

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

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MANCHESTER COMMUNITY SCHOOLS

WABASH COUNTY, INDIANA

July 1, 2022 to June 30, 2024



FILED

03/27/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Tonia L. Immel (Vacant) Darla R. Cain	07-01-22 to 10-06-22 10-07-22 to 10-24-22 10-25-22 to 06-30-25
Superintendent of Schools	Kyle F. Wieland Jeff Stephens Anthony Cassel	07-01-22 to 06-30-23 07-01-23 to 11-30-23 12-01-23 to 06-30-25
President of the School Board	David W. Terflinger Michael R. Hensley	07-01-22 to 12-31-22 01-01-23 to 06-30-25



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INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE MANCHESTER COMMUNITY SCHOOLS, WABASH COUNTY, INDIANA

This report is supplemental to the audit report of the Manchester Community Schools (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

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial close and reporting, receipts, grants, and other financing sources and uses.

Financial Close and Reporting

The School Corporation had not designed or implemented an effective system of internal controls over financial close and reporting. Although the Annual Financial Report (AFR) is prepared by one employee and reviewed by another employee, the internal control was not effective and did not detect and allow for correction of errors prior to submission. Additionally, evidence of the established internal control was not presented for audit.

Receipts

The School Corporation had not designed or implemented an effective system of internal controls over receipts. School Corporation receipts were recorded in the financial software by one employee without an oversight or review process in place to ensure accuracy. Additionally, Electronic Funds Transfers were deposited into the School Corporation's bank account and recorded to the financial software by one employee without an oversight or review process in place to ensure accuracy.

Other Financing Sources and Uses

The School Corporation had not designed or implemented an effective system of internal controls over other financing sources and uses. Proceeds of long-term debt were recorded in the financial software by the one employee without an oversight or review process to ensure accuracy. Additionally, a system of internal controls over transfers between funds was not designed or implemented to detect or allow for correction of errors.

Grants

The School Corporation had not designed or implemented an effective system of internal controls over the grant information entered into the AFR, which was the source of the Schedule of Expenditures of Federal Awards. Although the AFR was prepared by the one employee and reviewed by another employee, the implemented internal control was not effective and did not detect and allow for correction of errors prior to submission.

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:

MANCHESTER COMMUNITY SCHOOLS
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

Similar comments also appeared in prior Report B60828, entitled *ANNUAL FINANCIAL REPORT* and *SUPPLEMENTAL SCHEDULES IN THE ANNUAL FINANCIAL REPORT*.

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure the information reported in the Annual Financial Report (AFR) was accurate, as noted in the *INTERNAL CONTROLS* comment above.

Financial information is required to be entered annually into the Indiana Gateway for Government Units financial reporting system, which is the source of the School Corporation's AFR. Although one employee prepared the AFR and another employee reviewed the contents prior to submission, the internal control was not effective and did not detect and allow for correction of errors prior to submission.

As a result, the AFR contained the following errors:

Financial Data

- The Prepaid School Lunch Accounts fund was omitted from the AFR. This resulted in understatements in beginning cash and investments by \$25,661 and \$30,973, receipts by \$327,681 and \$336,278, disbursements by \$1,462 and \$822, other financing sources and uses by \$320,907 and \$339,714, and ending cash and investments balances by \$30,973 and \$26,715 for the years ended June 30, 2023, and June 30, 2024, respectively.
- The Preschool Playground fund was omitted from the AFR. This resulted in understatements in receipts and the ending cash and investments balance of \$7,500 for the year ended June 30, 2024.
- The Edge 85 CNC Grant Fund was omitted from the AFR. This resulted in understatements in receipts by \$14,501, disbursements by \$5,501, and ending cash and investments balance by \$9,000 for the year ended June 30, 2024.
- The 2022 Bond Fund overstated receipts and understated other financing sources and uses in the amount of \$2,638,746 for the year ended June 30, 2023.

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- On numerous occasions, transfers in and transfers out were misclassified and reported in receipts and disbursements instead of other financing sources and uses. This affected numerous funds. This resulted in errors totaling \$1,461,697 in receipts, \$800,734 in disbursements, and \$661,252 in other financing sources and uses for the years ended June 30, 2023, and June 30, 2024, in total.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement and the 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.

Grants

- The Career and Technical Education - Basic Grants to States was omitted from the AFR for the year ended June 30, 2023. As a result, federal expenditures were understated by \$99,855.
- The National School Lunch Program expenditures were understated by \$173,282 for the year ended June 30, 2023.
- The Special Education Cluster (IDEA) expenditures were understated by \$234,796 for the year ended June 30, 2023.
- Other immaterial errors totaled \$432,133 for the years ended June 30, 2023, and June 30, 2024, in total.

Audit Adjustments were proposed, accepted by the School Corporation, and made to the Schedule of Expenditures of Federal Awards presented in the Federal Compliance Audit Report of the School Corporation.

Leases and Debt

- The Manchester Elementary Building Corporation Series 2013 lease was omitted from the AFR. As a result, the annual lease payment on the lease schedule was understated by \$1,316,000 for the year ended June 30, 2023.
- The Manchester Elementary Building Corporation Series 2012 lease was overstated by \$415,000 for the year ended June 30, 2023.
- The Manchester Elementary Building Corporation Series 2012 lease was omitted from the AFR. As a result, the annual lease payment on the lease schedule was understated by \$205,000 for the year ended June 30, 2024.

