

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

**Paul D. Joyce, CPA
State Examiner**

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF HOBART

LAKE COUNTY, INDIANA

July 1, 2022 to June 30, 2024



FILED

03/24/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dawn Powers Tracy Brumley	07-01-22 to 06-30-24 07-01-24 to 06-30-25
Business Manager	Robert Glover, Jr.	07-01-22 to 06-30-25
Superintendent of Schools	Peggy Buffington	07-01-22 to 06-30-25
President of the School Board	Terry Butler Rikki Guthrie	07-01-22 to 12-31-24 01-01-25 to 06-30-25



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INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE SCHOOL CITY OF HOBART, LAKE COUNTY, INDIANA

This report is supplemental to the audit report of the School City of Hobart (School Corporation), for the period from July 1, 2022 to June 30, 2024. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with the Financial Statement Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

March 13, 2025

SCHOOL CITY OF HOBART
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - FINANCIAL TRANSACTIONS

A similar comment appeared in prior Report B60743, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions.

The School Corporation had not separated incompatible activities related to receipts and other financing sources. Segregation of duties for each of these areas had not been properly designed or implemented to prevent, or detect and correct, errors.

Receipts and Other Financing Sources

The School Corporation designed a process of review or oversight over receipts and other financing sources to ensure the accuracy, completeness, timeliness, and classification of the information. However, implementation of the review or oversight process was not documented and could not be verified.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

INTERNAL CONTROLS - COMPLIANCE

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Annual Financial Report
- Overdrawn Cash Balances

SCHOOL CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

- Average Daily Membership
- Prepaid School Lunch

These internal control deficiencies are further detailed in the comments below.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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ANNUAL FINANCIAL REPORT

Condition and Context

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system. The School Corporation had not established effective internal controls over the information submitted in the AFR which resulted in the following errors:

Grant Schedule

The grant schedule within the AFR included the following errors:

- The Special Education Cluster expenditures were understated by \$878,181 in fiscal year 2023-2024.
- Several grants had individually immaterial errors that resulted in a misstatement of expenditures of \$132,780, in total.
- Other errors included incorrect program names, assistance listings numbers, and identifying numbers.

The submitted information is used to generate the Schedule of Expenditures of Federal Awards (SEFA) included in the Federal Compliance Audit Report of the School Corporation. Therefore, these errors were also presented in the SEFA. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA and to the grant schedule within the AFR.

SCHOOL CITY OF HOBART
 AUDIT RESULTS AND COMMENTS
 (Continued)

Leases and Debt

Information submitted for leases and debt, which is used to generate the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the School Corporation, had the following material errors:

- For the 2023 General Obligation Bond, the Principal Due Within One Year was understated by \$1,795,000, and the ending principal was understated by \$4,320,000.
- For the 2020 General Obligation Bond, the Principal Due Within One Year was overstated by \$1,795,000, and the ending principal was overstated by \$5,550,000.

Audit adjustments were proposed, accepted by the School Corporation, and made to the Schedule of Leases and Debt and to the lease and debt information within the AFR.

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner as set forth in the uniform compliance guidelines. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

OVERDRAWN CASH BALANCES

Condition and Context

Internal controls were not in place to ensure cash balances were not overdrawn. The financial statement presented for audit included the following funds with an overdrawn cash balance at June 30, 2023 and 2024, which were not attributed to timing of reimbursement:

Fund	Amount Overdrawn As of June 30,	
	2023	2024
Curricular Materials	\$ 263,755	\$ 186,794
Prepaid Food	1,376	8,786

Criteria

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SCHOOL CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

AVERAGE DAILY MEMBERSHIP

A similar comment also appeared in prior Report B60743, entitled *AVERAGE DAILY MEMBERSHIP (ADM)*.

Condition and Context

Internal controls were not in place to ensure that proper documentation was retained for the verification of students as eligible pupils. Of the 61 virtual students tested, supporting documentation was not provided for 3 students. The School Corporation lacked supporting documentation to determine if 1 student met the age requirement, and proof of Indiana residency for 2 students was not provided in agreement with the School Corporation residency policy #6250, adopted on July 23, 2020.

Criteria

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, must provide a written certification of ADM to properly document responsibility. The certification must at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PREPAID SCHOOL LUNCH

Condition and Context

The School Corporation was not receipting student prepaid balances into the Prepaid School Lunch Accounts and disbursing funds into the School Lunch fund as meals were charged. The School Corporation was incorrectly reporting activity in the Prepaid School Lunch fund as transfers.

