

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MEDORA COMMUNITY SCHOOL CORPORATION

JACKSON COUNTY, INDIANA

July 1, 2013 to June 30, 2017



FILED
02/14/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Vicki Dean Teresa Brewer	07-01-13 to 07-31-14 08-01-14 to 12-31-18
Superintendent of Schools	Tom Judd Roger Bane (interim) Roger Bane	07-01-13 to 08-19-14 08-20-14 to 12-07-14 12-08-14 to 06-30-21
President of the School Board	Joe Campbell	07-01-13 to 12-31-18



STATE OF INDIANA
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TO: THE OFFICIALS OF THE MEDORA COMMUNITY SCHOOL
CORPORATION, JACKSON COUNTY, INDIANA

This report is supplemental to our audit report of the Medora Community School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2017. 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 our Financial Statements Audit Report of the School Corporation, which provides our opinion on the School Corporation's financial statements. 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 20, 2018

MEDORA COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The School Corporation did not have adequate segregation of duties, such as an oversight, review, or approval process to prevent, or detect and correct, misstatements within the financial reporting system of the School Corporation related to cash, receipts, and disbursements.

Cash

The Treasurer received the bank statement in the mail and prepared the monthly reconcilements of the bank and fund balances. There was no evidence of an independent review to ensure the accuracy of the reconciliation.

Receipts

The Treasurer was responsible for collecting money, preparing receipts, preparing the bank deposit, depositing the funds, and posting all transactions to the ledger in addition to preparing the monthly reconcilements. There was no evidence of an independent review process or other control procedures to ensure that receipts were properly handled when received and accurately posted to the financial statement.

Disbursements

The Treasurer was responsible for preparing all claims, writing all checks, and posting all transactions to the ledger related to vendor disbursements. Additionally, the Treasurer was solely responsible for processing the biweekly payrolls. There was no evidence of internal control procedures over vendor and payroll disbursements to ensure that expenditures were properly made and accurately posted to the financial statement.

Due to the lack of controls, multiple issues were identified related to disbursements. Sixteen claims tested did not show approval of the person receiving the goods or services, one claim tested was not recorded timely, five claims tested were not certified by the fiscal officer, and two claims tested did not have School Board approval. Additionally, numerous transfers were made between multiple School Corporation funds during the audit period. The minutes of the School Board did not indicate that any of these transfers were approved.

Issues were also identified during a separate test of disbursements related to payroll tax withholdings. These disbursements were made via electronic fund transfers to the respective taxing authorities. Federal tax withholdings were paid biweekly, and state and local tax withholdings were paid monthly, generally around the middle of the month. However, the transactions were not recorded timely as the School Corporation posted one entry at the end of each month to account for all payments made during the month. Additionally, no claim was generated for any of these disbursements, and they did not appear on the accounts payable voucher registers. Therefore, none were certified by the fiscal officer or approved by the School Board.

Additional issues were identified during testing of payroll disbursements. Hourly employees maintained timesheets tracking total hours worked. The School Corporation had a control procedure in place that the timesheets were approved by the employee's supervisor. However, the control was not functioning effectively. Two timesheets were not approved by the employee's supervisor certifying the hours worked were accurate. Also, a payroll claim docket was not generated from July 2013 to August 2014. Therefore, the payroll claims paid during this period were not certified by the fiscal officer or approved by the School Board.

MEDORA COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT
(Continued)

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. . . ."

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. 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)

MEDORA COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Teresa Brewer, Treasurer; Roger Bane, Superintendent of Schools; John W. Hughes, School Board member; and Joe Campbell, President of the School Board.