

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

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTH SPENCER COUNTY SCHOOL CORPORATION
SPENCER COUNTY, INDIANA
July 1, 2022 to June 30, 2024



FILED

03/12/2025

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Annual Financial Report	4-6
Prepaid School Meal Accounts.....	6-7
Exit Conference.....	8

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Martha Barnett Gerri Ford	07-01-22 to 12-11-22 12-12-22 to 06-30-25
Superintendent of Schools	Daniel R. Scherry	07-01-22 to 06-30-25
President of the School Board	Brian Gehlhausen Lori Gogel Annie Oxley	07-01-22 to 12-31-22 01-01-23 to 12-31-24 01-01-25 to 12-31-25



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INDIANA STATE BOARD OF ACCOUNTS

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TO: THE OFFICIALS OF THE NORTH SPENCER COUNTY SCHOOL
CORPORATION, SPENCER COUNTY, INDIANA

This report is supplemental to the audit report of the North Spencer County 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 25, 2025

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

A similar comment also appeared in prior Report B60913, entitled *GRANT SCHEDULE*.

Condition and Context

Deficiencies in the School Corporation's system of internal controls resulted in noncompliance over the Annual Financial Report (AFR). The AFR is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system. The School Corporation filed the AFR as prescribed; however, internal controls over the financial data entered into the AFR, which was the source of the School Corporation's financial statement and the Schedule of Expenditures of Federal Awards (SEFA), 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. Due to the lack of proper internal controls, the School Corporation's 2023 and 2024 financial statement contained the following errors:

Financial Data

- The fiscal year 2023 beginning balances of the Local Rainy Day fund and Construction Bond 2020 fund were understated by \$2,000,000 and \$999,998, respectively, which were related to investments that were reported in a separate fund.
- The 2023 beginning balance of the Investments fund was overstated by \$5,999,998. This fund is an internal mechanism for tracking investments and not a true fund and thus is not reported on the financial statement.
- The 2023 receipts, disbursements, and ending cash and investments balances in the Curricular Materials fund were understated by \$183,003, \$129,094, and \$53,909, respectively. The 2024 beginning cash and investments and disbursements in the Curricular Materials fund were understated by \$53,909 and \$7,010, and the receipts and ending cash and investments were overstated by \$164,721 and \$117,822, respectively.
- The School Spirit Cards/Donations, the HHHS Cafe Corner, the Stop the Bleed for Kids, the Chrisney Preschool, the Lincoln Trail Preschool, the DTEC Preschool, and the Nancy Hanks Preschool funds were combined and reported as Other Clearing Accounts fund. Based upon the nature of these funds, we determined that they did not meet the definition of clearing funds and required presentation as separate funds in the financial statement accordingly. The total receipts and disbursements entered for the Other Clearing Accounts fund did not agree to the activity of the individual funds. As a result, the 2023 receipts, disbursements, and ending cash and investments for these funds, in total, were understated by \$433,558, \$335,210, and \$93,348, respectively. In 2024, receipts and disbursements were each understated by \$400,240.
- The 2023 Other Financing Sources in the Construction Bond 2020 fund were understated by \$1,000,000, and Other Financing Uses in the Construction 2020 fund were understated by \$1,000,000 due to a transfer between funds that was omitted. Other immaterial errors understate receipts and disbursements for 2023 by \$340 and \$901, respectively.

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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

- The Medicaid Cluster was omitted, which understated grant expenditures by \$89,857 for 2023 and \$92,689 for 2024.
- The Child Nutrition Cluster grant expenditures were understated by \$67,493 for 2023 and overstated by \$83,833 for 2024.
- Two additional grants that included immaterial errors were noted, resulting in the understatement of grant expenditures by \$3,628 in 2023. Two additional grants that included immaterial errors were noted, resulting in the understatement of grant expenditures by \$1,774 in 2024.
- Other errors included incorrect identifying numbers, program names, and federal assistance listings numbers.

The submitted information is used to generate the SEFA which is presented in the Federal Compliance Audit Report of the School Corporation. 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.

Leases and Debt Schedule

- The Ad Valorem Property Tax First Mortgage Bonds - Series 2023 lease with the North Spencer County Middle School Building Corporation was omitted from the 2024 AFR. As a result, the School's Corporation's Annual Lease Payment as of June 30, 2024, was understated by \$622,000.
- The Annual Lease Payment at June 30, 2024, for the Ad Valorem Property Tax First 2017 - Renovations was overstated by \$162,500.
- The Annual Lease Payment at June 30, 2024, for the Ad Valorem Property Tax First 2016 Heritage Hills - Renovations was overstated by \$909,500.

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 2024 AFR.

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Investments Statement

The School Corporation reported investments totaling \$3,000,561 as of June 30, 2023, and did not report any investments as of June 30, 2024, in the investments statement in its 2023 and 2024 AFRs. However, the School Corporation had \$1,999,437 in investments at June 30, 2023 and 2024. All schedules included in the AFR are required to be completed unless they do not apply to the unit.

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)

PREPAID SCHOOL MEAL ACCOUNTS

A similar comment also appeared in prior Reports B52374, B56679, and B60913, entitled *PREPAID SCHOOL MEAL ACCOUNTS*.

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Condition and Context

Deficiencies in the School Corporation's system of internal controls resulted in the noncompliance over the Prepaid School Meal Accounts. The School Corporation did not perform monthly reconciliations of the Prepaid School Lunch Accounts clearing fund to the total of the individual meal accounts until December 2023. The balance of the Prepaid School Lunch Accounts clearing fund exceeded the balance of the total of the individual meal account per the School Corporation's subsidiary ledger by \$4,447 and \$6,095 at June 30, 2023 and 2024, respectively.

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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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. . . ."

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, the balance 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)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

NORTH SPENCER COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 25, 2025, with Gerri Ford, Treasurer; Daniel R. Scherry, Superintendent of Schools; Chad Schnieders, Assistant Superintendent of Schools; Annie Oxley, President of the School Board; Jennifer Aldrige, School Board member; Wayne Brinkman, School Board member; Chris Flohr, School Board member; Brittany Giles, School Board member; Jennifer Rich, School Board member; and David Waninger, School Board member.