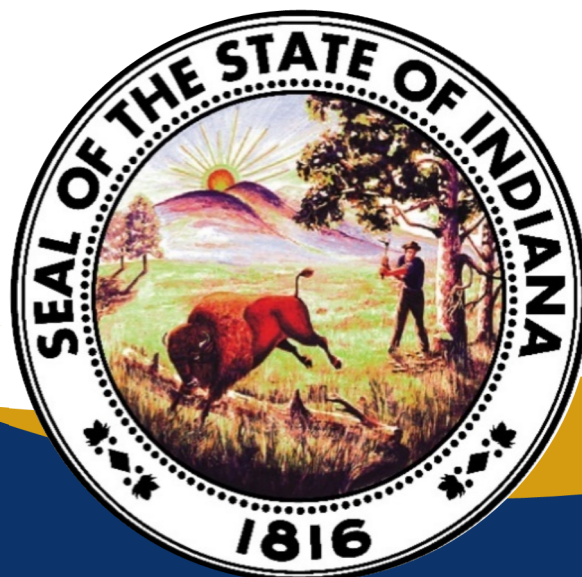


**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
CANNELTON CITY SCHOOL CORPORATION
PERRY COUNTY, INDIANA
July 1, 2022 to June 30, 2024



FILED

03/21/2025

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Controls over Financial Transactions and Reporting	4-6
Internal Controls over Compliance	6-7
Annual Financial Report	7-10
Average Daily Membership (ADM) - Incorrect Reporting to the State	10
Capital Assets	10-11
Monthly and Annual Uploads.....	11
Overdrawn Cash Balances.....	11-13
Exit Conference.....	14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melissa Embry	07-01-22 to 06-30-25
Superintendent of Schools	Alva L. Sibbitt, Jr.	07-01-22 to 06-30-25
President of the School Board	John Young	07-01-22 to 12-31-25



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769
Telephone: (317) 232-2513
Fax: (317) 232-4711
www.in.gov/sboa

TO: THE OFFICIALS OF THE CANNELTON CITY SCHOOL
CORPORATION, PERRY COUNTY, INDIANA

This report is supplemental to the audit report of the Cannelton City School Corporation (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

February 13, 2025

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B60783, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the School Corporation's internal control system related to financial transactions and reporting. The failure to establish a proper system of internal controls enabled material errors in the form of misstatements to occur and remain undetected and uncorrected.

Financial Close and Reporting

The School Corporation did not have a proper system of internal controls in place over financial close and reporting to prevent, or detect and correct, errors. The Treasurer entered the information into the Annual Financial Report in the Indiana Gateway for Government Units financial reporting system, which was the source of the School Corporation's financial statement and the Schedule of Expenditures of Federal Awards. There was no evidence of an oversight, review, or approval process to ensure the information was accurate or complete prior to submission. Due to a lack of internal controls, errors were noted as described in the *ANNUAL FINANCIAL REPORT* comment below.

Cash and Investments

The Treasurer performed the monthly bank reconciliements without a review or approval process to ensure that the reconciliements were complete and accurate. The Treasurer was also responsible for the receipting function and for reconciling daily cash collections. Due to the lack of internal controls, issues were noted with the School Corporation's bank reconciliements as follows:

- Stale-dated, outstanding checks totaling \$49,343 were included in the School Corporation's reconciliation as of June 30, 2024.
- Three bank accounts were not included in the monthly reconciliements performed by the School Corporation. As a result, bank account balances totaling \$122,164 and \$122,998 were excluded from the bank reconciliements for June 30, 2023 and 2024, respectively.
- The ending cash and investments balance on the financial statement exceeded the reconciled bank balance by \$4,810 and \$4,806 at June 30, 2023 and 2024, respectively. The School Corporation has been carrying a variance month-to-month in its reconciliements and has been unable to identify the cause.
- The School Corporation converted to a new accounting system in June 2024. The new software consolidated all previous outstanding checks into one reconciling item that was included in the June 30, 2024 reconciliation. A detailed list of the transactions comprising this total was not included with the reconciliation, but the School Corporation was able to provide the information upon request.

