

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SALEM COMMUNITY SCHOOLS

WASHINGTON COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/12/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Ruth D. Gilbert Rachel Weedin	07-01-17 to 08-31-18 09-01-18 to 06-30-20
Superintendent of Schools	Dr. D. Lynn Reed Kim A. Thurston, EdD (interim) Jon Acton	07-01-17 to 06-30-19 07-01-19 to 02-29-20 03-01-20 to 06-30-23
President of the School Board	Mark Abbott Rebecca L. White Rodney Brough	01-01-17 to 12-31-17 01-01-18 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 SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the Salem 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 opinions 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, were not verified for accuracy.

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

February 27, 2020

SALEM COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Report B51866, entitled *FINDING 2017-001*.

Condition and Context

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

Controls were not in place to ensure all financial activity was properly processed throughout the computerized accounting system. Within the computerized accounting system, different steps have to be completed to ensure all financial activity is recorded properly throughout the system. The lack of controls over the recording and processing of financial activity, resulted in various financial reports having different receipt, disbursement, and cash balances.

Controls over vendor disbursements were not properly implemented. While officials stated that vendor disbursements were reviewed and approved by the Treasurer and Assistant Superintendent of Schools prior to payment, it was not possible to verify that the review and approval actually occurred. The approval signatures of the Treasurer and Assistant Superintendent of Schools are preprinted on the Accounts Payable Voucher forms printed by the Accounts Payable Clerk.

While the fiscal officer does physically sign the Accounts Payable Voucher Register that is presented to the governing board for approval, the voucher register that is presented is in a summarized format and is not reconciled to any detail listing of the vouchers and disbursements. As a result, it was not possible to determine if all vouchers and disbursements were included on the register for approval by the fiscal officer and the School Board.

Procedures were not in place to ensure the proper recording of financial activity related to payroll deductions. A reconciliation of the payroll deduction accounts to actual amounts that were owed, was not performed. As a result, errors in the recording of activity went undetected, resulting in the incorrect fund balances being reported.

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the financial statement. Due to the lack of controls, the School Corporation's financial statement contained the following errors:

1. The beginning cash and investment balance of the Safe Room GO Bond Fund was overstated by \$3,400,000.
2. The financial activity related to a loan was not recorded within the Corporation's financial records. The loan proceeds were disbursed directly by the lending financial institution to vendors. This resulted in both receipts and disbursements being understated by \$632,032.
3. Numerous other funds were noted that had errors in the amounts reported for the beginning cash and investment balances, receipts, and disbursements.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement.

SALEM COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

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](#)."

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 Corporation, Chapter 1)

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

SALEM COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

EXTRACURRICULAR SCHOOL LUNCH FUNDS INTERNAL CONTROLS

A similar comment also appeared in prior Report B51866, entitled *FINDING 2017-001*.

Condition and Context

There were several deficiencies in the internal control system of the School Corporation related to financial transaction and reporting.

The School Corporation had not separated incompatible activities related to cash and investments, receipts, and vendor disbursements for School Lunch and Prepaid Meal funds maintained in the extra-curricular account. The following deficiencies were identified with controls over the funds:

One individual ordered items; approved and recorded disbursements; issued and recorded receipts; performed bank reconciliations; and reconciled the prepaid lunch fund without sufficient oversight or review.

During the last seven months of the audit period, the Assistant Superintendent of Schools was involved in the oversight and approval of vendor disbursements and bank reconciliation; however, it was determined this review was ineffective. There was no indication of a reconciliation of the total disbursements approved to the actual disbursements recorded in the ledger to determine that all disbursements made had been approved. Bank statements were not provided during the review of the bank reconciliations in order to verify the content of the information used in the monthly bank reconciliations.

Online receipts to student meal accounts were not receipted to the general ledger or the student meal account at the time of the transaction, but were instead recorded when the monies were deposited into the bank. The same individual responsible for issuing receipts for the online payments was also responsible for performing the reconciliation of the prepaid meal account as well as issuing vendor checks; recording the checks; and performing bank reconciliations. There was no oversight or review of the prepaid meal account reconciliation.

Reconciliation of the prepaid lunch account with the subsidiary student meal account balances was performed on an annual basis instead of monthly. Monthly reconciliation of the prepaid lunch account with the subsidiary student meal account would allow for timely detection and correction of errors.

Criteria

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SALEM COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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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 Corporation, Chapter 1)

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)

SALEM COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2020, with Rachel Weedin, Treasurer; Kim A. Thurston, EdD, Assistant Superintendent of Schools; Jon Acton, Superintendent of Schools; Rodney Brough, President of the School Board; Ron Haendiges, School Board member; and Karen Libka, Food Service Director/ECA Treasurer.