

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

RIVER FOREST COMMUNITY SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
01/22/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Financial Transactions.....	4-5
Overdrawn Cash Balances.....	5
Checks Recorded and Drawn Prior to Board Approval.....	5-6
Prepaid School Meal Accounts.....	6
Subsequent Events - Timely Recording of Receipts and Bank Reconciliations	7
Official Response	8-9
Exit Conference.....	10

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lynne M. Styx	07-01-17 to 06-30-20
Superintendent of Schools	Dr. Steven C. Disney, Jr.	07-01-17 to 06-30-20
President of the School Board	H. Marshall Gilliana, II Michelle Martin	07-01-17 to 12-31-18 01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE RIVER FOREST COMMUNITY
SCHOOL CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the River Forest Community School Corporation (School Corporation), for the period from July 1, 2017 to June 30, 2019. 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

January 9, 2020

RIVER FOREST COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

A similar comment also appeared in prior Report B49917, entitled *FINDING 2017-001*.

Condition and Context

There were several deficiencies in the internal control system of the School Corporation related to financial transactions. The School Corporation had not separated incompatible activities related to cash and investments, receipts, and payroll disbursements

Cash and Investments

The School Corporation was not able to provide a bank reconciliation as of June 30, 2019, at the onset of the audit, as it was not yet completed. The internal control procedure in place for cash and investments was not effective, as the bank reconciliations were not completed timely.

Receipts

One employee posted receipts to the ledger, prepared deposits, took the deposits to the bank, reconciled the bank accounts, and was able to issue receipts. There was no segregation of duties, such as an oversight, review, or approval process.

Furthermore, the posting of receipts to the proper fund was reviewed with the bank reconciliation for the majority of the audit period. However, since the banks were not reconciled timely as of June 30, 2019, the posting of the receipts to the proper fund was not reviewed timely.

Payroll Disbursements

The School Board and Treasurer reviewed the payroll deductions and gross payroll; however, the report that was approved did not list the employees individually by fund. Therefore, it could not be determined that a control was in place ensuring that employees were paid the proper rates or from the proper funds.

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. . . .

RIVER FOREST COMMUNITY 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. . . ."

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."

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B49917.

Condition and Context

The financial statement presented for audit included the following funds with overdrawn cash balances at June 30, 2018 and 2019:

Fund	Amount Overdrawn as of June 30,	
	2018	2019
School Transportation	\$ 13,328	\$ -
Construction, Remodeling, and Equipping Buildings	25,630	-
Senator David Ford Technology	382	53,934

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)

CHECKS RECORDED AND DRAWN PRIOR TO BOARD APPROVAL

This same comment appeared in a Management Letter addressed to the School Board of the River Forest Community School Corporation for the audit period ending June 30, 2017.

Condition and Context

Accounts Payable Vouchers (APV) for various expenditures were recorded and checks were generated prior to allowance by the governing board. For example, \$275,382 of APVs were recorded in the disbursements ledger as of June 30, 2018. However, these disbursements were not approved by the School Board until the July 10, 2018 Board meeting. Also, \$34,843 of APVs were recorded in the disbursements ledger as of June 30, 2019. However, these disbursements were not approved by the School Board until the July 9, 2019 Board meeting.

RIVER FOREST COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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. . . ."

PREPAID SCHOOL MEAL ACCOUNTS

This same comment appeared in a Management Letter addressed to the School Board of the River Forest Community School Corporation for the audit period ending June 30, 2017.

Condition and Context

The Prepaid Food fund (fund 8400) was not reconciled to the total of the individual students' meal accounts on a monthly basis. As of June 30, 2018 and 2019, a variance of \$11,292 and \$17,610, respectively, was determined between the Prepaid Food fund and the total of the individual meal accounts. This was because the School Corporation accounted for all school lunch activity, including non-prepaid activity, in the Prepaid Food fund.

Criteria

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 Fund 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 Fund 8400 be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

RIVER FOREST COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

SUBSEQUENT EVENTS - TIMELY RECORDING OF RECEIPTS AND BANK RECONCILIATIONS

Condition and Context

The School Corporation has not recorded all receipts in the financial accounting system since June 30, 2019, including the \$838,289 November distribution from the Indiana Department of Education. The School Corporation's bank account has not been reconciled in the period subsequent to the audit period.

Criteria

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."

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. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 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)

River Forest Community School Corporation

3250 Michigan Street

Hobart, Indiana 46342

Telephone: (219) 962-2909 Fax: (219) 962-4951

Dr. Steven C. Disney, Jr., Superintendent

Mr. Kevin Trezak, Assistant Superintendent

Official Response to State Board of Accounts for the Audit Period July 1, 2017 through June 30, 2019

January 15, 2020

State Board of Accounts
302 West Washington Street
Room E-418
Indianapolis, IN 46204-2765

Please accept this letter as River Forest Community School Corporation's official response to audit comments and findings for the above referenced audit period.

First, we would like to thank our field examiners for the thorough job they did when reviewing our financial statements. We also thank them for respecting the fact that our district is small and we have limited resources, within our two-person business office, to perform all essential duties and deadlines required of school districts.

In response to the finding regarding **Financial Transactions**: we would like it noted that a new Deputy Treasurer was hired following an abrupt retirement of our Deputy Treasurer in January of 2019. Proper training takes time, and there is much to learn and retain. The Treasurer has prioritized training in this order: payroll and reporting requirements, claims processing, purchasing, and lastly receipting. Our new Deputy Treasurer is going through training for receipting, as well as other duties as part of the IASBO Certification program, yet hasn't completed the process. There is limited time between other duties to get consistent, quality training done.

In the meantime, the Treasurer reconciles receipts against the bank statement on a monthly basis, before giving the Fund Report to the Board. The rest of reconciliation is a slower process, especially since the new separation of funds created by HB1009 and the new object codes put

into place beginning January 1, 2019 and again beginning July 1, 2019 along with the newly created ESSA reporting requirements.

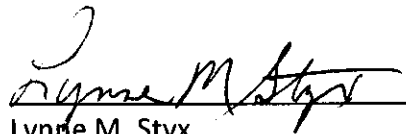
With regards to the payroll distributions, it was our understanding that the issue from our last audit only pertained to federally funded employees, in which case we have already put into place a system for the respective Directors review and sign off on each payroll, both before and after payroll is processed. We now have a sign off procedure for the rest of the employees and will keep documented records for review in the Business Office.

In response to the finding **Overdrawn Cash Balances**, in 2018 the taxes collected for the Transportation Fund in June were not sufficient to cover the expenses. This was shored up after the tax distribution in December 2018. The Construction Fund and David C. Ford Technology Fund are both handled on a reimbursement basis. We agree that the David C. Ford fund was left until the entire appropriations were spent before requesting reimbursement. We will ensure that in the future that grant funds will be requested on a more consistent basis.

In response to **Prepaid School Meal Accounts**, the Treasurer will work with the Director of Student Nutrition and our software vendors to better segregate student account balances and other income. We have already begun to work out a system to better reconcile the 8400 fund.

In closing, we appreciate your input and suggestions to help us be more compliant with the many laws and procedures required to effectively operate a small school district.

Sincerely,



Lynne M. Styx
Treasurer



Dr. Steven C. Disney
Superintendent

RIVER FOREST COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 9, 2020, with Lynne M. Styx, Treasurer; Dr. Steven C. Disney, Jr., Superintendent of Schools; Kevin Trezak, Assistant Superintendent of Schools; Michelle Martin, President of the School Board; and Candace Pick, Deputy Treasurer.