

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TRI-TOWNSHIP CONSOLIDATED SCHOOL CORPORATION

LAPORTE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/31/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Judy Roslansky	01-01-17 to 12-31-20
Superintendent of Schools	Tim Somers Kelly Shepherd	01-01-17 to 12-31-18 01-01-19 to 12-31-20
President of the School Board	Tim Guse	01-01-17 to 12-31-20



STATE OF INDIANA
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TO: THE OFFICIALS OF THE TRI-TOWNSHIP CONSOLIDATED
SCHOOL CORPORATION, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the Tri-Township Consolidated 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 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, was not verified for accuracy.

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

February 27, 2020

TRI-TOWNSHIP CONSOLIDATED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in the prior Report B50387, entitled *INTERNAL CONTROLS*.

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The lack of internal controls was a systematic issue throughout the audit. The School Corporation had not separated incompatible activities related to cash and investments, receipts, payroll disbursements, Average Daily Membership reporting, prepaid school lunch, and financial reporting.

Cash and Investments

The internal control procedure in place for cash and investments was not effective, as the bank reconciliations were not completed accurately. The School Corporation completed bank reconciliations each month, but the reconciled bank balance did not agree to the ledger balance or the financial statement balance. Starting in 2017, the reconciliations included two erroneous reconciling items in the amounts of (\$465,000) and \$2,000, which caused the School Corporation to appear to have \$463,000 more than it actually had. This error was due to 2012 entries into the financial system when the three Township School Corporations consolidated. The bank balance exceeded the ledger balance by \$30,084 and \$21,227, on June 30, 2018 and 2019, respectively.

In addition, the School Corporation did not prepare a combined reconciliation that compared the total bank and investment balances to the total fund balances. The fund balances in the financial software do not include all of the investment balances.

Receipts

The internal control procedure in place for receipts was not effective. The Extracurricular Account (ECA) Treasurer at Wanatah Elementary School issued receipts and made bank deposits without any oversight or review. The Treasurer did not receive any supporting documentation from the ECA Treasurer for any deposits or handwritten receipts that were issued. The lack of documentation led to inaccurate financial records as funds were deposited but not recorded timely or properly to the financial system.

Receipts were not deposited timely. One \$14,723 state distribution and a \$4,231 CAGIT payment received in June 2018 were not receipted or recorded in the School Corporation's financial software until the following school year in July 2018. In addition, the School Corporation had three deposits from March, April, and May 2018 which totaled \$2,516 that were on prior bank statements. These amounts had not been recorded in the financial software and were included as reconciling items on the bank reconciliation as of June 30, 2018. There were also several receipts from the Pre-K and After School Care program that were recorded in the financial system up to one month after the funds had been deposited into the bank.

Receipts were not issued for all transactions. The ECA Treasurer at Wanatah Elementary School was unable to find twenty handwritten receipts for the Pre-K program. Twenty payments were made to the School Corporation and recorded in a spreadsheet, but receipts were not issued for these payments.

TRI-TOWNSHIP CONSOLIDATED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Payroll Disbursements

There is a lack of segregation of duties within the payroll disbursement process. The Deputy Treasurer was responsible for the entire payroll process without oversight or review. The Deputy-Treasurer entered time into the payroll system and entered payroll transactions into the financial system. Payroll (in total) was included on the claim dockets that were approved by the Treasurer and the School Board; however, there was no review to ensure that employees were paid the correct amount and from the correct fund.

Average Daily Membership Reporting

There was a control in place for Average Daily Membership reporting; however, evidence of this control was not available for audit.

Prepaid Lunch Clearing

There were no controls to ensure that the Prepaid Lunch Clearing fund (fund 8400) was reconciled to the total of the individual students' meal accounts on a monthly basis. The School Corporation did not reconcile the individual student accounts to the Prepaid Lunch Clearing fund. As of June 30, 2019, there was a variance of \$15,330 between the Prepaid Lunch Clearing fund and the total of the individual meal accounts.

Financial Reporting

The School Corporation had a control over financial reporting; however, the control did not operate effectively. The School Corporation did not accurately report all of their investments on the Form 9s submitted to the Indiana Department of Education. The General fund reported \$356,273 in investments on June 30, 2019, which should have been transferred into the Education fund.

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. . . ."

TRI-TOWNSHIP CONSOLIDATED 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."

All school corporation money must be deposited in the duly designated depository not later than the business day following the receipt of funds on business days of the depository designated in the same form in which the funds were received in accordance with IC 5-13-6-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

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)

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, 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 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)

Indiana Code 20-40-2-7(a) states: "On January 1, 2019, the balance, as of December 31, 2018, in the school corporation's general fund shall be transferred to the education fund."

TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The School Corporation adopted the internal control standards as required by Indiana Code. The School Corporation certified in the Indiana Gateway for Government Units financial reporting system that they had trained all employees on those internal control standards. However, there was no documentation that new hires, since July 1, 2017, had received the internal control standards training.

Criteria

Indiana Code 5-11-1-27(g) states in part,

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TRI-TOWNSHIP CONSOLIDATED SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

APPROVAL OF TRANSFERS

Condition and Context

The School Corporation did not include transfers on the claims docket to be approved by the Governing Board and Fiscal officer (Treasurer). Transfers, which totaled \$38,037 and \$583,463, in fiscal years 2017-2018 and 2018-2019, respectively, were not included on a claims docket for approval.

Criteria

Indiana Code 5-11-10-2 states in part:

"(a) Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer.

(b) The state board of accounts shall prescribe a form which will permit claims from two (2) or more claimants to be listed on a single document and, when such list is signed by members of the governing body showing the claims and amounts allowed each claimant and the total claimed and allowed as listed on such document, it shall not be necessary for the members to sign each claim. . . ."

Tri-Township Consolidated School Corporation

M. Kelly Shepherd
Superintendent

LaCrosse and Wanatah Schools

Brian McMahan
High School Principal

PO Box 249
Wanatah, IN 46390
219-754-2709, Fax 219-754-2793

OFFICIAL RESPONSE

FINANCIAL TRANSACTIONS AND REPORTING

We have prepared a process that we have all reviewed, and agreed upon, to implement better internal controls within the school corporation. We have a very small staff, which creates obstacles in itself when it comes to internal controls. We have reassigned duties allowing additional staff to be involved in the internal controls process. With our new internal controls process in place we believe that even in two separate buildings we can rectify the issues that occurred.

Cash and Investments

Corrective actions have been put into place to appropriately report investment balances and financial balances. This will take place upon investment maturity. In doing so, our reconciled bank balance will agree to the ledger balance and financial statement balance.

We will be using the corrected receipting procedures put into place, to assure all monies are receipted in. This will insure the ledger balance and bank statement balance match.

The School Board is given an investment report with the claim docket to review and sign at each monthly board meeting.

Receipts

We will now follow a daily routine of getting all monies collected each day to be counted, a receipt written, a deposit counted and initialed by 2 people, and the proper paperwork to be scanned and emailed to the corporate treasurer who will then receipt it into the financial software. The treasurer at Wanatah School will take the deposits to the bank for that school and the Deputy Treasurer will take deposits to the bank for LaCrosse High School.

The email to the corporate treasurer will include a copy of the deposit ticket along with the receipts written or any other supporting documentation that is available. We will then make sure that all receipts match our remote deposits and cash deposits that appear on our bank statements and are reconciled each month.

We will insure that all funds are receipted into the financial software daily or as soon as the documentation can be completed and is received by the corporate treasurer.

Payroll Disbursements

A distribution report which includes employee name, budget account code and gross pay will be created for each payroll. The report will be reviewed, approved and signed by either the Corporation Superintendent (M. Kelly Shepherd) or the Corporate Treasurer(Judith Roslansky). These reports will be kept on file in the corporation office.

Average Daily Membership Reporting

The principals at each school building will run a monthly attendance report. These reports will be reviewed by the principals for accuracy and signed and kept on file for review in the principal's office.

Prepaid Lunch Clearing

Each school will run a monthly financial report from the lunch programs software, it will then be sent to the Corporate Treasurer. The Corporate Treasurer will balance that report with the financial software. These will be kept on file in the corporate office.

Financial Reporting

When completing our 06/30/2019 Form 9 report \$356,273.00 was reported in investments, General Fund which no longer existed. That investment should have been reported under the School Education Fund. This error was corrected on our 12/31/2019 Form 9 report.

TRAINING AND CERTIFICATION ON INTERNAL CONTROLS STANDARDS

All new hires since 07/01/2017 have now received the required internal control standards training via the CIESC website. Certificates of completion are on file for employees. Any new hire will be required to complete the internal control video series as well. Completion certificates will be kept on file for all employees.

APPROVAL OF TRANSFERS

All transfers will be put on the claim docket which is reviewed and signed by the School Board at the monthly meetings.

TRI-TOWNSHIP CONSOLIDATED SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2020, with Judy Roslansky, Treasurer; Kelly Shepherd, Superintendent of Schools; Tim Guse, President of the School Board; Dara Guse, Deputy Treasurer; and Amy Wozniak, ECA Treasurer.