

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WHITKO COMMUNITY SCHOOL CORPORATION

KOSCIUSKO COUNTY, INDIANA

July 1, 2020 to June 30, 2022



FILED

03/10/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Shannon Ebbinghouse (Vacant) Lynn Leininger	07-01-20 to 07-23-21 07-24-21 to 08-09-21 08-10-21 to 06-30-23
Superintendent of Schools	Dr. Brandon Penrod Steve Darnell (interim) Timothy Pivarnik	07-01-20 to 03-16-21 03-17-21 to 06-13-21 06-14-21 to 06-30-23
President of the School Board	Carrie Hoffman Lynn Plummer-Studebaker Annette Arnold	07-01-20 to 12-31-20 01-01-21 to 12-31-21 01-01-22 to 06-30-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE WHITKO COMMUNITY SCHOOL
CORPORATION, KOSCIUSKO COUNTY, INDIANA

This report is supplemental to our audit report of the Whitko Community School Corporation (School Corporation), for the period from July 1, 2020 to June 30, 2022. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

February 27, 2023

WHITKO COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FAILURE TO REPORT IRREGULAR LOSS

Condition and Context

The School Corporation failed to report a data breach of the financial system to the Indiana State Board of Accounts (SBOA) and prosecuting attorney. On June 7, 2021, the School Corporation discovered a ransomware virus had infected its computers and servers, including encrypting backups, which resulted in a loss.

Per the School Corporation's *Internal Control Standards and Procedures Policy 6111*, ". . . A. with respect to cash funds \$10,000 in any fund . . . are considered material and therefore are to be reported immediately to the SBOA as required by State law."

Criteria

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

"All erroneous or irregular material variances, losses, shortages, or thefts of political subdivision funds or property shall be reported immediately to the state board of accounts. For all material variances, losses, shortages, or thefts, the state board of accounts shall:

- (1) determine the amount of funds involved and report the amount to the appropriate government and law enforcement officials;
- (2) determine the internal control weakness that contributed to or caused the condition; and
- (3) make written recommendations to the appropriate legislative body or appropriate official overseeing the internal control system addressing:
 - (A) the method of correcting the condition; and
 - (B) the necessary internal control policies and internal control procedures that must be modified to prevent a recurrence of the condition."

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."

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)

WHITKO COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Condition and Context

The School Corporation adopted a Residence Verification Policy for Average Daily Membership (ADM) on January 24, 2022. However, the School Corporation did not institute the proof of residency requirements during the audit period.

Records were not presented for audit that would document proof of registration of three brick and mortar students and two virtual due to COVID-19 students tested for fiscal year 2020-2021, and one brick and mortar student tested and one virtual student tested for 2021-2022.

Records were not presented for audit that would document proof of attendance of two brick and mortar students and five virtual due to COVID-19 students tested for 2020-2021 and three brick and mortar student tested and one virtual student tested for 2021-2022.

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. . . ."

Each school corporation's governing body or charter school board must annually adopt or readopt a policy that specifies documentation, not to exceed three items, required to verify Indiana residency. (Indiana Department of Education Memo, August 27, 2020)

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)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

WHITKO COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

1. The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
2. The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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)

TRANSFERS BETWEEN FUNDS - FUND SOURCES AND USES - OVERDRAWN CASH BALANCES

Condition and Context

The School Corporation recorded several transfers which were not approved or authorized. Two transfers were disbursed from dormant funds to the Education fund.

In addition, other transfers were made at calendar or fiscal year end in order to move monies from various unrelated funds to funds with negative balances. Subsequently these transfers were moved back to the originating fund within the next day or month. Transfers of this type did not present an accurate balance of those funds at that respective year end.

Criteria

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)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

WHITKO COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

PREPAID SCHOOL MEAL ACCOUNTS

Condition and Context

Monthly reconciliements of the students' individual meal account balances to the Prepaid Food fund (clearing account) were not performed. A comparison of the Prepaid Food fund balance to the students' individual meal account balances at June 30, 2021 and 2022, was as follows:

<u>Description</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Prepaid Food fund	\$ 25,108	\$ 20,781
Individual Meal Account Balances	<u>17,155</u>	<u>16,322</u>
Variance	<u>\$ 7,953</u>	<u>\$ 4,459</u>

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

Condition and Context

The School Corporation did not maintain documentation to support amounts reported in the Schedule of Capital Assets as reported on the Indiana Gateway for Government Units financial reporting system. As a result, the Schedule of Capital Assets was not reported in the Financial Statement Audit Report.

In addition, a complete physical inventory of capital assets was not taken every two years to verify account balances carried in the accounting records.

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)

WHITKO COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition and Context

The School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation did not properly review the federal grant information prepared and submitted in Gateway. Although one employee prepared and entered the federal award information into Gateway, and another employee reviewed and approved the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

Due to the lack of effective internal controls, the SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster commodities were understated by \$30,390 and overstated by \$512 for fiscal years 2020-2021 and 2021-2022, respectively.
2. The Supporting Effective Instruction State Grants for 2021-2022 included \$62,377 of expenditures which were transfers to the Student Support and Academic Enrichment Program grants.
3. The Child Care and Development Block Grant was omitted for 2021-2022, which understated expenditures by \$44,216.
4. The Medical Assistance Program expenditures were understated by \$8,632 and \$15,349, for 2020-2021 and 2021-2022, respectively.
5. The Pandemic EBT Administrative Cost grant was omitted for 2021-2022, which understated expenditures by \$614.
6. Other errors included incorrect program names and identifying numbers.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in Federal Compliance Audit Report for the School Corporation.

WHITKO COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Criteria

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"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.

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WHITKO COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2023, with Lynn Leininger, Treasurer; Shannon Ebbinghouse, former Treasurer; Tim Pivarnik, Superintendent of Schools; Deb Thomas, School Board member; and Scott Werstler, School Board member.