

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
CANNELTON CITY SCHOOL CORPORATION
PERRY COUNTY, INDIANA
July 1, 2016 to June 30, 2018



FILED
03/28/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melissa Embry	01-01-16 to 12-31-19
Superintendent of Schools	Alva L. Sibbitt, Jr.	07-01-16 to 06-30-20
President of the School Board	William Garrett	01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CANNELTON CITY SCHOOL
CORPORATION, PERRY COUNTY, INDIANA

This report is supplemental to our audit report of the Cannelton City School Corporation (School Corporation), for the period from July 1, 2016 to June 30, 2018. 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 Statement Audit Report of the School Corporation, which provides our opinion 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.

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

March 6, 2019

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B48282, entitled *INTERNAL CONTROLS*.

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The lack of internal controls was a systemic issue throughout the audit period.

The School Corporation had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and financial reporting. A separation of duties for each of these areas had not been designed or implemented to prevent, or detect and correct, errors.

Cash and Investments

The Treasurer performed the monthly bank reconciliations without an oversight, review, or approval process to ensure they were being prepared accurately and completely.

Receipts

The Treasurer collected, receipted, deposited, and recorded the receipts into the accounting records without an oversight, review, or approval process to ensure the accuracy of the collection and posting of receipts.

Payroll Disbursements

Although employees' semi-monthly timesheets were maintained, they were not always signed by the Principal or Supervisor to certify hours were actually worked. The Treasurer processed and completed all functions of payroll processing activities without an oversight, review, or approval process.

Financial Reporting

The Treasurer prepared and submitted federal reimbursement requests without an oversight, review, or approval process. The School Corporation was not effectively monitoring the cash balance of federal grants, which resulted in negative cash balances.

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. . . ."

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

The School Corporation did not timely file an Annual Financial Report with the Indiana State Board of Accounts for fiscal year 2017. The report was filed on November 7, 2017, which was 70 days past the due date.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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](#)."

CERTIFICATION AND TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted by the School Corporation; however, no evidence could be provided to support that training on minimum internal control standards had been completed by personnel.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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](#)."

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."

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Reports B31777, B37359, B40712, and B48282, entitled *OVERDRAWN FUND BALANCES* and *OVERDRAWN CASH BALANCES*.

The financial statement presented in the Financial Statement Audit Report of the School Corporation included the following funds with overdrawn cash balances at June 30:

CANNELTON CITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Fund	Amount Overdrawn as of June 30,	
	2017	2018
Debt Service	\$ 16,825	\$ -
Capital Projects	47,825	39,037
School Transportation	12,232	-
School Bus Replacement	429	-
School Lunch	462	-
Textbook Rental	-	11,044
KOFC Tootsie Roll	-	53
Early Care Grant	770	770
Title I FY2014	495	495
Title I FY2015	28,051	28,051
Title I FY2016	8,959	8,959
Title I FY2017	11,261	11,962
Title I FY2018	-	10,615
Small / Rural School 17-18	-	10,418
Improving Teacher Quality, No Child Left, Title II, Part A FY 17	-	863
Payroll Clearing	5,269	10,268

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)

PENALTIES, INTEREST, AND OTHER CHARGES

The School Corporation paid penalties and interest in the amount of \$4 to the United States Treasury for improper payments made on tax periods of December 31, 2016, and June 30, 2017, for the Form 941.

The School Corporation also paid penalties in the amount of \$2,368 to the Indiana Department of Revenue for late payments of state and local payroll withholding taxes for the tax periods of August and October 2017 and January and May 2018.

The total payment of penalties and interest was \$2,372.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 1)

ERRORS ON CLAIMS

Of the 108 Accounts Payable Vouchers (claims) tested for compliance, the following exceptions were noted:

CANNELTON CITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

1. Sixteen claims did not have supporting documentation attached to support the disbursement.
2. One claim was for a stipend approved in the School Board minutes that should have been included on the employee's payroll check.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 1)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 1)

EXTRACURRICULAR ACCOUNT (ECA) RISK REPORT NOT FILED

The ECA Treasurer at Myers Grade School and Cannelton Jr.-Sr. High School did not file an ECA Risk Report for the 2016-2017 and 2017-2018 school years.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality 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](#)."

TEXTBOOK REIMBURSEMENT

The School Corporation failed to file a request for textbook reimbursement totaling \$15,014 during fiscal year 2019, which resulted in a loss of funds to the School Corporation. The required collection period for schools to file for textbook reimbursement was between October 1, 2018 and October 31, 2018, and the required sign-off period was from November 1, 2018 to November 9, 2018. The information was required to be filed per instructions provided by the Department of Education, Office of School Finance.

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)

CANNELTON CITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 6, 2019, with Melissa Embry, Treasurer; Alva L. Sibbitt, Jr., Superintendent of Schools; William Garrett, President of the School Board; and Marion Lawalin, School Board Secretary.