Receipts

The School Corporation had not separated incompatible activities related to receipts. There was no evidence that an oversight, review, or approval process was in place to ensure that receipts were properly issued or recorded correctly in the ledger. The Treasurer was solely responsible for collecting payments, completing the deposit ticket, making deposits, and recording receipts in the ledger.

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Disbursements

The School Corporation had not established proper internal controls over payroll disbursements. The School Corporation had designed an internal control that timesheets prepared by hourly employees were sent to the building Principal for approval. However, testing of 56 payroll disbursements revealed 13 instances in which timesheets were signed by the employee but not by the Principal. Additionally, the Treasurer was solely responsible for processing payroll. The Treasurer did not prepare Payroll Schedules and Vouchers or any other payroll detail for review, and, accordingly, the School Board only approved the gross total payroll for each pay period on the claim docket. As such, there was no independent oversight, review, or approval of the detailed payroll information to ensure that it was accurately processed by the Treasurer.

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. . . ."

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](#)."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must 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 1)

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."

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void. . . ."

Indiana Code 5-11-10.5-3 states:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the:

- (1) board of finance of the political subdivision; or
- (2) fiscal body of a city or town.

The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision. However, in the case of a school corporation, the warrant or check shall be receipted into the operations fund."

INTERNAL CONTROLS OVER COMPLIANCE

Condition and Context

Deficiencies in the School Corporation's system of internal controls resulted in the noncompliance over the annual financial report, average daily membership (adm) - incorrect reporting to the state, capital assets, monthly and annual uploads, and overdrawn cash balances as detailed further 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:

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

"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. . . ."

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B60783, entitled *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 filed the AFR; however, internal controls over the financial data enter into the AFR, which was the source of the School Corporation's financial statement, were not established. The Treasurer prepared and submitted the financial data into the AFR. There was no evidence of an oversight, review, or approval process to ensure the information was accurate or complete prior to submission. As a result, the School Corporation's 2023 AFR was submitted on September 6, 2023, which was eight days past the due date. Additionally, due to the lack of proper internal controls, the School Corporation's 2023 and 2024 financial statement contained the following errors:

Financial Data

- In total, 25 individually immaterial errors were identified, which resulted in a \$1,706 understatement of the beginning cash and investments balance in fiscal year 2022-2023.
- In total, 32 individually immaterial errors were identified, which resulted in understatements of receipts totaling \$485,254 and \$371,984 in 2022-2023 and 2023-2024, respectively.
- Disbursements in the Operations fund were overstated by \$256,581 for 2022-2023.
- In total, 39 individually immaterial errors were identified, which resulted in understatements of disbursements totaling \$499,116 and \$562,814 in 2022-2023 and 2023-2024, respectively.
- Other Financing Sources in the Education fund were overstated by \$1,266,355 and \$1,624,281 in 2022-2023 and 2023-2024, respectively.
- Other Financing Uses in the Education fund were overstated by \$1,575,601 and \$1,624,281 in 2022-2023 and 2023-2024, respectively.
- Other Financing Sources in the Operations fund were overstated by \$120,000 in 2022-2023.

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- In total, 2 immaterial errors were identified which resulted in overstatements of Other Financing Sources totaling \$6,708 and \$15,693 in 2022-2023 and 2023-2024, respectively.
- An immaterial error was identified, which resulted in an overstatement of Other Financing Uses totaling \$15,693 in 2023-2024.
- As a result of the above errors, the ending Cash and Investments Balance was understated by \$426,963 at June 30, 2023, and was understated by \$236,133 as of June 30, 2024.

