
Auto-Owners Insurance Company	03-01-08 to 03-01-09	027002-09555981-08	\$ 10,000
Auto-Owners Insurance Company	03-01-09 to 03-01-10	027002-09555981-09	10,000
Auto-Owners Insurance Company	03-01-10 to 03-01-11	027002-09555981-10	10,000
Auto-Owners Insurance Company	03-01-11 to 03-01-12	027002-09555981-11	10,000
Auto-Owners Insurance Company	03-01-12 to 03-01-13	027002-09555981-12	10,000

Indiana Code 20-26-4-5 states in part:

"For each school year commencing July 1, the treasurer of each governing body and the governing body's school corporation and a deputy treasurer, if so appointed, shall give a bond for the faithful performance of the treasurer's and deputy treasurer's duties written by an insurance company licensed to do business in Indiana, in an amount determined by the governing body. . . ."

The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

LOST RIVER CAREER COOPERATIVE  
EXIT CONFERENCE

The contents of this report were discussed on December 3, 2012, with Kevin Knies, Director; Larry Pritchett, former President of the School Board; and Naomi S. Heinz, Treasurer. The officials concurred with our findings.

After attempts to contact Sonya McKeighen, former Treasurer, by phone failed, a certified letter was sent to Ms. McKeighen on December 20, 2012, informing her that the examination had been completed and granting her the opportunity to have an exit conference. Ms. McKeighen signed for the certified letter on December 24, 2012, and later contacted the Indianapolis Office on January 8, 2013, and left her cell phone number. Voicemails left on that cell phone number were not returned.

LOST RIVER CAREER COOPERATIVE  
SUMMARY OF CHARGES

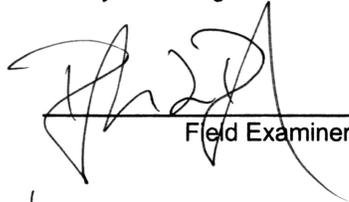
	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Sonya McKeighen, former Treasurer:			
Penalties, Interest, and Other Charges, pages 16 through 18	\$ 21,316.19	\$ -	\$ 21,316.19
Unauthorized Payroll Disbursements, page 20	6,783.80	-	6,783.80
Examination Costs, page 21	<u>7,429.50</u>	<u>-</u>	<u>7,429.50</u>
 Totals	 <u>\$ 35,529.49</u>	 <u>\$ -</u>	 <u>\$ 35,529.49</u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

AFFIDAVIT

STATE OF INDIANA            )  
Washington COUNTY)

I Brandon L. Brough, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Lost River Career Cooperative, Orange County, Indiana, for the period from July 1, 2009 to June 30, 2011, is true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Field Examiner

Subscribed and sworn to before me this 26 day of March, 2013.

  
\_\_\_\_\_  
Clerk of the Circuit Court