

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

SOUTH CENTRAL COMMUNITY
SCHOOL CORPORATION
LAPORTE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/26/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Rachel Dutoi	07-01-17 to 06-30-20
Superintendent of Schools	Linda Wiltfong Dr. Theodore Stevens	07-01-17 to 06-30-18 07-01-18 to 06-30-20
President of the School Board	Todd Morrow Jacob Wade Dominic Notaro Geraldine Grott	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

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TO: THE OFFICIALS OF THE SOUTH CENTRAL COMMUNITY
SCHOOL CORPORATION, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the South Central 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 28, 2020

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

SUPPORTING DOCUMENTATION

Condition and Context

Of the 46 claims tested, 10 claims did not have adequate supporting documentation to determine the proper fund for the expenditure. There was not adequate detail for the expenditures to ensure that the amount was paid from the proper fund.

Criteria

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

INTERNAL CONTROLS

A similar comment also appeared in prior Report B50033, entitled *INTERNAL CONTROL*.

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not established a system of internal controls or separated incompatible activities related to all areas of the financial statement.

Cash and Investments

The School Corporation did not have effective controls in place to ensure that bank reconciliations were accurate. Bank reconciliations were not completed from August 2017 through December 2018. The Treasurer completed the monthly reconciliations from January 2019 through June 2019 without evidence of an oversight or review process.

Receipts

The School Corporation did not have effective controls in place to ensure that recorded receipts agreed to corresponding deposits. There was no documentation of an oversight or review process. The School Corporation eliminated a position at the beginning of fiscal year 2018-2019. After that elimination, the Treasurer took the deposits to the bank, recorded the receipts, and performed the bank reconciliation without evidence of a review or oversight.

The School Corporation's financial accounting software also allowed receipts to be backdated.

Disbursements

The School Corporation did not have effective controls in place to ensure that disbursements were properly recorded in the correct fund. The oversight and review process was ineffective and did not ensure that disbursements included supporting documentation to determine that disbursements were recorded properly.

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Other Financing Uses and Sources

The School Corporation did not have effective controls in place to ensure that transfers were properly recorded in the records. The Treasurer recorded transfers between funds without evidence of a review or oversight.

Financial Reporting

The School Corporation did not have effective controls in place to ensure that the financial statement was accurate. The oversight and review process was ineffective and did not prevent errors in the financial statement.

Due to the lack of controls, the following errors occurred in the financial statement and were not detected and corrected:

1. Receipts were understated \$88,509 as of June 30, 2019.
2. Disbursements were understated \$601,210 as of June 30, 2018, and overstated \$607,575 as of June 30 2019.

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

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. . . ."

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

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."

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](#)."

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B50033.

Condition and Context

The financial statement presented in the Financial Statement Audit Report included the following funds with overdrawn cash balances at June 30, 2018 and 2019.

Fund	Amount Overdrawn June 30, 2018	Amount Overdrawn June 30, 2019
Retirement/Severance Bond Debt Service	\$ 13,064	\$ -
Curricular Materials Rental	64,675	-
Monsanto Grant 2012-2013	539	298
Alcoa Foundation Grant/Robotic	3,204	3,204
Miscellaneous Programs	253	-
Early Childhood/Preschool	764	764
State Instructional Support	1,315	1,315
Indiana Preschool Grants	-	772
Instructional Support	-	5,870
Instruction Support	-	149
Medicaid Reimbursement	1,353	6,825
Secured Schools Safety Grant	58,976	59,687
School Technology	68,416	68,416
2015-16 Title I Grant	24,960	24,960
2016-17 Title I Grant	5,916	5,916
Title II Part A 2013-2014	221	221
Federal Tax Clearing	14,874	16,465
Social Security Clearing	13,571	12,448
PERF	5	-
Group Insurance	-	6,899
Annuities	3,410	3,045
Medical Exp*Sec 125	1,763	219
Service Fees URM*CDC	336	336
Fringe Benefit Clearing Fund	2,374	2,528
Corp Clearing Acct/Travel Exp	178	178

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in prior Report B50033, entitled *DEPOSITORY RECONCILIATIONS*.

Condition and Context

Bank account reconciliations were not conducted from August 2017 through December 2018. The bank balance exceeded the fund balance by \$335 and \$1,368 as of June 30, 2018 and 2019, respectively.

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."

APPROPRIATIONS

The same comment appeared in a Management Letter addressed to the School Board for the audit period ending June 30, 2017.

Condition and Context

The expenditures of the General, Debt Service, and School Pension Debt funds were in excess of budgeted appropriations for the year ended 2018 by \$293,243, \$97,209, and \$40,335, respectively.

Criteria

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TIMELY RECORDING

Condition and Context

The School Corporation's financial system allowed backdating of receipts. The School Corporation stated they only posted receipts once a month, backdating them to the date of the deposit. Therefore, we could not verify that any receipt was recorded timely.

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

CURRICULAR MATERIALS RENTAL

The same comment appeared in a Management Letter addressed to the School Board for the audit period ending June 30, 2017.

