

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

SOUTH HARRISON COMMUNITY
SCHOOL CORPORATION
HARRISON COUNTY, INDIANA

July 1, 2018 to June 30, 2020



FILED
03/04/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Internal Controls and Noncompliance over Financial Transactions and Reporting	4-5
Capital Assets.....	5
Exit Conference.....	6

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pamela L. Seipel Carolyn E. Wallace	07-01-18 to 01-08-19 01-09-19 to 12-31-21
Superintendent of Schools	Dr. Mark A. Eastridge	07-01-18 to 06-30-21
President of the School Board	Mary J. Mathes	01-01-18 to 12-31-21



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 SOUTH HARRISON COMMUNITY
SCHOOL CORPORATION, HARRISON COUNTY, INDIANA

This report is supplemental to our audit report of the South Harrison Community School Corporation (School Corporation), for the period from July 1, 2018 to June 30, 2020. 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 25, 2021

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS AND NONCOMPLIANCE OVER
FINANCIAL TRANSACTIONS AND REPORTING**

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting of payroll transactions. The payroll deduction clearing bank account was used to account for employee withholding activity to four payroll vendors using an electronic payment method that did not require checks. These amounts were set up in the payroll system as payroll direct deductions. The receipt and disbursement activity for these direct deductions was not consistently recorded to the clearing accounts in the School Corporation's financial records. For the time periods of July 2018 through December 2018, and March 2020 through June 2020, these deductions did not appear on the School Corporation's vendor history reports, revenue reports, or expense reports, and the deductions were not approved by the School Board. The activity for the four payroll vendors totaled \$93,262 for fiscal year 2018-2019 and \$79,406 for fiscal year 2019-2020.

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting of transfers. A \$600,000 transfer from the Education fund to the HCELC Joint Services fund during 2019-2020 was not presented to the School Board for approval. Approvals by the appropriate program directors for reclassifications of expenses among various grant funds, recorded as transfers, totaling \$781,305 and \$113,463 for 2018-2019 and 2019-2020, respectively, were not documented.

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. . . .

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

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. . . ."

Clearing Accounts serve as control accounts for certain areas of the accounting system. Therefore, they must be supported by receipts and disbursement entries in the general ledger and the subsidiary ledgers or other supporting records. The clearing accounts are subsidiary records only and should not be used in lieu of proper and prescribed reporting of receipts, disbursements, and balance of the funds of the school corporation in accordance with IC 5-11-1-2. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 7)

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payments of the claim. . . ."

CAPITAL ASSETS

This same comment appeared in a Management Letter addressed to the Officials of the School Corporation for the audit period ending June 30, 2018.

Condition and Context

The School Corporation does not maintain comprehensive capital asset records for all their assets. The capital asset records of the School Corporation are based upon the replacement costs of assets based upon an insurance review performed several years ago. The capital asset record has not been updated and a recent physical inventory has not been conducted.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 25, 2021, with Carolyn E. Wallace, Treasurer; Dr. Mark A. Eastridge, Superintendent of Schools; and Mary J. Mathes, President of the School Board.