

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ELKHART COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
02/11/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Control over Financial Transactions and Reporting	4
Timely Recording.....	5
Fund Sources and Uses	5
Prepaid School Meal Accounts.....	6
Official Response	7-8
Exit Conference.....	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kevin E. Scott	01-01-17 to 12-31-20
Superintendent of Schools	Robert E. Haworth Mark T. Mow (interim) Dr. Steven W. Thalheimer	07-01-17 to 06-30-18 07-01-18 to 12-31-18 01-01-19 to 12-31-20
President of the School Board	Susan C. Daiber Karen S. Carter Douglas K. Weaver Kellie L. Mullins	01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19 01-01-20 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 ELKHART COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Elkhart Community 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 28, 2020

ELKHART COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROL OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There was a deficiency in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts pertaining to the school lunch program. Each school made daily bank deposits into the School Corporation's food service bank account for school lunch collections. There was no evidence of a review or approval process over school lunch collections prior to bank deposits being made. Control activities should be in place to reduce the risks of errors in financial reporting.

Furthermore, school lunch collections were not receipted into the School Corporation's accounting program in a timely manner. School lunch collections were receipted on a monthly basis.

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. . . ."

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)

ELKHART COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

TIMELY RECORDING

Condition and Context

Electronic deposits from the Auditor of State for the Child Nutrition program were not recorded timely in the School Corporation's records. For the fiscal year 2017-2018, 39 percent of total deposits were not recorded timely, ranging from 5 to 14 days after payment was made by the Auditor of State. For 2018-2019, 42 percent of total deposits were not recorded timely, ranging from 4 to 18 days after payment was made by the Auditor of State.

Criteria

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)

FUND SOURCES AND USES

A similar comment appeared in prior Report B51586, entitled *OVERDRAWN CASH BALANCES*.

Condition and Context

The financial statement presented for audit included the School Lunch fund with an overdrawn cash balance at June 30, 2018, of \$1,390,988. On December 21, 2018, and June 28, 2019, the School Corporation transferred \$1,400,000 and \$175,521, respectively, from the Operating Referendum Tax Levy fund to the School Lunch fund to eliminate the overdrawn cash balance as of June 30, 2019. The School Lunch fund was designed to be self-supporting and funding from tax levy funds are not allowed. As a result, the School Lunch fund owes the Operating Referendum Tax Levy \$1,575,521.

Criteria

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

A fund, as used in the manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. The funds established by law for Indiana school corporations are: Education Fund, Operating Referendum Tax Levy Fund, Debt Service Fund, Operations Fund, School Lunch Fund, Curricular Materials Rental Fund, Self-Insurance Fund and Levy Excess Fund. Tax levies, subject to limitations, may be established for the Debt Service, and Operations Fund. No tax levies may be established for the School Lunch Fund or the Curricular Materials Rental Fund as these funds are designed to be self-supporting. Under certain conditions, Construction Funds and other Special Funds may be established. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 4)

ELKHART COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

PREPAID SCHOOL MEAL ACCOUNTS

Condition and Context

The School Corporation established the Prepaid Lunch fund at June 2017. The School Corporation did not conduct monthly reconcilements with the Prepaid Lunch fund to the total individual meal accounts.

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 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)



OFFICIAL RESPONSE

2017-2019 AUDIT

AUDIT RESULTS AND COMMENTS

Internal Controls Over Financial Transactions and Reporting

The district agrees with this comment. While signature evidence appeared on many transactions, the audit team did identify instances where this was not the case. The Supervisor of Accounting, Audits and Investments will provide refresher training on internal control procedures to Food Services staff. In addition, she will conduct unannounced spot checks to ensure that this corrective action is effective. This activity will be completed in Q1 2020.

Timely Recording

The district agrees with this comment but would note that one of the longer periods was a result of a staff member on bereavement adjacent to the school Christmas Holiday in which schools were closed. The district plans to add a 0.5 FTE to the office staff to better address timeliness of recording electronic deposits as well as to enhance separation of duties.

Fund Sources and Uses

The district does not agree with this comment. The negative cash balance issue in Food Service had accumulated over a number of years. While a number of corrective action steps are in progress and have made strides to return to a cost neutral operating position, there was no evidence that the program could pay down such a large negative balance. To eliminate the negative balance a transfer was required. The district had three funds to choose from. Choices included Rainy Day Fund, the Education Fund (formerly the General Fund), and the Operating Referendum Fund. To our knowledge there is not an Indiana Code providing guidance or restrictions for a situation such as this. In addition, while the SBOA Manual in the Funds and Fund Accounting section as revised in 2019 states that "No tax levies may be established for the School Lunch Fund..." it does not state that transfers to this fund using a valid transfer program number is prohibited. Further, the language in the School Board Resolution to seek the Operating Referendum states that "...the School Corporation will not be able to carry out its public educational duty unless it annually imposed a referendum tax levy." Thus the state deems this an operating fund that functions in the same manner as the General Fund. The ballot question itself, as approved by the DLGF, does not limit the use or



indicate to the voters the intent other than to assist in conducting the school district's educational duty. The ballot question was as follows: "For the seven (7) calendar years immediately following the holding of the referendum, shall the school corporation impose a property tax rate that does not exceed thirteen and fifteen one-hundredths cents (\$0.1315) on each one hundred dollars (\$100) of assessed valuation and that is in addition to all other property tax levies imposed by the school corporation?"

In summary, the school district believes it was appropriate to make the transfers to eliminate the negative cash balance in the Food Service Fund from the Operating Referendum Fund as approved by the Board of School Trustees.

Prepaid School Meal Accounts

The district agrees with this comment and will reconcile the balance of the 8400 fund to the total of the individual meal accounts. This work will be led by the Supervisor of Accounting, Audits and Investments with the assistance of the Controller/Deputy Treasurer as well as the Food Service Departmental staff. This activity is targeted to be completed in Q2 2020.

ELKHART COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 28, 2020, with Kevin E. Scott, Treasurer; Erica M. Purvis, Controller; Valerie Gillespie, Supervisor of Accounting, Audits, and Investments; Kellie L. Mullins, President of the School Board; Dr. Steven W. Thalheimer, Superintendent of Schools; Douglas K. Weaver, School Board member; Babette S. Boling, School Board member; Susan C. Daiber, School Board member; Roscoe L. Enfield, Jr., School Board member; and W. Douglas Thorne, District Counsel.