The submitted information is used to generate the financial statement and Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the School Corporation. Therefore, these errors also appear in this schedule and the financial statement. Adjustments were proposed, accepted by the School Corporation, and made to the financial statement and to the Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis, and the financial data within the 2023 and 2024 AFRs.

Grant Schedule

- Grant expenditures for the School Breakfast program were understated by \$47,913 and \$48,082 for 2022-2023 and 2023-2024, respectively.
- Grant expenditures for the National School Lunch Program were overstated by \$48,701 and \$60,697 for 2022-2023 and 2023-2024, respectively.
- Grant expenditures for the Student Support and Academic Enrichment Program were understated by \$50,522 for 2023-2024.
- The School Corporation reported amounts passed through to subrecipients across 11 and 15 grants for 2023 and 2024, respectively, when the School Corporation did not pass any federal funds to any subrecipients. As a result, amounts passed through to subrecipients were overstated by \$1,948,262 and \$2,018,372 for 2022-2023 and 2023-2024, respectively.
- In total, 15 additional immaterial errors were noted each year, resulting in an understatement of grant expenditures, totaling \$48,091, and an overstatement of grant expenditures, totaling \$24,788, for 2022-2023 and 2023-2024, respectively.
- Other errors were identified that included incorrect program names, identifying numbers, and pass-through entities.

The submitted information is used to generate the Schedule of Expenditures of Federal Awards (SEFA) which is presented in the Federal Compliance Audit Report of the School Corporation; therefore, these errors also appear in this schedule. Adjustments were proposed, accepted by the School Corporation, and made to the SEFA and the grant information within the 2023 and 2024 AFRs.

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Capital Assets

Due to the issues noted in the comment below, entitled *CAPITAL ASSETS*, the amount reported by the School Corporation as capital assets in the 2023 and 2024 AFRs could not be verified. The School Corporation reported total capital assets of \$8,733,428 at June 30, 2023 and 2024.

The financial reporting framework utilized by the School Corporation includes the option to present a Schedule of Capital Assets as Other Information in the Financial Statement Audit Report of the School Corporation. The School Corporation has elected not to present this schedule.

Leases and Debt Schedule

The School Corporation did not report a loan with the Springs Valley Bank & Trust in the debt schedule in its 2023 and 2024 AFRs. As a result, the School Corporation's annual Ending Principal Balance was understated by \$101,615 and \$110,059 as of June 30, 2023 and 2024, respectively, and the Principal Due Within One Year was understated by \$22,913 and \$21,146 as of June 30, 2023 and 2024, respectively.

The submitted information is used to generate the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report of the School Corporation. Adjustments were proposed, accepted by the School Corporation, and made to this schedule and the debt information with the 2023 and 2024 AFRs.

Accounts Payable and Receivable

The School Corporation entered \$0 for accounts payable and accounts receivable in its 2023 and 2024 AFRs. The School Corporation was unable to provide supporting documentation to determine the amounts that should have been reported.

The financial reporting framework utilized by the School Corporation includes the option to present a Schedule of Payables and Receivables as Other Information in the Financial Statement Audit Report of the School Corporation. The School Corporation has elected not to present this schedule.

Investments Statement

The School Corporation reported no investments as of June 30, 2023 and 2024, in the Investments Statement in its 2023 and 2024 AFRs. However, the School Corporation held a \$120,000 Certificate of Deposit at the end of both years. All schedules included in the AFR are required to be completed unless they do not apply to the unit.

Criteria

The Annual Financial Report (AFR) required under IC 5-11-1-4(a) shall be filed with the state examiner not later than sixty (60) days after the close of each fiscal year. (Accounting and Uniform Guidelines Compliance Manual for Indiana Public School Corporations, Chapter 1)

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

A similar comment also appeared in prior Report B60783, entitled *AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS*.

