

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FLAT ROCK-HAWCREEK SCHOOL CORPORATION

BARTHOLOMEW COUNTY, INDIANA

July 1, 2015 to June 30, 2018



**FILED**  
07/01/2019



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jeffrey A. Cleland	01-01-15 to 12-31-19
Superintendent of Schools	Shawn R. Price	07-01-15 to 06-30-21
President of the School Board	Steve Wilson	01-01-15 to 12-31-15
	Brian Rose	01-01-16 to 12-31-16
	Steve Wilson	01-01-17 to 12-31-17
	Pat Walters	01-01-18 to 12-31-18
	Dr. John D. Harker	01-01-19 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE FLAT ROCK-HAWCREEK SCHOOL CORPORATION, BARTHOLOMEW COUNTY, INDIANA

This report is supplemental to our audit report of the Flat Rock-Hawcreek School Corporation (School Corporation), for the period from July 1, 2015 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 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/](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.

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

May 15, 2019

FLAT ROCK-HAWCREEK SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

A similar comment also appeared in prior report B49288, entitled *FINDING 2015-002 - FINANCIAL TRANSACTIONS AND REPORTING*.

No evidence was presented to indicate that the School Corporation had separated incompatible activities related to receipts. The Treasurer was responsible for all aspects of the receipts process without any compensating controls.

Additionally, the School Corporation's system of internal controls over cash and investment balances were not effective. The bank reconcilements were being reviewed and approved by someone other than the preparer; however, the reconciled bank balances did not reconcile to the records.

The bank reconciliation as of June 30, 2018, contained the following errors:

- There were 127 identified reconciling items that had not been posted to the School Corporation's ledger. The reconciling items were dated from July 2010 to June 2018, and were comprised of \$242,357 for disbursements and \$8,391 for receipts.
- An unidentified cash variance of \$25,017, in which the bank balance exceeded the record balance.
- The outstanding check list included twelve checks totaling \$61,112 that had previously cleared the bank.

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. . . ."

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)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

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 School Corporations, Chapter 1)

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."

**PREPAID SCHOOL MEAL ACCOUNTS**

This is a repeat comment from the immediately prior Audit Report B49288.

Prepaid meal payments were receipted into the School Lunch fund. The School Corporation had not established a separate fund to account for prepaid food receipts.

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts, which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 Other Food Services and receipt this into fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

**TRAINING ON INTERNAL CONTROL STANDARDS**

The School Corporation did not ensure that all required personnel received training concerning the internal control standards adopted by the School Corporation.

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."

**CERTIFICATION ON INTERNAL CONTROL STANDARDS**

The School Corporation incorrectly certified on the fiscal year 2017-2018 Annual Financial Report that all required personnel received training concerning the internal control standards adopted by the School Corporation; however, no training process for internal controls had been implemented.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

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](#)."

***CAPITAL ASSETS***

The School Corporation had not properly maintain a complete and detailed listing of all capital assets owned.

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 Schools, Chapter 1)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on May 15, 2019, with Jeffrey A. Cleland, Treasurer; Shawn R. Price, Superintendent of Schools; and Dr. John Harker, President of the School Board.