

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PAOLI COMMUNITY SCHOOL CORPORATION

ORANGE 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	Courtney Brown	07-01-21 to 06-30-24
Superintendent of Schools	Greg Walker	07-01-21 to 06-30-24
President of the School Board	Lila Tucker	07-01-21 to 06-30-24



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE PAOLI COMMUNITY SCHOOL  
CORPORATION, ORANGE COUNTY, INDIANA

This report is supplemental to the audit report of the Paoli Community 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/](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 14, 2024

PAOLI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

*Condition and Context*

At June 30, 2022, 14 of the 15 funds with overdrawn cash balances in the amount of \$1,648,632, and at June 30, 2023, 17 of the 21 funds with overdrawn cash balances in the amount of \$3,058,070, were due to grant reimbursements not being requested timely. Reimbursements for grant expenditures were requested once every four months, except for the ESSER II - Elem And Sec School Emergency Relief fund that had one reimbursement request submitted for each fiscal year, and the ESSER III - Elem & Secondary School Emergency Relief fund that had no reimbursement requests submitted during the entire audit period.

Of the remaining overdrawn cash funds, 3 were related to payroll withholding funds and 1 was due to a construction fund not reimbursed from debt proceeds as of June 30, 2023. The following funds had overdrawn cash balances:

Fund	Amount Overdrawn at June 30, 2022	Amount Overdrawn at June 30, 2023
Operation Round-Up 2023 Grant	\$ -	\$ 500
Secured Schools Safety Grant	15,000	15,000
STEM Intergration Program Grant	-	14,331
Title I 21/22 Grant	135,362	-
Title I 22/23 Grant	-	99,849
Idea Spec Ed	20,412	10,387
Spec Ed Shared Employees	67,445	51,104
Preschool Handicap	15,535	7,411
Title Iv Part A Fy21	3,092	3,621
Title Iv Part A Fy22	-	2,492
Title li Part A Fy20	663	-
Title li Part A Fy21	12,182	2,352
Title li Part A Fy22	-	27,629
Rlis Fy22 Title Vi Part B	-	8,034
Attrract Prepare And Retain Grant	-	16,560
Emergency Connectivity (Americ	47,613	-
Esser III-Elem & Secondary School Emergency Relief	1,008,816	2,370,341
Esser II - Elem And Sec School Emergency Relief	268,588	372,636
Elementary And Secondary School Emergenc	-	35,539
Federal Stimulus - 18002 Governor's Emerg Educ Relief	27,407	-
Federal Stimulus - 18003 Educ. Stab Reli	70	-
Recn-Rural Early College Netwo	26,447	20,284
 Subtotal - Grant Funds	 <u>1,648,632</u>	 <u>3,058,070</u>
 2023 Fmb Construction Fund	 -	 76,578
High School Eca Reimb Payroll	-	334
Elementary Eca Reimbursement Payroll	-	1,941
Cafeteria Payroll	7,453	6,092
 Subtotal - Non-Grant Funds	 <u>7,453</u>	 <u>84,945</u>
 Total	 <u>\$ 1,656,085</u>	 <u>\$ 3,143,015</u>

PAOLI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

*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)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

The School Corporation's Cash Management of Grants policy states in part:

". . . The Superintendent is authorized to submit requests for advance payments and reimbursements at least monthly when electronic fund transfers are not used, and as often as deemed appropriate when electronic fund transfers are used, in accordance with the provisions of the Electronic Fund Transfer Act (15 U.S.C. 1693-1693r). . . ."

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)

**ANNUAL FINANCIAL REPORT**

*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 in 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 the Corporation Treasurer prepared and entered the financial information into Gateway, and the Deputy Treasurer reviewed and approved the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of internal controls, the financial statement presented for audit contained errors as follows:

- Investment balances were erroneously reported as a negative amount at July 1, 2021. This resulted in the beginning cash and investments balance at July 1, 2021, being understated by \$5,878,677.
- Investment transactions for fiscal year 2021-2022 overstated receipts and disbursements in the amount of \$11,925,000 and \$10,886,707, respectively.
- Investment transactions for 2022-2023 overstated receipts and disbursements in the amount of \$11,500,000 and \$11,290,843, respectively.

