

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NETTLE CREEK SCHOOL CORPORATION

WAYNE COUNTY, INDIANA

July 1, 2021 to June 30, 2023



FILED

02/28/2024

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Fund Sources and Uses	4
Financial Transactions and Reporting	4-6
Internal Controls	7
Prepaid School Lunch Accounts.....	7-8
Public Records Retention	8
Overdrawn Cash Balances.....	9
Exit Conference.....	10

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Andrew R. Cooper	07-01-21 to 07-08-22
	(Vacant)	07-09-22 to 07-11-22
	Hayley Charles	07-12-22 to 05-05-23
	(Vacant)	05-06-23 to 07-02-23
Superintendent of Schools	Amber Rushton	07-03-23 to 06-30-24
	Dr. Kyle Barrentine	07-01-21 to 06-30-22
	Emily Schaeffer	07-01-22 to 06-30-24
President of the School Board	Daniel J. Davis	07-01-21 to 12-31-23
	Shaun Lieberman	01-01-24 to 06-30-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NETTLE CREEK SCHOOL CORPORATION, WAYNE COUNTY, INDIANA

This report is supplemental to the audit report of the Nettle Creek School Corporation (School Corporation), for the period from July 1, 2021 to June 30, 2023. 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 20, 2024

NETTLE CREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FUND SOURCES AND USES

Condition and Context

The School Corporation incorrectly recorded grant reimbursements from the State of Indiana Comptroller for Title I Grants to Local Educational Agencies, Supporting Effective Instruction State Grants, and Education Stabilization Fund totaling \$70,952 into the Education fund instead of the correct grant funds.

The School Corporation incorrectly recorded three School Lunch fund distributions from the State of Indiana Comptroller totaling \$87,185 into the Prepaid School Lunch Accounts fund.

The School Corporation incorrectly recorded the Commercial Vehicle Excise Tax for the Debt Service fund into the Operations fund for the fall 2022 distributions and the spring 2023 distributions in the amounts of \$162 and \$2,501, respectively.

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)

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in a Management Letter addressed to the Treasurer for the audit period ending June 30, 2021.

Condition and Context

The School Corporation had not established effective internal controls over the financial and grant information entered into the Annual Financial Report via the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's financial statement and Schedule of Expenditures of Federal Awards. The School Corporation failed to properly review the financial information prepared and submitted in Gateway. Due to the lack of effective internal controls, the financial statement and Schedule of Expenditures of Federal Awards presented for audit included the following errors:

Financial Statement

- The 2022-2023 receipts and ending cash and investments balance for the Net Pay fund were each understated by \$4,679,197 due to the payroll direct deposits on the outstanding checklist not being posted.
- The 2022-2023 receipts and disbursements for the Insurance fund were each understated by \$118,353.
- The 2021-2022 Operations fund receipts were overstated by \$880,000 and Other Financing Source was understated by \$880,000 due to transfers in not being properly reported.

NETTLE CREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- The cash and investments balances, receipts and disbursements were overstated due to the School Corporation recording the transactions for the extracurricular activities in the School Corporation's general ledger instead of on a separate ledger, as noted in the table below:

Years	Fund	Beginning Cash and Investments (Under)/Overstated	Receipts (Under)/Overstated	Disbursements (Under)/Overstated	Other Financing Sources (Uses) (Under)/Overstated	Ending Cash and Investments (Under)/Overstated
2021-2022	Extra-Curricular funds	\$ 175,445	\$ 360,843	\$ 359,674	\$ -	\$ 176,614
2022-2023	Extra-Curricular funds	176,614	666,893	124,419	-	719,088

Schedule of Expenditures of Federal Awards (SEFA)

- The School Breakfast Program expenditures were overstated by \$216,401 in fiscal year 2021-2022 and understated by \$19,528 in 2022-2023.
- The National School Lunch Program expenditures were understated by \$176,624 and \$72,738 in 2021-2022 and 2022-2023, respectively.
- The Summer Food Service Program for Children expenditures were overstated by \$65,688 in 2021-2022.
- The Child and Adult Care Food Program expenditures were understated by \$19,643 in 2022-2023.
- The Title I Grants to Local Educational Agencies program expenditures were understated by \$144,878 in 2022-2023.
- The Supporting Effective Instruction State Grants program expenditures were understated by \$57,101 in 2022-2023.
- The COVID-19 - Education Stabilization Fund program expenditures were understated by \$613,092 and \$845,919 in 2021-2022 and 2022-2023, respectively.
- Two grants were included in error which overstated federal expenditures by \$90,083.
- Other errors included incorrect program names, pass-through entities, and identifying numbers.

