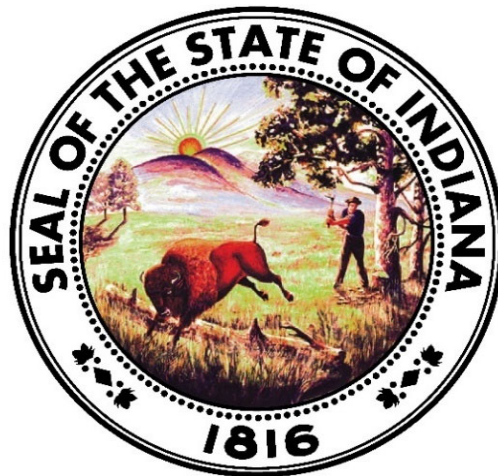


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTH LAWRENCE COMMUNITY SCHOOLS
LAWRENCE COUNTY, INDIANA
July 1, 2020 to June 30, 2022



FILED
03/31/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jenise Roane Robyn Muder	07-01-20 to 12-31-21 01-01-22 to 06-30-23
Superintendent of Schools	Ty Mungle Steve Underwood (interim) Dr. James Halik (interim)	07-01-20 to 01-08-23 01-09-23 to 02-05-23 02-06-23 to 06-30-23
President of the School Board	Trent Todd Dr. Wendy Miller	07-01-20 to 12-31-22 01-01-23 to 12-31-23



STATE OF INDIANA
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TO: THE OFFICIALS OF THE NORTH LAWRENCE COMMUNITY
SCHOOLS, LAWRENCE COUNTY, INDIANA

This report is supplemental to our audit report of the North Lawrence Community Schools (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

March 15, 2023

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

A similar comment appeared in a Management Letter addressed to the Officials of North Lawrence Community Schools for the audit period ending June 30, 2018.

Condition and Context

The School Corporation's financial statement included the following funds with overdrawn cash balances at June 30, 2021 and 2022, that were not attributed to be reimbursable grant funds.

Fund	Amount Overdrawn	
	2021	2022
Area Vocational School	\$ -	\$ 697,758
Safe Haven 18/19	138,747	138,747
Safe Haven 09/10	9,623	9,623
Early Intervention Grant 19-20	633	633
Donation-Academic Wall Of Fame	12,611	15,212
Lincoln Donations	-	8
Nlcc Stem Discover Drone Program	43	43
Stone Gate Grant For Nlcc	46	46
Roi - Precision Health Grant	11,011	-
Roi - Early Learning Center	8,350	36,188
National Youth At Risk Grant	430	430
Stem Acceleration Grant	33,117	54,860
Rural Early College Network	10,949	15,167
Eca - Classified	-	5,958
M. B. Wohlfeld Mem Golf	1,402	102
Secured Schools Safety Grant	-	35,707
Lilly Counseling Grant	267,268	446,347
Technology Fund	-	424,502
Teacher Appreciation Grant 19/20	32,952	32,952
High Ability	1,601	-
High Ability 19/20	2,522	2,522
High Ability 21/22	-	6,863
Project Lead The Way	3,200	4,721
School Improvement Grant 2020	10,165	10,560
Part B Idea Pass Thru 19/20	224,556	224,556
Part B Idea Pass Thru 20/21	-	529,417
Preschool 18/19	35,690	35,690
Preschool 19/20	410	410
Preschool 20/21	51,069	8,779
Perkins Next Level Prgms 19/20	3,720	3,720
Carl Perkins 2015-16	1,006	1,006
SIEC Federal Grant	1,710	1,710
Title Ii 2016-17 2017-18	70	70
Title Ii Part A	2,676	2,676
Federal Stimulus - Cares Act	178,682	5,634

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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

CAPITAL ASSETS - DETAILED LISTING AND INVENTORY OF CAPITAL ASSETS

A similar comment appeared in a Management Letter addressed to the officials of North Lawrence Community Schools for the audit period ending June 30, 2018.

Condition and Context

The School Corporation's capital asset records had not been updated nor had a recent physical inventory 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 Schools, Chapter 1)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Condition and Context

The School Corporation was not in compliance with School Board Policy 6250 - *Required ADM Counts for the Purpose of State Funding and Verification of Residency for Membership*. The policy requires the School Corporation to obtain a current utility bill or documentation of residence for a student prior to being claimed in membership counts. The School Corporation was unable to provide any proof of Indiana residency documentation for all 10 of the virtual students and 25 of the 26 brick and mortar students that were selected for sampling in the test of Average Daily Membership (ADM).

Criteria

Officials shall maintain records (enrollment card, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IDOE Memo date August 27, 2020, Verification of Residency for Membership, states in part:

...

"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. . . ."

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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)

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)

MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

Condition and Context

The School Corporation had established internal controls over payroll. A further review of the internal controls found a weakness that allowed the superintendent to set the Treasurer's pay scale without School Board approval. The School Board approved a salary agreement with the Treasurer during the next audit period.