Transfers are intended to move funding, not expenses, and used as an accounting entry only and no goods or services are rendered in return. By incorrectly reporting the prepaid food receipts as transfer/adjustments, the funds were never receipted into the prepaid food account. In addition, because these were not true transfers, transfers in did not agree to transfers out for either school year for the Prepaid Food fund. The financial statement was not adjusted for the variances below.

SCHOOL CITY OF HOBART
 AUDIT RESULTS AND COMMENTS
 (Continued)

	<u>Prepaid Food</u> <u>Transfers In</u>		<u>Prepaid Food</u> <u>Transfers Out</u>	<u>Variances</u>
07-01-22 to 06-30-23	\$ 738,108	\$	750,104	\$ (11,996)
07-01-23 to 06-30-24	749,954		757,364	(7,410)

Criteria

The SBOA opinion is that money a student puts into their individual meal account (prepaid food account) should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account balance, it should not be included in the School Lunch fund. It is required that the School Corporation set up a Prepaid School Lunch Accounts fund clearing account. When a student brings in a deposit the receipt would be recorded to the Prepaid School Lunch Accounts fund. Periodically, after the student has charged meals, the School Corporation should disburse the amount charged from the Prepaid School Lunch Accounts fund and receipt it into the School Lunch fund. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the Prepaid School Lunch Accounts fund should be reconciled with the total of the individual meal accounts. The School Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 10)



SCHOOL CITY OF HOBART

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"Building College and Career Ready Brickies"

ADMINISTRATION

Dr. Peggy Buffington, Ph.D.
Superintendent

Bob Glover Jr., Ed.S.
Business Manager

Jonathan Mock, Ed.S.
Director of Human Resources
& Compliance

Lori Anderson
Director of Elementary Curriculum

Dr. Tim Krieg, Ph.D.
Director of Secondary Curriculum

Sara Gutierrez
Director of Early Learning
& Education

Deborah Matthys
Director of Social Emotional Learning

Danielle Adams
Director of School Counselors

Brooke Paschen
Director of Early College
& Careers

Matthew Whiteman
Director of Student Services

Russell Mellon
Director of Information
Technology Services

Christopher King
Director of Technology

Felix Perry
Director of Support Services

Mathew McKee
Director of Transportation

Nancy Smith
Director of Food Services

Greg Bialata
Director of Safety & Operations

Jamie Noel
Coordinator of Student
Health Services

Peter Goerges
School Legal Counsel

BOARD OF SCHOOL

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Member

Stuart B. Schultz
Member

William Longer
Board Attorney

OFFICIAL RESPONSE

March 20, 2025

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: OFFICIAL RESPONSE

INTERNAL CONTROLS – FINANCIAL TRANSACTIONS

The Treasurer will prepare a monthly report of receipts including the fund, account, bank, amount, and descriptive notes and comments. The Business Manager will review the report for accuracy and completeness, and initial upon completion of the review.

ANNUAL FINANCIAL REPORT

School City of Hobart will alter internal control procedures when completing the AFR. The Business Manager will now review all supporting documentation the Treasurer used to complete the report.

OVERDRAWN CASH BALANCE

Overdrawn balances in the Curricular Materials Fund were the result of insufficient reimbursement from the state, and the elimination of a provision allowing schools to levy for unreimbursed curricular materials costs through the Debt Service Fund. The Curricular Materials Fund was eliminated by changes in state statute. These receipts and expenditures are now part of the Education Fund.

The balance in the prepaid lunch fund fluctuates based on deposits into individual lunch accounts, and the number of individual accounts that are overdrawn at any given point in time. Debt that is determined to be uncollectible will be resolved in accordance with board policy.

AVERAGE DAILY MEMBERSHIP

The building principal will regularly review student records with their administrative assistants for accuracy and completion.

PREPAID SCHOOL LUNCH

The Treasurer will no longer report receipts and disbursements as transfers in the fund to reflect SBOA guidance.

Robert Glover Jr.
Business Manager

The School City of Hobart does not discriminate on the basis of race, creed, sex, color, national origin, religion, age, sexual orientation, marital status, genetic information, or disability, including limited English proficiency.

SCHOOL CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2025, with Tracy Brumley, Treasurer; Peggy Buffington, Superintendent of Schools; Robert Glover, Jr., Business Manager; Rikki Guthrie, President of the School Board; and Bradley Keehn, School Board member.