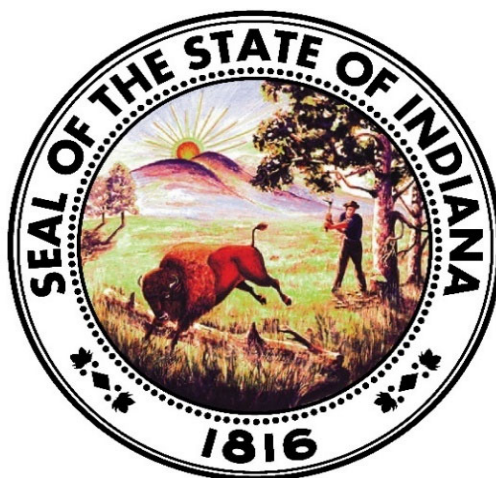


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT
OF
BORDEN-HENRYVILLE SCHOOL CORPORATION
CLARK COUNTY, INDIANA
July 1, 2021 to June 30, 2023



FILED
03/14/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Patty Kelley	07-01-21 to 06-30-24
Superintendent of Schools	Johnny Budd	07-01-21 to 06-30-24
President of the School Board	Myra Wright Powell	07-01-21 to 06-30-24



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE BORDEN-HENRYVILLE SCHOOL CORPORATION, CLARK COUNTY, INDIANA

This report is supplemental to the audit report of the Borden-Henryville 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

March 4, 2024

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in prior Report B59313, entitled *INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to financial close and reporting and cash and investments.

Financial Close and Reporting

The School Corporation did not have a proper system of internal controls in place over financial close and reporting. The Treasurer entered the information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report (AFR) and the financial statement, without a review or approval process in place to prevent, or detect and correct, errors on the AFR.

Due to the lack of internal controls, errors were noted with respect to the School Corporation's agreement with the Borden-Henryville Multi-Building Corporation.

During fiscal year 2022-2023 the School Corporation entered into an agreement with the Borden-Henryville Multi-Building Corporation (the "Issuer") in connection with the issuance of the Issuer's \$19.9 million Ad Valorem Property Tax First Mortgage Bonds, Series 2022. As noted in the agreement, the Issuer purchased school facilities in the amount of \$12 million. A portion of the \$12 million, \$4,124,679, was used to pay off the Bond Anticipation Note (BAN) issued by the School Corporation in March 2022. The BAN payoff should have been reported as a Debt Service expense on the AFR; however, the payoff was omitted. In addition, although the remaining \$7,875,321 was correctly reported as receipts on the AFR; the receipts were improperly classified as Proceeds from Long-Term Debt instead of Sale of Capital Assets.

Adjustments were proposed, accepted by the School Corporation, and made to the financial statement and to the Combining Schedule 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.

Cash and Investments

The School Corporation designed a process in which the Treasurer prepared the bank reconciliations and the AP Clerk reviewed and approved the reconciliations; however, this was only implemented during the first 6 months of the audit period. Furthermore, the last bank reconciliation completed by the School Corporation was December 2021. Since bank reconciliations of the bank balances to the School Corporation's record balance had not been performed for the last 18 months of the audit period, the Examiners used confirmed bank balances and compiled amounts for outstanding checks and deposits in transit to determine if the School Corporation's record balance reconciled to the bank balances. The calculations completed by the Examiners indicated that the bank balances were less than the record balances by \$12,837 and \$74,312, as of June 30, 2022 and 2023, respectively.

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

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."

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 Schools Corporations, Chapter 1)

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)

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. . . ."

MONTHLY AND ANNUAL UPLOADS

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, approved School Board minutes and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Annual upload requirements include the year-end bank statement, year-end outstanding check list, year-end investments, detail of receipt activity, detail of disbursement activity, current year salary ordinance, and an annual vendor history report.

Currently, the School Corporation has not uploaded any of the required monthly and annual engagement uploads for the period January 2022 through February 2024 as required by State Examiner Directive 2018-1.

Criteria

The upload of December 2020 monthly files will be due February 15, 2021, and by the 15th of each month thereafter unless the State Board of Accounts (SBOA) establishes a different date. This is effective for 2020 annual files which will be due for upload March 1, 2021, for calendar year end units. For schools and extra-curricular accounts, this is effective for year ending June 30, 2021, which will be due August 29, 2021. Thereafter, annual files must be uploaded no later than March 1st (August 29th for schools and extra-curricular accounts) for the prior year end unless the SBOA establishes a different date.