Audit adjustments were proposed, accepted by the School Corporation, and made to the Schedule of Leases and Debt for fiscal year ending June 30, 2024, presented as Other Information in the Financial Statement Audit Report of the School Corporation.

Capital Assets

The School Corporation could not provide supporting documentation to verify the amounts reported in the AFR for capital assets in fiscal years ending June 30, 2023, and June 30, 2024. The differences could not be determined but are presumed to be material. As such, the School Corporation approved the omission of the Schedule of Capital Assets from inclusion as Other Information in the Financial Statement Audit Report of the School Corporation.

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Accounts Payable and Accounts Receivable

The School Corporation provided supporting documentation for the Accounts Payable and Accounts Receivable information entered into the AFR. The Accounts Payable calculations performed by the School Corporation did not properly identify amounts for goods or services received or used by the School Corporation during the fiscal year that were not paid by the end of the year. The differences could not be determined but are presumed to be material. As such, the School Corporation approved the omission of the Schedule of Payables and Receivables from inclusion as Other Information in the Financial Statement Audit Report of the School Corporation.

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](#)."

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. . . ."

CAPITAL ASSETS

This same comment also appeared in a Management Letter addressed to the School Corporation for the audit period ending June 30, 2022.

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure compliance with capital asset requirements.

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

The School Corporation had not maintained a complete, detailed capital asset listing based on an actual cost basis or a historical cost basis. The School Corporation provided a capital asset listing as of June 30, 2024; however, this was not a complete listing of capital assets and did not include land. Additionally, items below the capitalization threshold were included. The School Corporation also did not perform a physical inventory at least every two years.

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)

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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TRANSFERS

A similar comment also appeared in a Management Letter addressed to the School Corporation for the audit period ending June 30, 2022.

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure compliance with transfer requirements. The following transfers were made during the audit period without any documentation that the governing body approved them through resolutions, School Board minutes, or approval of claims.

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Transfer From	Transfer To	Description	Amount FY 22-23	Amount FY 23-24
Education	Health Workplace Grant	Transfer to close of grant in the negative	\$ 141	\$ -
Debt Service	Curricular Materials Rental	2021 Unreimbursed TBR	110,544	-
Curricular Materials Rental	Rainy Day	Transfer to Rainy Day	-	161,056
Education	Cares 3.0	Over-spent grant	-	3,431
Student Devices	School Technology\E-Rate	Transfer to E-rate to cover deficit	-	50,000
Rainy Day	Education	Transfer from Rainy Day to Education	-	748
Rainy Day	Education	Transfer from Rainy Day to Education	-	1,433

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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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AVERAGE DAILY MEMBERSHIP (ADM)

This same comment also appeared in a Management Letter addressed to the School Corporation for the audit period ending June 30, 2022.

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure compliance with average daily membership requirements. The School Corporation had not adopted a residency policy to ensure students reported in ADM counts reside in Indiana. For 22 of the 28 students selected for testing, the School Corporation could not provide proof of Indiana residency.

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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)

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 school corporation's governing body or charter school board must annually adopt or readopt a policy that specifies documentation, not to exceed three items, required to verify Indiana residency.

Documentation may include such items as a current utility bill, telephone bill, tax return, bank statement, mortgage statement, rental/lease agreement, medical bill, or similar information that provides a verifiable address. Documentation should be dated within 60 days of student enrollment, and the date should be clearly identified and readable on the copy on file for the student.

(Indiana Department of Education memos dated September 9, 2022 and September 8, 2023)

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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MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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SCHOOL FOOD SYSTEMS - PREPAID FOOD

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure compliance with applicable laws and regulations related to prepaid school food accounts. For the year ended June 30, 2023, the prepaid school lunch fund had an ending cash balance of \$30,973, while the subsidiary records of the student accounts had an ending cash balance of \$23,984. For the year ended June 30, 2024, the prepaid school lunch fund had an ending cash balance of \$26,715, while the subsidiary records of the student accounts had an ending cash balance of \$21,242. At the conclusion of each fiscal year, the ending cash balance of the Prepaid School Lunch Accounts fund should equal the subsidiary ledger of student account balances.

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)

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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MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

TRAINING ON INTERNAL CONTROL STANDARDS

This same comment also appeared in prior Report B60828, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure compliance with applicable laws and regulations related to training on internal control standards.

The School Corporation adopted the acceptable minimum level of internal control standards as required by Indiana Code 5-11-1-27(g), but did not provide training to all employees who should have received training. We selected three employees for testing. The School Corporation was not able to provide documentation that training over internal controls was completed for two of the three employees tested.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

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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MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

This same comment also appeared in prior Report B60828, entitled *CERTIFICATION ON INTERNAL CONTROL STANDARDS*.

Condition and Context

The School Corporation did not have adequate internal controls in place to ensure compliance with applicable laws and regulations related to certification on internal control standards.

The School Corporation incorrectly certified on the Annual Financial Report submitted in the Indiana Gateway for Government Units financial reporting system for fiscal years ending June 30, 2023, and June 30, 2024, that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the School Corporation. However, the School Corporation did not provide training to all required employees as noted in the comment above.

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](#)."

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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MANCHESTER COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 13, 2025, with Anthony Cassel, Superintendent of Schools; Jeff Stephens, Assistant Superintendent of Schools; Shelly Leifer, Comptroller; Michael R. Hensley, President of the School Board; Fred Orr, School Board member; Adam Penrod, School Board member; and Miriah Tobias, School Board member.