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

In addition to the financial information noted above, other information is required to be entered annually into Gateway. The other information entered in Gateway contained the following errors:

NETTLE CREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Debt, Capital Asset, and Accounts Payable/Receivable Information

- The information presented for the School Corporation's leases and debt did not agree with the corresponding amortization schedules. In 2022-2023, one debt issue was reported as a School Corporation debt; however, it was actually a capital lease with the Holding Corporation and should have been reported as a lease in Gateway. Additionally, the 2020 General Obligation Bond principal due in one year was overstated by \$585,000.
- The information reported as capital assets in Gateway did not agree with amounts recorded in the capital asset ledger of the School Corporation. The School Corporation amount reported in Gateway for 2022-2023 was understated by \$12,445,368.
- The \$1,131,674 reported as accounts payable in Gateway was not supported by the School Corporation's records.

The School Corporation chose to not report the Schedule of Leases and Debt, the Schedule of Payables and Receivables, and the Schedule of Capital Assets 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 not later than sixty (60) days after the close of each fiscal year. 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. . . ."

NETTLE CREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

Condition and Context

Deficiencies in the internal control system of the School Corporation related to financial transactions and reporting were identified. The School Corporation had not established an effective system of internal controls over financial close and reporting and receipts.

Financial Close and Reporting

The School Corporation had not properly reviewed the Annual Financial Report entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement.

Receipts

The internal control procedures designed by the School Corporation over receipts, involving the review of receipts, was not consistently implemented during the audit period.

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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PREPAID SCHOOL LUNCH ACCOUNTS

Condition and Context

The School Corporation's Prepaid School Lunch Accounts fund was not in agreement with subsidiary records of the student accounts for the school years ended June 30, 2022 and 2023. Subsidiary records of the student accounts reflected balances of \$21,218 and \$3,611 at June 30, 2022, and June 30, 2023, respectively. The Prepaid School Lunch Accounts fund balance at June 30, 2022, and June 30, 2023, was \$11,424 and \$295,157, respectively.

NETTLE CREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

The School Corporation also was not performing monthly reconciliements of the Prepaid School Lunch Accounts fund with the individual meal accounts as required; and no transfers were made from the Prepaid School Lunch Accounts fund to the School Lunch fund in 2022-2023.

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)

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 you 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, you 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. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 10)

PUBLIC RECORDS RETENTION

Condition

The School Corporation entered into a contract for renovations to the Hagerstown Junior/Senior High School and Elementary School. The initial contract was located, but additional documentation such as a performance bond, request for payments, or any change orders were not provided for audit.

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."

NETTLE CREEK SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

OVERDRAWN CASH BALANCES

Condition and Context

The financial statement presented for audit included the following non-grant funds with overdrawn cash balances as of June 30, 2023:

Fund	Amount Overdrawn 06-30-23
School Lunch	\$ (32,014)
Curricular Materials Rental	(9,834)
Net Pay	(5,100)
Fed Tax	(9,673)
Soc Sec	(33,837)
State Tax	(1,011)
County Tax	(1,540)
Insurance	(96,920)
Student Fees Deductions	(4,024)
Credit Card Clearing	(9,115)

Funds with overdrawn cash balances as of June 30, 2022 or 2023, that were a result of grants awaiting reimbursements were not included in the above list.

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)

NETTLE CREEK SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 20, 2024, with Emily Schaeffer, Superintendent of Schools; Amber Rushton, Treasurer; Shaun Lieberman, President of the School Board; and Daniel J. Davis, Vice President of the School Board.