

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BLACKFORD COUNTY SCHOOLS

BLACKFORD COUNTY, INDIANA

July 1, 2018 to June 30, 2020



FILED
09/21/2021

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | Greg Elkins (Vacant) Gregory Roach Julie Dodd | 07-01-18 to 06-30-19 07-01-19 to 07-15-19 07-16-19 to 03-31-21 04-01-21 to 06-30-22 |
| Superintendent of Schools | Chad Yencer | 07-01-18 to 06-30-22 |
| President of the School Board | Philip Jones | 07-01-18 to 06-30-22 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE BLACKFORD COUNTY SCHOOLS, BLACKFORD COUNTY, INDIANA

This report is supplemental to our audit report of the Blackford County Schools (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

September 13, 2021

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. Internal controls were either not in place or not effective for the following significant audit areas: cash and investments, receipts, and financial reporting and closing.

Cash and Investments

Management of the School Corporation established internal controls over cash and investments for the current audit period. The Deputy Treasurer prepared the depository reconciliation and the Treasurer reviewed and signed after completion. However, the monthly depository reconciliations provided by the School Corporation for the audit period contained numerous errors and did not properly reconcile to the financial statement or the School Corporation's Financial Ledger. The School Corporation contracted with a CPA firm to assist in the preparation of their monthly depository reconciliations. The CPA firm discovered numerous differences between the bank activity and ledger transactions for both audit years and provided various reconciling adjustments throughout the audit period. Internal controls put in place by management were not effective at preventing and detecting errors in depository reconciliations for cash and investments.

Receipts

The School Corporation had not separated incompatible activities related to receipts. The same individual that collected general School Corporation receipts also made deposits into the bank account and recorded the receipts in the financial records. Additionally, there were no segregation of duties over the collection of student activity fees. The same individual collected payments, recorded them to student accounts, and made deposits. There was no oversight or monitoring of receipts by another responsible person.

Financial Reporting and Closing

The School Corporation had internal controls in place over financial reporting and closing; however, the internal controls were not effective. The original financial statement presented for audit contained numerous errors and required revisions by the School Corporation before continuing the audit.

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.

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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 audited entity 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](#)."

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

CONDITION OF RECORDS

Condition and Context

The School Corporation hired a CPA firm to prepare their financial statement for the current audit period. When preparing the financial statement, the CPA firm made adjustments to School Corporation's financial records for receipts, disbursements, and other financing sources and uses due to errors made by the School Corporation. The financial statement adjustments were not recorded in the financial records of the School Corporation. This resulted in significant variances between the School Corporation's financial records and the financial statement. We were able to substantiate a material portion of these variances through our audit procedures. However, there were still transactions that were not reported correctly.

The following transfers were presented as receipts and disbursements in the financial statement and were not properly classified as Other Financing Sources and Uses:

1. December 31, 2019 - \$15,603 from Operations fund to the Curricular Materials Rental fund.
2. December 18, 2018 - \$40,000 from Capital Projects fund to Local Rainy Day fund.
3. December 19, 2019 - \$181,349 from Construction fund to the Debt Service fund.

The School Corporation's financial records also contained numerous errors in recording receipts for state and local tax distributions. The errors included recording receipts to incorrect funds and incorrect receipt classifications. The errors resulted in the misstatement of receipts on the financial statement as follows:

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

1. The Operations fund receipts were overstated for 2019 in the amount of \$141,370.
2. The Debt Service fund receipts were understated in 2019 in the amount of \$141,370.
3. The Transportation fund receipts were overstated for 2019 in the amount of \$1,744.
4. The Bus Replacement fund receipts were understated in 2019 in the amount of \$1,744.
5. The Operations fund receipts were overstated for 2020 in the amount of \$18,911.
6. The Debt Service fund receipts were understated in 2020 in the amount of \$18,911.

Additionally, there were numerous transactions in the financial records for "Journal Entries." "Journal Entries" were used to make transfers and correct errors; however, not all the entries included adequate supporting documentation to verify the validity of the transactions or corrections.

Criteria

The source document for posting to the Ledger of Receipts is the duplicate receipt . . . each duplicate receipt is posted individually to the proper receipt account for the fund with which it is identified. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

An account is a descriptive heading under which are recorded financial transactions that are similar in terms of a given frame of reference such as source, object or purpose. In the Master Chart of Receipt Accounts in this manual, the Receipt Accounts are classified as Revenue Receipts, Nonrevenue Receipts and Incoming Transfers. The account numbers in the 1000 through 4000 series designate Revenue Receipts, those in the 5000 through 6000 series designated Other Financing Sources. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

DEPOSITORY RECONCILIATIONS

A similar comment also appeared in prior Reports B49936 and B52812, entitled *BANK ACCOUNT RECONCILIATIONS*.

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Condition and Context

The depository reconcilements provided by the School Corporation for June 30, 2019, and June 30, 2020, contained errors and did not reconcile to the financial statement or the School Corporation's financial ledger. The School Corporation contracted with a CPA firm to assist in the preparation of their monthly depository reconciliations. The CPA firm discovered numerous differences between the bank activity and ledger transactions for both audit years and provided various reconciling items for the June 30, 2019, and June 30, 2020.

At June 30, 2019, there were \$48,877 of adjustments added to and \$20,555 subtracted from the depository balance. The CPA firm proposed adjusting entries to be made to the School Corporation's financial records to correct the differences and we were able to verify many of these adjustments, but not all, in the subsequent period. The following adjustment amounts could not be verified to subsequent adjusting entries: \$5,313 added and \$1,129 subtracted from the depository reconcilment.

