

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
LAPORTE COMMUNITY SCHOOL CORPORATION
LAPORTE COUNTY, INDIANA
July 1, 2018 to June 30, 2020



FILED
12/21/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jayne L. Grillo	07-01-18 to 06-30-22
Assistant Superintendent of Business and Operations	M. Gregory Hunt	07-01-18 to 06-30-22
Superintendent of Schools	Mark D. Francesconi	07-01-18 to 06-30-22
President of the School Board	Jan Ribordy Shannon Hannon Marie Gilliland Mark Kosior	01-01-18 to 12-31-18 01-01-19 to 12-31-19 01-01-20 to 12-31-20 01-01-21 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the LaPorte 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

November 30, 2021

LAPORTE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Reports B48423 and B52745, entitled *FINDING 2016-001* and *FINDING 2018-001*, respectively.

Condition and Context

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

Cash and Investments (Bank Reconciliations)

The School Corporation has not been able to reconcile their bank accounts to its funds ledger since the conversion to a new accounting software system in April of 2016.

The School Corporation's three bank accounts were not reconciled timely, nor was there a combined reconciliation performed to verify the reconciling items noted for all banks were accurate and properly substantiated. A review of all the reconciliations presented as of June 30, 2020, noted 592 reconciling items totaling \$9,319,584 in possible adjustments to the financial statement.

During 2021, the School Corporation reviewed the reconciling items for all banks and determined several reconciling items noted were not accurate.

As of November 2, 2021, the School Corporation has not completed a combined bank reconciliation of all bank accounts to the fund ledger.

Receipts and Other Financing Sources

One individual posted the receipts without a proper review or oversight process documented to ensure accuracy and classification after the receipts were posted to the accounting software system.

Vendor Disbursements and Other Financing Uses

One employee processed the accounts payable vouchers without a proper review or oversight process documented to ensure accuracy and classification of disbursements posted to the accounting software system.

In addition, a documented oversight or review process of the self-insurance claims, processed by a service organization, was not evidenced to ensure the accuracy and completeness of the claims disbursed were for School Corporation personnel only.

Payroll Disbursements

1. One employee processed payroll without a documented oversight or review process to ensure accuracy, completeness, and classification of the payroll transactions. The Treasurer approved the total payroll amount posted; however, the detail was not provided at the time of approval.
2. One employee completed correcting entries by posting voids, quick voids, and miscellaneous payments for payroll without an oversight, review, or approval process.

LAPORTE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Furthermore, the quick voids were dated back to the original date of the check in the accounting software system and replacement checks were dated in the accounting software system the date of the original check rather than the date the correction was determined, and the replacement check was written.

3. A process was not in place to ensure that employees were paid the correct rate of pay. A School Board approved salary schedule for hourly employees was not provided for audit. The rates of pay were based on pay sheets submitted to payroll. A prior salary schedule and the School Board approved increases over the years was used as a suggested pay rate. Additional audit time was spent performing other procedures to ascertain if payroll disbursements were fairly stated in the financial statement.

Financial Close and Reporting

The School Corporation's accounting software system allows users to date transactions in the past if the period has not been closed. As of November 2021, the School Corporation has not closed any periods since the conversion in April of 2016.

The School Corporation properly included the activity of the Payroll Clearing Fund in the financial statement. However, the School Corporation totaled the activity of all asset and liability accounts within the Payroll Clearing Funds to determine the amounts reported. The Payroll Clearing Fund receipts and disbursements were determined to be overstated by \$225,659,709 and \$225,455,918, respectively, for the audit period.

Bank to bank transfers and transfers within the same funds were incorrectly reported as transfers in and out. This resulted in the overstatement of transfers in and transfers out by \$12,938,419.

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

In addition, the School Corporation had no process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting required the School Corporation to monitor and assess the quality of the system of internal controls.

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. . . ."

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AUDIT RESULTS AND COMMENTS
(Continued)

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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."

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

AVERAGE DAILY MEMBERSHIP

Condition and Context

The School Corporation was unable to provide enrollment documentation for 2 of the 9 virtual students and 17 of the 68 brick and mortar students that were selected for testing in the test of Average Daily Membership (ADM).

The School Corporation was not following its own Attendance Policy #5200 and Student Records Policy #8330 that were adopted. We noted the following instances of noncompliance:

1. The School Corporation was unable to provide documentation for proof of residency for 56 of the 68 brick and mortar students tested and for 4 of the 9 virtual students tested.
2. The School Corporation was unable to provide documentation to verify the student met the age requirement (birth certificate) for 18 of the 68 brick and mortar students that were tested and for 2 of the 9 virtual students tested.
3. The School Corporation was unable to provide documentation that the student was attending school for 2 of the 9 virtual students that were tested.
4. It was determined those recorded in the count as virtual students should have been recorded as brick and mortar students, but were not classified correctly.