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 effective with uploads due February 15, 2021)

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)

CAPITAL ASSETS

The same comment also appeared in prior Report B59313.

Condition and Context

The School Corporation adopted a capital asset policy; however, they did not maintain a detailed listing of its capital assets. A physical inventory had not taken place during the audit period.

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)

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Treasurer certified on the Indiana Gateway for Government Units financial reporting system 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, during the engagement period it was determined that several individuals tested had not received the required training.

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](#)."

TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment appeared in prior Report B59313, entitled *TRAINING ON INTERNAL CONTROL STANDARDS*.

Condition and Context

Some School Corporation employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belonged to the School Corporation, had not received training over internal control standards that was developed or approved by the Indiana State Board of Accounts.

Criteria

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

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

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

AVERAGE DAILY MEMBERSHIP (ADM)

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

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Condition and Context

There were deficiencies noted in the internal controls over reporting of the Average Daily Membership (ADM). The School Corporation's IT Staff retrieved the student data from its student information system and compiled the information to be sent to the Indiana Department of Education (IDOE) once the Superintendent of Schools signed the Certification Summary Report. There were no processes in place at the building level during the entire audit period to verify the information was accurate prior to the certification by the Superintendent of Schools and submission to the IDOE.

The School Corporation was unable to provide documentation to verify proof of residency for 18 of 65 students tested. There was also one noted instance in which the School Corporation was unable to provide supporting documentation verifying the age of that student.

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. . . ."

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)

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)

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT - 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 established effective internal controls over the AFR information entered into Gateway for fiscal years 2021-2022 and 2022-2023, which resulted in the following errors:

Combining Schedules

The School Corporation failed to accurately classify and report receipts for the sale of assets. In 2022-2023, \$7,875,321 was recorded and reported as Other Financing Sources (Uses) - Proceeds of Long-term Debt that should have been classified as Sale of Capital Assets.

Adjustments were proposed, accepted by the School Corporation, and made to the Combining Schedule of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis for 2022-2023 presented in the Financial Statement Audit Report for the School Corporation.

Accounts Payable and Account Receivables Information

The School Corporation failed to report accounts payable and receivable for 2021-2022 and 2022-2023. The School Corporation elected to not present the Schedule of Payable and Receivables as Other Information in the Financial Statement Audit Report for the School Corporation.

Capital Asset Information

The School Corporation prepared and submitted capital asset information; however, the School Corporation was unable to provide a detailed listing of capital assets to support the amounts reported for 2021-2022 and 2022-2023. The School Corporation has elected not to present the Schedule of Capital Assets as Other Information in the Financial Statement Audit Report for the School Corporation.

Debt Information

The School Corporation incorrectly reported the debt issued by the Holding Corporation as bonded debt of the School Corporation in 2022-2023. The leases with the Holding Corporation were reported correctly, resulting in the debt being reported twice. The following errors were identified:

- The principal balance and principal due within one year for the Series 2022 Bond-Building Renovations/Improvement were overstated by \$19,900,00 and \$70,000, respectively.
- The principal balance for the Building Lease 2019 A-Building Renovations/Improvements was overstated by \$8,190,000.

Adjustments were proposed, accepted by the School Corporation, and made to the Schedule of Leases and Debt presented as Other Information in the Financial Statement Audit Report for the School Corporation.

BORDEN-HENRYVILLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Grant Information

The School Corporation submitted grant information for the audit period; however, it included the following errors:

- The National School Lunch Program expenditures were understated by \$137,921 due to incorrectly reporting Commodities and the omission of the COVID - SNP Emergency Funds.
- The Special Education Cluster (IDEA) expenditures were understated by \$363,782 due to the omission of the special education expenditures for 2021-2022.
- Several other grants had immaterial errors that resulted in an understatement of expenditures in the amount of \$88,969.
- Other errors included incorrect program names and pass-through entity identifying numbers.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA 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](#)."

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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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. . . ."

BORDEN-HENRYVILLE SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 4, 2024, with Patty Kelley, Treasurer; Johnny Budd, Superintendent of Schools; Myra Wright Powell, President of the School Board; Brian Guernsey, School Board member; Andrew Guernsey, School Board member; and Terry Roudenbush, School Board member.