

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

GRIFFITH PUBLIC SCHOOLS

LAKE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
01/31/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Meghan Damron	07-01-17 to 12-31-20
Superintendent of Schools	Dr. Peter Morikis Michele Riise	07-01-17 to 02-09-18 02-10-18 to 12-31-20
President of the School Board	Gary Sutton Leah Powell-Domezich Gary Sutton Jennifer Dildine Kathy Ruesken	07-01-17 to 12-31-17 01-01-18 to 06-30-18 07-01-18 to 08-27-19 08-28-19 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE GRIFFITH PUBLIC SCHOOLS, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Griffith Public Schools (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 23, 2020

GRIFFITH PUBLIC SCHOOLS
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions.

The School Corporation converted to new accounting software in January 2019. Then in July 2019, the School Corporation determined the new accounting software was not adequate and converted to second new accounting software. The School Corporation converted all the transactions from January 1, 2019, to the second new accounting software purchased. The internal control system of the School Corporation related to cash and investments, receipts, and disbursements were not properly designed or implemented to ensure accuracy and completeness of the transactions.

Receipts and Disbursements - Transfers Between Funds

The School Corporation had not properly implemented internal controls over the recording of transactions for transfers between funds to ensure the accuracy and completeness of the ledgers.

Transfers between funds totaling \$1,360,170 were not recorded in the ledgers. Instead, an adjustment to the cash balances on January 1, 2019, was made when the School Corporation began using new accounting software. This resulted in the December 31, 2018 ending cash and investment balances of certain funds not agreeing to the January 1, 2019 beginning cash and investment balances of the same funds. Additional audit procedures were performed to substantiate the transfer amounts not properly recorded.

The transfers between funds were reported in the financial statement.

Cash and Investments (Bank Reconciliations)

The School Corporation had not properly implemented internal controls over cash and investments, including bank reconciliations, to ensure the accuracy and completeness of the ledgers throughout the conversions to new accounting software.

The monthly bank reconciliations for January 2019 through June 2019 presented and signed by the School Board members indicated an adjusted bank balance amount, but did not indicate an amount for the fund report balance or an amount for the difference between the adjusted bank balance and the fund report balance. The bank reconciliations presented to and reviewed by the School Board were incomplete.

Receipts and Disbursements - Employer Benefit Costs

The School Corporation had not properly designed and implemented internal controls over the recording of transactions for employer benefit costs to the various funds, and the Payroll Clearing funds, or the reconciliation of those Payroll Clearing funds to ensure the accuracy and completeness of the ledgers.

In November 2019, the School Corporation posted a receipt adjustment so that both the biweekly employee withholdings, as well as the related employer benefit costs, were accounted for through the Payroll Clearing funds. However, the adjustment posted did not take into account the employee withholdings that were already posted to the Payroll Clearing funds. This resulted in the Payroll Clearing fund receipts and disbursements to be overstated by \$1,265,518.

GRIFFITH PUBLIC SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Furthermore, the January through June 2019 biweekly employer benefit costs for health insurance were posted to the Education, Operations, and the 4115 Title I funds, totaling \$1,144,834. These employer benefit costs were not receipted to nor disbursed from the Payroll Clearing funds.

When the monthly health insurance premiums were paid, these disbursements were also posted to the Education, Operations, and the 4115 Title I funds. This resulted in the overstatement of disbursements in the Education, Operations, and 4115 Title I funds by \$909,000, \$216,717, and \$19,117, respectively.

The overstatement of receipts and disbursements resulted in an unidentified variance of \$120,684 as of June 30, 2019. The financial statement was not adjusted for these posting errors.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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 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."

GRIFFITH PUBLIC SCHOOLS
 AUDIT RESULTS AND COMMENTS
 (Continued)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 1)

OVERDRAWN CASH BALANCES

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
Operations	\$ -	\$ 231,630
Curricular Materials Rental	-	17,014
Prepaid Food	172	7,114

Funds with overdrawn cash balances as a result of grant or payroll expenditures awaiting reimbursements were not included in the list above.

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)

PREPAID SCHOOL MEAL ACCOUNTS

Condition and Context

Monthly reconciliations of the students' individual meal account balances to the Prepaid Food fund (clearing account) were not performed. The Prepaid Food fund, as of June 30, 2019, had a negative cash balance of \$7,114. The students' individual meal account balances at June 30, 2019, was \$19,856, which resulted in a variance of \$26,970 in unreconciled funds.

GRIFFITH PUBLIC SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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)



Griffith Public Schools

Superintendent of Schools, District Discipline Advisor
Michele Riise

Board of School Trustees
Kathy Ruesken President
Jennifer Dildine, First Vice President
John Dudlicek, Second Vice President
Richard Leber, Secretary
Donald McCarter Assistant Secretary

Griffith Public Schools would like to thank the State Board of Accounts for giving us the chance to reply to the Audit results and comments.

Financial Transfers

This was a one-time occurrence that took place with the conversion to new accounting software and the combining and moving of new funds that were put into place January 2019. Effective immediately further controls have been put into place so that the transfers between funds will be recorded properly.

Overdrawn Cash Balances

We understand that cash balances should not be negative unless it is a reimbursable fund. For the textbook fund we are working with a collections agency to work with families who are not current with their accounts owed to us. For the operations fund, we are working on plans with the board on steps we need to take in order to keep this fund balanced. The prepaid food service fund we are in the process of auditing this fund, but continue to look at options to bring this account into balance. Some options that are being discussed are collections, donations and potential grants that could help offset the negative balances.

Food Service Monthly Sales and Prepaid Summary Procedure

Effective January, 2020, each day bank deposits will be made by individual school managers. The Director of Food Services receives a report each day that he will review and verify that the monies collected are the same as what is receipted into the bank account. Also after the Director of Business Services is finished reconciling to the bank account, will provide reports to the Director of Food Service to reconcile the student account balances match the bank balance. If there are any discrepancies the Director of Food Service will explain what it is and how it will be resolved going forward. This will be added at the end of each month as another step in the Monthly Sales and Prepaid Summary report.

Once the report is balanced it is given back to the Director of Business Services to review and include with the bank reconciliation reports.

GRIFFITH PUBLIC SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 23, 2020, with Meghan Damron, Treasurer; Michele Riise, Superintendent of Schools; Kathy Ruesken, President of the School Board; Joseph Blissett, Director of Food Services; and Leah Dumezich, Director of Special Education and Grants Manager.