

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

EVANSVILLE VANDERBURGH SCHOOL CORPORATION

VANDERBURGH COUNTY, INDIANA

July 1, 2019 to June 30, 2020



FILED

04/13/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Carl D. Underwood	07-01-19 to 06-30-21
Superintendent of Schools	David B. Smith	07-01-19 to 06-30-21
President of the School Board	Karen Ragland Jeff Worthington Andrew C. Guarino	07-01-19 to 12-31-19 01-01-20 to 12-31-20 01-01-21 to 06-30-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE EVANSVILLE VANDERBURGH SCHOOL CORPORATION, VANDERBURGH COUNTY, INDIANA

This report is supplemental to our audit report of the Evansville Vanderburgh School Corporation (School Corporation), for the period from July 1, 2019 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 Statements Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statements. 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

March 30, 2021

EVANSVILLE VANDERBURGH SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

There were several deficiencies in the internal control system for the School Corporation related to contracts payable, loans payable, financial reporting, and Notes to Financial Statements.

Contracts Payable

The School Corporation recorded Contracts Payable based on outstanding purchase orders at June 30, 2020; however, the services had not been received yet, so no liability was incurred.

Loans Payable

A loan was received and placed in a separate bank account. The loan proceeds, expenditures, and cash balance were not reported in the School Corporation's records or on the financial statements or Notes to Financial Statements.

Financial Reporting and Notes to the Financial Statements

The School Corporation's financial statements and Notes to Financial Statements contained several material errors, including the following:

1. The Bosse Field Renovations fund was excluded from the financial statements, the related loans payable on the government-wide financial statements, and Notes to Financial Statements.
2. The General Obligations Bond fund was included as a debt service fund instead of a capital projects fund.
3. The TRF Pre-96 expenses related to contributions made by the state on behalf of the School Corporation were not recorded as revenues and expenses on the Statement of Activities.
4. Property taxes revenue was overstated on the Statement of Activities.
5. Services related to contracts that had not yet been rendered were included as payable at June 30.
6. Outstanding encumbrances that were not actually paid in the subsequent period were recorded as payables of the prior year, which understated beginning balances and expenses in the current year.

Adjustments were proposed, approved by the School Corporation, and made to the financial statements and Notes to Financial Statements.

EVANSVILLE VANDERBURGH SCHOOL CORPORATION
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. . . ."

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)

RECORD OF HOURS WORKED

Repeat Comment

The same comment appeared in prior Report B54236, and a similar comment appeared in prior Report B49865, entitled *SCHOOL LUNCH FUND SALARIES*.

Condition and Context

The School Corporation paid a portion of the salaries for administrative, custodial, and mail delivery personnel from the School Lunch fund without proper documentation to support the percentage paid.

Payroll disbursements for administrative, custodial, and mail delivery employees were allocated to the School Lunch fund based on estimations of the employees' time spent working on food service-related programs. There were no records maintained to support the estimated percentage of time paid from the federal programs for any of the employees. The unsupported salaries paid to the employees was \$344,703 for fiscal year 2019-2020.

Criteria

Many administrative positions have duties and responsibilities that are broad and overlapping and encompass everything that goes on in the school corporation or school building. Therefore, we have consistently been of the audit position that these expenses are normally considered operating expenses properly charged to the Operations or Educations fund in accordance with IC 20-40-2 and IC 20-40-18 and not to the school lunch fund.

EVANSVILLE VANDERBURGH SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Some positions have been formally established by boards of school trustees, through job description, duties assigned, title, salary schedules, etc., as school food related (for example Assistant Principal Food Service Director). IC 5-11-9-4 requires in part ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ." We will not take audit exception, in these situations (other than positions excluded by statute or for which the Department of Education has expressed concerns), to direct school food related employees having direct school food related expenses being paid from the school lunch fund if a cost allocation system based upon auditable statistics is established tracking costs attributable to the school food program and therefore payable from the school lunch fund. The use of time cards, time logs, or other means of accumulating auditable statistics upon which to base costs would have to be maintained. The time spent on such programs by persons serving in more than one program area must be specific if costs are to be separated. These costs cannot be accurately maintained on a percentage basis and requires the use of one of the methods mentioned above to provide auditable statistics and should cover all program areas in which a person serves or for which the service, materials, supplies, etc., are provided.

Other positions with multiple school food related responsibilities could be compensated in part from the school lunch fund, assuming compliance with all of the aforementioned. Additionally, we can review during an audit for reporting consistencies in those situations, i.e., the accounting and charging of indirect costs based upon time records to the other applicable funds besides the school lunch fund, for these and other positions. However, we must emphasize a school corporation also has a responsibility to ensure conflicts do not exist with the charging of any indirect costs for any of the aforementioned, if applicable. (The School Bulletin and Uniform Compliance Guidelines, December 2020)

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees: . . .

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Schools, Chapter 1)

EVANSVILLE VANDERBURGH SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 30, 2021, with Carl D. Underwood, Treasurer; David B. Smith, Superintendent of Schools; Courtney Bohleber, Director of Budget; and Andrew C. Guarino, President of the School Board.