Condition and Context

The annual rental rate charged for textbooks exceeded 25 percent of the retail price of the books for 7 of the 10 textbook rental rates tested. This is due to a flat shipping cost charged on textbooks which doesn't agree with the invoice of the shipping costs.

Criteria

Indiana Code 20-26-12-2(a) states:

"A governing body may purchase from a contracting publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials."

ERRORS ON CLAIMS

Condition and Context

Claims were not prepared for transfers between funds during the audit period. The transfers were not listed on the claims docket approved by the School Board. Approval by the fiscal officer for these transfers could not be verified.

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:

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

AVERAGE DAILY MEMBERSHIP - INCORRECT REPORTING TO THE STATE

Condition and Context

The Average Daily Membership count included one student that had enrolled but did not attend.

Criteria

School Officials shall contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION

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Dr. Theodore Stevens
Mr. Ben Anderson
Mr. Nicholas Kimmel

Superintendent
High School Principal
Elementary Principal

tstevens@scentral.k12.in.us
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February 3, 2020

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-3765

RE: Official Reponse to July 1, 2017-June 30, 2019 Audit Conclusions

Indiana State Board of Accounts:

Please consider this letter an "Official Response" to the audit recently concluded of the South Central Community School Corporation's financial ledgers.

1. Supporting Documentation

Condition and Context

Of the 46 claims tested, 10 claims did not have adequate supporting documentation to determine the proper fund for the expenditure. There was no adequate detail of expenditures to ensure that the amount was paid from the proper fund.

Criteria

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Guidelines Manual for School Corporations, Chapter 1).

Mission Statement

South Central Community School Corporation believes that all students will succeed to the best of their abilities.

School, family, and community will collaborate to prepare students for the 21st century by providing opportunities for students to develop intellectual, social, emotional, physical, and life-long decision making skills for higher levels of excellence.

www.scentral.k12.in.us

Response: In regards to this item, the School Corporation will make the necessary changes to ensure that supporting documentation is in place for all transfers between funds; ie receipts and claim vouchers will be created for documentation along with working to review claims more closely to allow for any errors to be found and corrected before the claims are posted to the financial ledgers.

2. Internal Controls

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not established a system of internal controls or separated compatible activities related to all areas of the financial statement.

Response: To fix the deficiency in the internal control system within the Business Office, the Superintendent and the Business Manager/Corporation Treasurer are working together to fill in the gaps. The first step is to bring in administrative support person as another “set of eyes” to review the financial records as they are created each month. This will allow the opportunity for a new perspective on the records being created and posted so that receipts and claims will be posted to the correct funds within the financial ledgers with the appropriate supporting documentation.

Cash and Investments

The School Corporation did not have effective controls in place to ensure that bank reconcilements were accurate. Bank reconciliations were not completed from August 2017 through December 2018. The Treasurer completed the monthly reconciliations from January 2019 through June 2019 without evidence of an oversight or review.

Response: As of September 2019, a step in the bank reconciliation process had been put in place. After the financial bank statements have been reconciled by the Treasurer, the reconciled statements along with all supporting documentation are given to an administrative assistant within the corporation to be reviewed for accuracy.

Receipts

The School Corporation did not have effective controls in place to ensure that recorded receipts agreed to the corresponding deposits. There was no documentation of an oversight or review process. The School Corporation eliminated a position at the beginning of the 2018-19 school year. After that elimination, the Treasurer took the deposit to the bank, posted the receipts, and performed the bank Reconcilement without evidence of a review or oversight.

The School Corporation’s financial accounting software also allowed receipts to be backdated.

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Response: In regards to this item, the School Corporation, is bringing back the position that was eliminated in 2018-2019. This employee will be involved in the first step of the receipt process by entering the receipts into the financial software system. The Corporation Treasurer will then review the receipts and post the receipts. After posting of the receipts, the receipts along with all supporting documentation will be given to the Deputy Treasurer, to review and check for accuracy and any missing elements. As of November 2019 receipts, the Deputy Treasurer has been reviewing the receipts after posting by the Treasurer. In regards to the receipts being backdated, that issue has been resolved by the receipt now being dated with the date it is being entered into the system with a reference line notation stating the original date listed on the deposit slip.

Disbursements

The School Corporation did not have effective controls in place to ensure that disbursements were properly recorded in the correct fund. The oversight and review process was ineffective and did not ensure that disbursements included supporting documentation to determine that disbursements were recorded properly.

Response: As stated previously, an additional person is being brought into the office to help with the entering and reviewing of the financial transactions within the Business Office. Going forward, the Deputy Treasurer and Treasurer will enter the claims. The claims will then be given to the additional administrative assistant to review for correct supporting documentation and accuracy. The Treasurer will then review again before posting the transactions to the financial ledgers.

Other Financing Uses and Sources

The School Corporation did not have effective controls in place to ensure that transfers were properly recorded in the records. The Treasurer recorded transfers between funds without evidence of a review or oversight.