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. . . ."

CONDITION OF RECORDS

Condition and Context

The School Corporation had not established an adequate system of internal controls related to financial transactions and reporting.

Financial Transactions - Conversion

The School Corporation had not established effective internal controls over financial transactions. Transactions were posted to the ledgers without an oversight or review process to prevent, or detect and correct, errors in financial transactions.

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Due to the lack of effective internal controls, the following issues were identified:

- The School Corporation utilized ten bank accounts. In November 2019, the School Corporation converted from the Komputrol accounting system to the FMS accounting system. The process for recording bank transfers within the Komputrol system differed from the process required within the FMS system. However, the School Corporation continued to record bank transfers in the same manner as before, which resulted in instances of incomplete financial data as only one side of the transfer was recorded.
- Electronic Fund Transfer (EFT) disbursements posted in the ledger did not agree with the corresponding bank disbursements.
- Attempts to correct errors were made incorrectly which resulted in errors in the receipts and disbursements.

Financial Transaction - Cash and Investments

The School Corporation had not established effective internal controls over cash and investments. Although the Deputy Treasurer prepared the reconciliation and the Treasurer reviewed the reconciliation, bank reconciliations were not completed timely, and there were unidentified reconciling differences each month. In addition, the numerous reconciling items did not have adequate documentation to support the validity of the item and identified bank reconciling items were not corrected timely in the ledger. As these issues originated in the prior fiscal year, the beginning unidentified cash short as of July 1, 2020, was \$302,361. The adjusted bank reconciliation contained an unidentified cash short of \$485,298, and unidentified cash short of \$501,508 for June 30, 2021, and June 30, 2022, respectively.

Financial Close and Reporting

The School Corporation did not have a proper system of internal controls in place over financial close and reporting. The financial information entered into the Indiana Gateway for Government Units financial reporting system, was the source of the School Corporation's financial statement. The School Corporation did not have a system of internal controls in place to prevent, or detect and correct, errors on the financial statement.

Due to the lack of effective internal controls, the following errors remained undetected:

- Beginning cash and investment balances were overstated by \$928,875 and \$438,460, for fiscal years 2020-2021 and 2021-2022, respectively.
- Receipts were understated by \$9,967,476 and \$11,857,168, for 2020-2021 and 2021-2022, respectively.
- Disbursements were understated by \$9,450,802 and \$10,405,094, for 2020-2021 and 2021-2022, respectively.
- Other financing sources (uses) were overstated by \$26,259 and understated by \$542,038, for 2020-2021 and 2021-2022, respectively. The individual components of other financing sources (uses) contained errors as follows:
 - The sale of capital assets was understated by \$738,406, for 2021-2022.

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

- Transfers in were overstated by \$521,235 and \$431,600, for 2020-2021 and 2021-2022, respectively.
- Transfers out were overstated by \$494,976 and \$235,232, for 2020-2021 and 2021-2022, respectively.
- Ending cash and investment balances were overstated by \$438,460 and understated by \$1,555,652, for 2020-2021 and 2021-2022, respectively.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statements.

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. . . ."

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)

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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)

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)

ANNUAL FINANCIAL REPORT

Condition and Context

The information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the Schedule of Capital Assets, and Grant Schedule was incorrect and did not agree with the School Corporation's records. The following errors were identified with the information reported:

Schedule of Capital Assets

The amounts reported for capital assets were materially inaccurate. The School Corporation's capital asset records had not been updated since 2008. Since then, the School Corporation has liquidated several buildings, but these have not been removed from the capital asset records.

Grant Schedule

The federal grant information entered was materially incorrect. The following errors were identified:

1. The National School Lunch Program expenditures were understated by \$143,775 and \$634,996, for fiscal years 2020-2021 and 2021-2022, respectively. Additionally, commodities were omitted, which understated expenditures by a \$224,116 and \$244,422, for 2020-2021 and 2021-2022, respectively.
2. The Special Education Grants to States expenditures were overstated by \$639,248 for 2020-2021.
3. Six grants had individually immaterial errors for 2020-2021 that resulted in misstatements of expenditures of \$44,431, in total. Eight grants had individually immaterial errors for 2021-2022 that resulted in misstatements of expenditures of \$579,500, in total.
4. Other errors included incorrect program names, pass-through entities, and identifying numbers.

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Audit adjustments were proposed, accepted by the School Corporation, and made to the Grant Schedule.

Criteria

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](#)."

NORTH LAWRENCE COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 15, 2023, with Robyn Muder, Treasurer; Dr. James Halik, interim Superintendent of Schools; Dr. Wendy Miller, President of the School Board; Scott King, School Board member; Barbara Miller, School Board member; Camryn Fender, Deputy Treasurer; James G. Pittman, School Corporation Attorney; and Steve Underwood, interim Assistant Superintendent of Schools.