Condition and Context

The School Corporation did not have effective internal controls in place to ensure compliance with requirements related to Average Daily Membership (ADM). Of the 27 brick and mortar students and 11 virtual students selected for testing, the following issues were identified:

- The School Corporation had adopted an ADM count policy, which included provisions on verification of residency. However, the School Corporation was unable to provide proper documentation for 7 brick and mortar students and 4 virtual students to verify they were Indiana residents.
- The Fall 2022 and Spring 2023 ADM counts included 2 brick and mortar students that were determined to be ineligible pupils. The students were incoming kindergarteners whose parents withdrew them prior to the commencement of classes, and, as a result, both students were never in attendance during the school year. Accordingly, the students should not have been included in either count and should not have been reported for ADM purposes.

Criteria

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must 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 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

CAPITAL ASSETS

A similar comment also appeared in prior Report B60783, entitled *CAPITAL ASSETS*.

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Condition and Context

The School Corporation did not have effective internal controls in place to ensure compliance with requirements related to capital assets. The School Corporation did not have a complete detailed listing of all capital assets owned which reflected their acquisition value. The School Corporation's listing had not been updated to reflect all activity related to acquisitions and dispositions of capital assets. The only supporting documentation provided by the School Corporation was an insurance statement that listed the replacement value assigned to the School Corporation's assets. Additionally, the School Corporation was unable to provide evidence that a complete physical inventory had been conducted every two years as required.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

MONTHLY AND ANNUAL UPLOADS

The same comment also appeared in prior Report B60783.

Condition and Context

The School Corporation did not have effective internal controls in place to ensure that required uploads were made to the Indiana Gateway for Government Units financial reporting system. The School Corporation did not upload any of the required monthly and annual uploads during the audit period.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and October 30, 2023, and effective with uploads due February 15, 2021 and February 15, 2024, respectively)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must 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 1)

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B52481, B59184, and B60783.

CANNELTON CITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Condition and Context

The School Corporation did not have effective internal controls in place to ensure that the ending cash balance of funds presented on the financial statement were not overdrawn.

The financial statement presented for audit included the following dormant grant funds with overdrawn cash balances as of June 30, 2023 and 2024, for which no further reimbursements were anticipated.

Dormant Grant Funds			
Fund	Amount Overdrawn		
	06-30-23	06-30-24	
Title I	\$ 2,858	\$	2,858
Title I FY14	495		495
Title I FY15	28,051		28,051
Title I FY16	8,959		8,959
Title I FY17	11,962		11,962
Title I FY18	14,505		14,505
Title I FY19	62,950		62,950
Title I FY21	10,800		10,800
Title I FY22	31,869		31,869
Title IV FY20	109		109
Title IV FY21	9,415		9,415
Title IV	325		325
Small Rural 19-20	312		312
Improve Teacher Quality FY17	863		863
Title II A FY 18	29		29
Title II A	24,037		24,037

The financial statement also included the following nongrant funds with overdrawn cash balances as of June 30, 2023 and 2024, which was the result of disbursements exceeding receipts into the funds.

CANNELTON CITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Disbursements in Excess of Receipts		
Fund	Amount Overdrawn	
	06-30-23	06-30-24
Referendum	\$ -	\$ 2,360
Operations	-	76,255
Transportation-Operation	220	220
School Lunch	11,506	5,058
Textbook	5,677	-
K Of C Tootsie Roll Fund	8	8
Early Care Grant	878	878
Project Lead The Way	5,930	9,083
Mckinney Vento	1,397	1,397
Wrap Around	-	300
Payroll Federal Withholding	554	3,827
Payroll FICA	37	-
Payroll Medicare	29	-
Payroll AFLAC	7,979	7,979
Payroll Lincoln Fin Grp	1,832	932
Payroll American General	240	240
Payroll Liberty National	217	217
Payroll Anthem	6,331	3,840
Humana Dental	918	939
Humana Vision	478	547

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)

CANNELTON CITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 13, 2025, with Melissa Embry, Treasurer; Alva L. Sibbitt, Jr., Superintendent of Schools; and Susan Entwistle, School Board member.