Response: As of February 1, 2020, all transfers between funds will be recorded with a receipt and a claim voucher. These items will then be presented to the Board of School Trustees each month for their information and approval. The Education to Operations Fund transfers will be in accordance with the resolution approved by the Board of School Trustees at the August 2019 Board meeting.

Financial Reporting

The School Corporation did not have effective controls in place to ensure that the financial statement was accurate. The oversight and review process was ineffective and did not prevent errors in the financial statement.

Due to the lack of controls, the following errors occurred on the financial statement and were not detected or corrected.

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2. Disbursements were understated \$601,210 as of June 30, 2018 and overstated \$607,575 as of June 30, 2019.

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

Response: The School Corporation acknowledges the statements #1 and #2 above and will work to not have these types of errors occur again. The bank statements are now being reconciled on a monthly basis and reviewed. Along with this, the Treasurer is now aware of the correct posting schedule for the various bond payments which created a large part of the understated and overstated disbursements.

The reinstatement of the additional person in the Business Office will be used to address the issues listed in the above sections. Another person reviewing the various transactions in each process will aid in the verification of the accuracy of each transaction as it occurs.

OverDrawn Cash Balances

Condition and Context

The financial statement presented in the Financial Statement Audit Report included funds with overdrawn cash balances at June 30, 2018 and 2019.

Response: The Business Manager/Corporation Treasurer will work to find the reasons for these accounts having a negative balance. After having this information, she will work to bring them into a zero or positive balance. With the additional person in the office, there should be more time available to review the accounts more frequently and stay on top of the funds' activity.

Bank Account Reconciliations

Condition and Context

Bank Account reconciliations were not conducted from August 2017 through December 2018. The bank balance exceeded the fund balance by \$335.00 and \$1,368.00 as of June 30, 2018 and 2019, respectively.

Response: The bank statements have been reconciled on a monthly basis since January 2019. The bank reconciliations performed by the Business Manager/Corporation Treasurer are now being reviewed by a second person for accuracy and any misstatements since September 2019.

Appropriations

Condition and Context

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The expenditures of the General, Debt Service, and School Pension Debt funds were in excess of budgeted Appropriations for the year ended 2018 by \$293243, \$97,209, and \$40,335.00.

Response: The Business Manager/Corporation Treasurer has become familiar with the budget process since 2018 and is working each year when calculating appropriations to make them as accurate as possible in relation to the fund they are attached to for that budget year. Going forward, the Treasurer will work to stay within the appropriations designated for each fund. If needed and if the funds are available, an additional appropriation request will be requested.

Timely Recording

Condition and Context

The School Corporation's financial system allowed backdating of receipts. The School Corporation stated they only posted receipts once a month, backdating them to the date of the deposit. Therefore, we could not verify that any receipt was recorded timely.

Response: Since this was brought to our attention in December 2019, the receipts have been entered with the date they are being entered and a reference notation stating the actual date of receipt of the funds. In reviewing this process and reinstating the additional office person, we are looking to continue entering receipts in this manner, but posting them to the financial ledgers at least once a week to create a more timely statement of receipts within the financial ledgers.

Curricular Materials Rental

Condition and Context

The annual rental rate charged for textbooks exceeded 25 percent of the retail price of the books for 7 or the 10 textbook rental rates tested. This is due to a flat shipping cost charged on textbooks which doesn't agree with the invoice of the shipping costs.

Response: This issue had been addressed with the last audit and the information passed on to the respective ECA treasurers who are responsible for creating the textbook rental fees. This information will once again be relayed to the responsible parties, but then when they are complete, the Business Manager/Corporation Treasurer will review these fees before they are presented to the Board of Trustees for approval for the upcoming year.

Errors on Claims

Condition and Context

Claims were not prepared for transfers between funds during the audit period, and the transfers were not listed on the claims docket approved by the School Board. Approval by the fiscal officer for

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these transfers could not be verified.

Response: As stated in an earlier response, the Business Manager/Corporation Treasurer will now create receipts and claim vouchers for each transfer done within the financial ledgers. These transfers will be listed on the Accounts Payable Claims Docket for the Board of School Trustees to approve at each monthly meeting.

Average Daily Membership(ADM)-Incorrect Reporting to the State

Condition and Context

The Average Daily Membership count included one student that had enrolled, but did not attend.

Response: The September 2018 ADM count for our high school building included one student who had enrolled but did not appear or attend. The high school did not receive notification of this student attending elsewhere until well after count day in November of 2018. The Business Manager will contact the Department of Education, Division of School Finance to determine how to resolve any overpayment for this student.

A Corrective Action Plan will be submitted for each of these areas through the Indiana State Board of Accounts website by the deadline.

Please add this "Official Response" to the documents regarding the 7/1/2017-6/30/2019 audit for the South Central Community School Corporation.



Rachel Dutoi
Business Manager/Corporation Treasurer
South Central Community School Corporation
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SOUTH CENTRAL COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 28, 2020, with Rachel Dutoi, Treasurer; Geraldine Grott, President of the School Board; and Dr. Theodore Stevens, Superintendent of Schools.