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 AUDIT RESULTS AND COMMENTS
 (Continued)

Therefore, we were unable to determine if 57 of the 68 brick and mortar students and 3 of the 9 virtual students tested were properly enrolled.

Criteria

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, must provide a written certification of ADM to properly document responsibility. The certification must at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Reports B48423 and B52745.

Condition and Context

The financial statement included the following funds with overdrawn cash balances that were not reimbursable grants or that were not reimbursed the total amount at June 30, 2019 and 2020:

Fund	Amount Overdrawn	
	06-30-19	06-30-20
2017 Construction	\$ -	\$ 2,439
Curricular Materials Rental	656,315	66,068
Education Foundation	-	7,541
HFL - Slicer Champions	-	6,252
LTD Ins	-	7,992
HFL - Education Foundation	7,656	-
Secured Schools Safety Grant	25,004	105,161
State Connectivity Grant	-	13,292
Title I, Part D	10,817	14,507
(IDEA, Part B) LEA Capacity Building (Sliver) Grants	-	200,472
Former (IDEA, Part B) LEA Capacity Building (Sliver) Grants	233,247	-
Special Education Preschool Federal	11,449	13,206
Title III, English Language Acquisition	1,881	1,562

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.

LAPORTE COMMUNITY SCHOOL CORPORATION
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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)

COMPENSATION AND BENEFITS

Condition and Context

The School Corporation made the following three incorrect calculations while attempting to correct payroll errors:

1. Payroll initiated a miscellaneous payment for an employee that appeared to have been charged twice for insurance premiums. The miscellaneous payment did not have an end date, so instead of a one-time payment, the employee received 16 payments totaling \$2,266.

It was determined during the audit that the employee had previously underpaid insurance premiums and should not have had a miscellaneous payment for the double charge of insurance. The School Corporation overpaid the employee by \$2,266 and must collect the overpayment made.

2. The School Corporation overpaid one employee by \$1,521 in January 2019. Between February and May 2019, the employee had repaid \$1,352, leaving a balance of \$169 still owed to the School Corporation.
3. The School Corporation garnished a total of \$495 from an employee from February to April 2019. The School Corporation had disbursed \$41 to the garnishee. The School Corporation returned \$413 to the employee on April 5, 2019, for garnishment amounts that were already paid directly to the garnishee by the employee. The School Corporation currently has a balance of \$41 of the garnishment on hand.

In addition, a current School Board approved salary schedule for noncontracted personnel was not provided for audit. Human Resources maintains pay sheets for each hourly employee which indicates rates of pay based on an old salary schedule and School Board approved increases over the years. Additional audit time was spent performing other procedures to ascertain if the salaries and wages paid to noncertified personnel were in compliance with School Board approved rates.

A new employee's beginning pay rate was not approved by the School Board. The School Board only approved the name of the employee, job title, and start date.

Criteria

Units must collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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AUDIT RESULTS AND COMMENTS
(Continued)

The board of school trustees may fix and pay the compensation of noninstructional employees, classify such persons or services and adopt schedules of salaries or compensation, IC 20-26-5-4(8). Such salary or compensation schedules may be made a part of the board minutes without entering into written contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PREPAID SCHOOL MEAL ACCOUNTS

Condition and Context

The Prepaid Food Service Account fund was not reconciled monthly to the total of the individual meal accounts. As of June 30, 2020, the reported balance in the financial statement exceeded the total of the individual meal accounts by \$134,205.

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)

CERTIFICATION AND APPROVAL OF DISBURSEMENTS

Condition and Context

All disbursements from the Payroll Clearing Fund for the payments of payroll deductions were not included on the register of Accounts Payable Vouchers (APV) in order to be approved by the School Board as required by law. The School Corporation generated the register of APVs based on invoice date and not check dates. This resulted in the exclusion of 7 out of 15 payroll clearing fund disbursements tested to not be properly certified or approved as required.

Criteria

Indiana Code 5-11-10-1.6 states in part:

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

- (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;

LAPORTE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

LAPORTE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on November 30, 2021, with Jayne L. Grillo, Treasurer; M. Gregory Hunt, Assistant Superintendent of Business and Operations; Mark D. Francesconi, Superintendent of Schools; Mark Kosior, President of the School Board; and Natasha Henry, Deputy Treasurer.