

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PENN-HARRIS-MADISON SCHOOL CORPORATION

ST. JOSEPH COUNTY, INDIANA

July 1, 2021 to June 30, 2023



FILED
03/08/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jerry Hawkins Dr. Thomas Keeley	07-01-21 to 06-30-23 07-01-23 to 06-30-24
Superintendent of Schools	Dr. Jerry L. Thacker	07-01-21 to 06-30-24
President of the School Board	Christopher Riley	07-01-21 to 06-30-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE PENN-HARRIS-MADISON SCHOOL CORPORATION, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to the audit report of the Penn-Harris-Madison 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 22, 2024

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

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, which was the source of the Schedule of Expenditures of Federal Awards (SEFA) and Other Information - Schedule of Leases and Debt and Schedule of Capital Assets. The School Corporation had not established effective internal controls over the AFR information entered into Gateway, which allowed material misstatements of the SEFA and Other Information to remain undetected.

SEFA

The following errors were identified in the SEFA:

- The School Breakfast Program expenditures were understated by \$1,042,673 and \$331,650 for fiscal years 2021-2022 and 2022-2023, respectively.
- The National School Lunch Program expenditures were overstated by \$2,223,904 and understated by \$1,377,857 for 2021-2022 and 2022-2023, respectively. Additionally, commodities were overstated by \$686 for 2021-2022 and omitted for 2022-2023, which understated expenditures by \$309,459. Lastly, after school snack, SNP emergency funds, and supply chain assistance funds were omitted, which understated expenditures by \$119,691 and \$526,467 for 2021-2022 and 2022-2023, respectively.
- The Special Education Grants to States expenditures were understated by \$461,153 and \$1,670,319 for 2021-2022 and 2022-2023, respectively.
- The COVID-19 - Education Stabilization Fund expenditures were understated by \$1,168,606 and \$1,006,368 for 2021-2022 and 2022-2023, respectively.
- There were 6 grants that had individual immaterial errors for 2021-2022 that resulted in misstatements of expenditures of \$756,765, in total. There were 17 grants that had individual immaterial errors for 2022-2023 that resulted in misstatements of expenditures of \$1,618,189, in total.
- Other errors included incorrect program names, pass-through entities, and 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.

Other Information - Schedule of Capital Assets

The Schedule of Capital Assets did not agree with the School Corporation's detailed listing of capital assets owned and was overstated by \$35,850,621.

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

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Other Information - Schedule of Leases and Debt

- The ending principal balance of the General Obligation Bond of 2018 was overstated by \$5,840,000, and the principal and interest due within one year was overstated by \$3,790,000.
- The ending principal balance of the General Obligation Bond of 2023 was understated by \$5,840,000.
- The ending principal balance for all Common School Fund Loans was understated by \$1,978,954, and the principal and interest due in one year was understated by \$1,674,923.
- The annual lease payments for the Penn High School Bldg. Corp were overstated by \$2,522,550.

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.

Payables and Receivables

The Schedule of Payables and Receivables information entered into Gateway was incorrect and did not reflect the financial activity of the School Corporation. The School Corporation approved the omission of the Schedule of Payables and Receivables 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](#)."

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. . . .

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

INTERNAL CONTROLS

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 established internal controls, which would include appropriate segregation of duties over financial close and reporting, receipts, payroll disbursements, payroll withholdings, or other financing sources and uses.

Financial Close and Reporting

The Executive Director of Business Services prepared and uploaded the Annual Financial Report (AFR) into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the AFR and the financial statement. Once uploaded, the AFR was printed and reviewed by the Accounting Coordinator and Executive Director of Business Services prior to submission in Gateway by the Executive Director of Business Services.

To verify this process, documentation of the review was requested; however, no evidence of the review process could be provided. As such, the AFR was prepared and submitted without a documented oversight or review process in place to detect and allow correction of errors prior to submission.

Receipts

Receipts were entered into the financial software by the Accounting Specialist and reviewed by the Accounting Coordinator.

To verify this process, documentation of the Accounting Coordinator's review of receipts was requested; however, no evidence of this review or oversight process could be provided. As such, receipts were recorded without a documented oversight or review process to ensure timely and accurate posting.

Payroll Disbursements

Payroll disbursements were prepared by the Payroll Coordinator and reviewed and processed by the Payroll Assistant.

To verify this process, documentation of the Payroll Assistant's review of payroll disbursements was requested; however, no evidence of this review or oversight process could be provided. As such, payroll disbursements were prepared and processed without a documented oversight or review process to ensure timely and accurate posting.

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Payroll Withholdings

The Payroll Coordinator prepared detailed reports for payroll benefits; however, there was no process in place to review the accuracy and propriety of payroll withholdings, deductions, and benefits retained from employees' wages and the corresponding payments to vendors.

Other Financing Sources and Uses

Proceeds of long-term debt were entered into the financial software by the Accounting Specialist and reviewed by the Accounting Coordinator.

To verify this process, documentation of the Accounting Coordinator's review of long-term debt proceeds was requested; however, no evidence of this oversight or review process could be provided. As such, proceeds from long-term debt were entered without a documented oversight or review process to ensure timely and accurate posting.

Additionally, the School Board was to approve all transfers through an ordinance, resolution, or within the monthly document claims. However, evidence of this review or oversight process could not be provided for some transfers. As such, these transfers were made without a documented oversight or review process.

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. . . ."

CAPITAL ASSETS

Condition and Context

The School Corporation did not maintain a proper detailed listing of capital assets owned. Testing showed the following capital assets were not deleted from the detailed listing during the audit period: Special Education photocopier, school bus, Chevy 2500 pickup truck, 2003 Ford F250, 2007 Chevy Trailblazer, and a 1990 Chevy 1500.

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Condition and Context

The School Corporation was not able to provide adequate documentation for 68 of 124 pupils tested related to Average Daily Membership (ADM) requirements. Additionally, one of four certifications of ADM submitted to Indiana Department of Education during the audit period did not document approval from the Superintendent of Schools, prior to submission.

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)

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

FUND SOURCES AND USES (TRANSFERS)

Condition and Context

The School Corporation was not in compliance with the laws and regulations related to transfers. Some transfers were not limited to those authorized by the enabling law and ordinance/resolution and were not approved by the governing board.

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)

PENN-HARRIS-MADISON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2024, with Dr. Thomas Keeley, Treasurer; Dr. Jerry L. Thacker, Superintendent of Schools; and Christopher Riley, President of the School Board.