

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SALEM COMMUNITY SCHOOLS

WASHINGTON COUNTY, INDIANA

July 1, 2021 to June 30, 2023



**FILED**

03/22/2024



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Chrissie Albertson	07-01-21 to 07-09-23
	Lana Hamilton	07-10-23 to 06-30-24
Superintendent of Schools	Jon Acton	07-01-21 to 02-14-22
	Kim A. Thurston, EdD (interim)	02-15-22 to 06-30-22
	Richard Rutherford	07-01-22 to 05-29-23
	Kim A. Thurston, EdD (interim)	05-30-23 to 03-10-24
	Jill C. Mires	03-11-24 to 06-30-24
President of the School Board	Rodney Brough	07-01-21 to 12-31-22
	Mark A. Day	01-01-23 to 06-30-24



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

This report is supplemental to the audit report of the Salem Community Schools (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/](http://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 12, 2024

SALEM COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

**FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Reports B54622, entitled *INTERNAL CONTROLS*, and B59318, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

*Condition and Context*

The School Corporation is required to file financial reports after the close of each fiscal year. The reports are to be filed electronically as prescribed.

The School Corporation filed its reports as prescribed; however, the internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's Annual Financial Report and financial statement, were not effective.

The School Corporation failed to properly review the financial information prepared and submitted in Gateway. Although one employee prepared and entered the financial information into Gateway, and another employee reviewed and approved the information entered, the internal control was not effective and did not detect or correct errors prior to submission.

Due to the lack of effective internal controls, the financial statement contained the following errors:

- The 2021 Construction Safe Rooms fund overstated receipts and disbursements each by \$2,005,414 in fiscal year 2021-2022.
- The Prepaid Lunch fund was omitted from the financial statement, which understated financial activity in 2021-2022 and 2022-2023. In 2021-2022, the beginning cash and investments balance, receipts, disbursements, and the ending cash and investments balance were understated by \$26,109, \$66,173, \$67,926, and \$24,356, respectively. In 2022-2023, the beginning cash and investments balance, receipts, disbursements, and the ending cash and investments balance were understated \$24,356, \$167,471, \$165,233, and \$26,594, respectively.
- The SNP Clearing Acct fund was omitted in 2022-2023. As such, receipts and disbursements were understated by \$1,619,034 and \$1,619,169, respectively. In addition, the ending cash and investments balance was overstated by \$135.
- The Education fund disbursements were overstated by \$2,074,990, and other financing uses was understated by \$2,074,990 in 2022-2023.
- In 2021-2022, four funds had individually immaterial errors which resulted in the following net errors: the beginning cash and investments balance was overstated by \$40,016; receipts were understated by \$29,642; disbursements were understated by \$29,765; and the ending cash and investments balance was overstated by \$40,139.
- In 2022-2023, three funds had individually immaterial errors which resulted in the following net errors: receipts were overstated by \$279,856; disbursements were overstated by \$295,944; and the ending cash and investments balance was understated by \$16,088.

SALEM COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

- In 2021-2022, the School Corporation obtained a loan for the purchase of weight room equipment. The financial activity related to the loan was not recorded in the financial records of the School Corporation and was not reported in the financial statement. The loan proceeds were disbursed directly by the lending financial institution to the vendors. As such, both receipts and disbursements were understated by \$148,671. In addition, the repayment of the loan was incorrectly recorded in the financial records as purchase of supplies and professional services. Audit adjustments were not made to the financial statement for this activity as the net effect on the ending cash and investments balance is zero.

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 for 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](#)."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (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:

"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. . . ."

SALEM COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

**ANNUAL FINANCIAL REPORT (AFR) - OTHER INFORMATION**

*Condition and Context*

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The School Corporation had not properly established effective internal controls over the AFR information entered into the Gateway, which resulted in the following errors:

*Capital Assets*

The capital asset information entered into Gateway was incomplete. The School Corporation had recorded construction projects during the audit period for saferooms at the middle and high school. No construction in progress was included in the capital assets detail. As a result, the Schedule of Capital Assets was not presented in the Financial Statement Audit Report for the School Corporation.

*Grant Information*

- The Child Nutrition Cluster expenditures were understated by \$21,696 and \$470,260 for 2021-2022 and 2022-2023, respectively.
- The BRIC grant: Building Resilient Infrastructure and Communities expenditures were overstated by \$416,647 for 2022-2023.
- One additional grant's expenditures were understated by \$1,000 for 2021-2022.
- Several grants had incorrect award names and identifying numbers.

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 for 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](#)."

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SALEM 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. . . ."

## **CAPITAL ASSETS**

### *Condition and Context*

The School Corporation did not properly maintain capital asset records. The capital asset records did not include construction in progress for construction costs funded by a federal grant to construct saferooms. Additionally, building improvements and equipment purchase during the audit period were not properly reported on the capital asset record. Building improvements for flooring and an HVAC system and equipment purchases for a scissor lift and trailer made during the audit period from COVID-19 - Education Stabilization Funds were not properly identified on the capital asset record.

Capital Asset Ledger, General Form No. 369, prescribed to maintain capital assets, includes a column for a serial number or other identification tag number to properly identify the asset. The asset record did not always include an identification number.

In addition, a physical inventory of capital assets owned had not been conducted within the last 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 detailed 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)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

## **AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS**

### *Condition and Context*

The School Corporation could not provide proof of residency documentation for 2 of 28 brick and mortar students and 10 of 60 virtual students that were selected for testing.

SALEM 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)

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

*Condition and Context*

The School Corporation did not correctly report the virtual students for 2021-2022. There were 4 of the 60 virtual students tested that had never attended the virtual program on the count dates and were not removed from the student count that was submitted to the Indiana Department of Education.

*Criteria*

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)

SALEM COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2024, with Lana Hamilton, Treasurer; Jill C. Mires, Superintendent of Schools; Mark A. Day, President of the School Board; Rodney Brough, School Board member; Tracy Stone, Deputy Treasurer; and Kim A. Thurston, EdD., former Superintendent of Schools (interim).