At June 30, 2020, there were \$6,871 of adjustments added to and \$4,914 subtracted from the depository balance. We could not find subsequent adjusting entries to verify these reconciling items. Several of the reconciling items were for "unknown" variances in various months.

Using the reconciling items provided by the CPA firm, we were able to reconcile the June 30, 2019 cash balance reported in the financial statement. The reconciled bank balance performed during the audit for June 30, 2020, was \$173 less than the ledger balance.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

RECEIPT ISSUANCE

Condition and Context

Receipts were not always issued and recorded at the time of the transaction. Most collections at the Central Office were not receipted and recorded to the accounting software until after funds were deposited. Deposits of the School Corporation's credit card collections for student activity fees and school lunch were not posted to the ledger until the bank statement was received and the depository reconcilment was completed. The result was untimely posting of receipt transactions by the School Corporation. Out of 25 receipts tested for compliance, 13 were not posted timely.

Criteria

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)

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

Condition and Context

The School Corporation's financial statement contained numerous funds with a negative ending cash and investment balances. Some funds are reimbursable grant funds that have not received reimbursements in the subsequent period or have no activity and continue to carry a negative balance. The following funds had overdrawn cash balances:

| Fund | June 30, 2019 Amount Overdrawn | June 30, 2020 Amount Overdrawn |
|--|--------------------------------------|--------------------------------------|
| General | \$ 1,224 | \$ - |
| Capital Projects | 347 | - |
| Curricular Materials Rental | 24,664 | - |
| High Ability 2018-2019 | 1,255 | 3,674 |
| Early Childhood Intervention (First Steps) | 29,027 | 31,491 |
| Secured Schools Safety Grant | 88,380 | 71,802 |
| NESP 2017-2018 | 133 | 133 |
| Teacher Appreciation Grant | - | 5,204 |
| Innovative School Improvement Grant | 8,665 | 12,790 |
| Title I 2017-2018 | - | 142 |
| Title I 2018-2019 | - | 66,900 |
| IDEA 2019-2021, SE 611 | - | 268,957 |
| IDEA Special Education Grant 2018-2019 | - | 117,376 |
| IDEA Part B 2017-2018 | - | 439 |
| Preschool Handicap 2019-2021 | - | 29,548 |
| Perkins 2016-2017 | - | 1,281 |
| Perkins 2017-2018 | - | 1,872 |
| Perkins 18 | - | 59 |
| Title II 2015-2017 | - | 33,128 |
| Title II 2017-2019 | - | 15,464 |
| RLIS 2017-2019 | - | 16,107 |
| Federal Stimulus - 18003 Supplemental | - | 1,175 |
| Clearing Accounts | <u>91,633</u> | <u>438,845</u> |
| Totals | <u>\$ 245,328</u> | <u>\$ 1,116,387</u> |

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.

In an instance in which a unit receives a reimbursement grant, the unit must be claiming reimbursement in a timely manner. In this case, it would be possible for a fund to be overdrawn for a short period of time. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

RECONCILIATION OF PREPAID CAFETERIA ACCOUNTS

A similar comment also appeared in prior Reports B49936 and B52812.

Condition and Context

Reconcilements between the School Lunch program subsidiary ledgers (Payor Balance Summary By Customer) and the internal control account on the School Corporation's ledger (Cafe Prepaid fund) were not performed during the audit period. In fiscal year 2018-2019, the School Corporation accounted for their prepaid meals revenue in the Café Prepaid Clearing fund (Fund 9000), which was included in the Clearing Accounts fund on the financial statement. Negative receipts during 2018-2019 in the amount of \$95,454 were recorded to transfer money from fund 9000 to the School Lunch fund. In fiscal year 2019-2020, the School Corporation created the Café Prepaid fund (Fund 8400) as required and prepayments for student meals were receipted into this fund, in addition to the fund 9000. The balance in the fund 9000 was not transferred to the new Café Prepaid fund (Fund 8400). At June 30, 2020, the fund 9000 still had a balance of \$123,553. During 2019-2020, only \$16,804 was transferred from the Café Prepaid fund (Fund 8400) to the School Lunch fund. Transfers from the Café Prepaid fund (Fund 8400) or the fund 9000 were not being properly transferred monthly, or for the correct amounts, to the School Lunch fund during the audit period.

Criteria

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)

CAPITAL ASSETS

The same comment also appeared in prior Report B52812.

Condition and Context

The School Corporation did not properly maintain a complete detailed inventory of capital assets owned. Documentation for amounts reported in the Schedule of Capital Assets was not presented.

BLACKFORD COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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)

FAILURE TO REPORT MISAPPROPRIATION OF FUNDS

Condition and Context

In December of 2019, the Payroll Specialist received a fraudulent email from an unknown individual claiming to be an employee of the School Corporation. The individual requested a change in a school employee's direct deposit information. The School Corporation changed the direct deposit information for the employee based on the fraudulent request. The employee notified the School Corporation that he did not receive his payroll check and it was discovered his direct deposit information had been changed based on a fraudulent email. The School Corporation contacted the State Police and retained the police report and has maintained documentation of the incident. The Indiana State Board of Accounts, however, was not notified when the incident occurred as required by Indiana State Law.

Criteria

Indiana Code 5-11-1-27(l) states:

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."

BLACKFORD COUNTY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on September 13, 2021, with Chad Yencer, Superintendent of Schools; Julie Dodd, Treasurer; and Philip Jones, President of the School Board.