PAOLI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

- The above errors resulted in the cash and investments balance at June 30, 2022, and June 30, 2023, being understated by \$4,840,384 and \$4,631,227, respectively.
- Individually immaterial errors were noted in 2021-2022. The net errors resulted in the cash and investments balance at July 1, 2021, being understated by \$15,320; and receipts and disbursements were overstated by \$15,444 and \$75, respectively.
- Individually immaterial errors were noted in 2022-2023. The net errors resulted in receipts and disbursements being overstated by \$184 and \$183, respectively.

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

**ANNUAL FINANCIAL REPORT - OTHER INFORMATION**

*Condition and Context*

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report via the Indiana Gateway for Government Units (Gateway) financial reporting system. The School Corporation did not have an effective system of internal controls in place to ensure the accuracy of the information entered into Gateway as Other Information, which resulted in the following errors:

PAOLI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Combining Statements*

- Investment balances were erroneously reported as a negative amount at July 1, 2021. This resulted in the beginning cash and investments balance at July 1, 2021, being understated by \$5,878,677.
- Investment transactions for fiscal year 2021-2022 had overstated receipts and disbursements in the amount of \$11,925,000 and \$10,886,707, respectively.
- Investment transactions for 2022-2023 had overstated receipts and disbursements in the amount of \$11,500,000 and \$11,290,843, respectively.
- The above errors resulted in the cash and investments balance at June 30, 2022, and June 30, 2023, being understated by \$4,840,384 and \$4,631,227, respectively.
- Individually immaterial errors were noted in 2021-2022. The net errors resulted in the cash and investments balance at July 1, 2021, being understated \$15,320, and receipts and disbursements were overstated \$15,444 and \$75, respectively.
- Individually immaterial errors were noted in 2022-2023. The net errors resulted in receipts and disbursements being overstated by \$184 and \$183, respectively.

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

*Schedule of Leases and Debt*

- The School Corporation reported the 2022 General Obligation Bonds as a lease rental instead of bonded debt on the Schedule of Leases and Debt. This caused an overstatement of \$530,822 on the lease schedule and an understatement of the ending principal balance of \$365,000 and principal and interest due in one year of \$379,603 on the debt schedule.

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.

*Grants*

- The National School Lunch Program expenditures were overstated by \$397,906 in 2022-2023.
- Five additional grants had individually immaterial errors which resulted in misstatements of expenditures of \$33,801, in total, in 2021-2022, and \$15,717, in total, in 2022-2023.
- Additional errors included for incorrect program titles, project titles, identifying numbers, and Assistance Listings 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.

PAOLI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Capital Assets*

- A complete detailed listing of capital assets was not maintained. On July 12, 2021, the School Corporation increased the capitalization threshold of capital assets to \$50,000. Adjustments were not made to the capital asset listing removing items costing less than \$50,000. It was also noted that capital assets purchased during the audit period were not added to the capital asset listing. Therefore, the amount reported in the capital asset schedule, at June 30, 2022 and 2023, could not be verified for accuracy.

The School Corporation approved the omission of the Schedule of Capital Assets from 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 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](#)."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, 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. . . ."

PAOLI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

**CAPITAL ASSETS**

*Condition and Context*

The detailed listing of all capital assets owned which reflects its acquisition value is maintained; however, there were no additions or deletions during the audit period. On July 12, 2021, the School Corporation increased the threshold of capital assets to \$50,000. Adjustments were not made to the capital asset listing to remove items costing less than \$50,000. It was also noted that capital assets purchased during the audit period were not added to the capital asset listing. In addition, a complete physical inventory was not being completed as required 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 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)

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)

PAOLI COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2024, with Greg Walker, Superintendent of Schools; Courtney Brown, Treasurer; Cindy Eubank, Deputy Treasurer; Lila Tucker, President of the School Board; and Lisa Muth, School Lunch ECA Treasurer.