

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION

NOBLE COUNTY, INDIANA

July 1, 2020 to June 30, 2022



FILED

04/12/2023

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Annual Financial Report	4-5
Annual Financial Report - Other Information	5
Capital Assets	6
Overdrawn Cash Balances	6-7
Prepaid School Meal Accounts	7-8
Average Daily Membership (ADM)	8
Exit Conference	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Tyler C. Osenbaugh	07-01-20 to 06-30-23
Superintendent of Schools	Troy A. Gaff Robert C. Morgan	07-01-20 to 06-30-22 07-01-22 to 06-30-23
President of the School Board	Eric J. Custer Amanda L. Lock	07-01-20 to 12-31-22 01-01-23 to 06-30-23



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AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CENTRAL NOBLE COMMUNITY
SCHOOL CORPORATION, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the Central Noble 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

March 15, 2023

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

Condition and Context

There were several deficiencies in the internal control system of the School Corporation related to financial close and reporting and preparation of the grant schedule.

The School Corporation had not established internal controls over the financial information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the School Corporation's Annual Financial Report (AFR). The AFR is also the source for the Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances. The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the AFR.

Due to the lack of internal controls, the AFR and the Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances presented for audit included the following errors:

1. The Curricular Materials Rental fund receipts and disbursements were each overstated by \$430,000 for fiscal year 2021-2022.
2. The Emergency Connectivity fund disbursements were overstated by \$430,000 for 2021-2022.
3. The beginning cash and investments balances of ten payroll clearing related funds were omitted from the AFR.
4. The following seven funds were omitted from the AFR, which resulted in understating receipts, disbursements, and balances and overstating other financing uses:
 - Wolf Lake Comfortable Learning
 - 18-19 Early Intervention
 - State Medicaid
 - TAG 2021
 - High Ability 2021-22
 - Title IV FY 20
 - Insurance Liability Clearing

Due to the lack of internal controls, the grant schedule presented for audit included the following errors:

1. The Child Nutrition Cluster was understated by \$210,372.
2. Several additional grants had individually immaterial errors or omissions that resulted in a combined misstatement of \$52,989.

Audit adjustments were proposed, accepted by the School Corporation, and made to the AFR and the grant schedule.

CENTRAL NOBLE COMMUNITY 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. . . ."

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](#)."

ANNUAL FINANCIAL REPORT - OTHER INFORMATION

A similar comment appeared in prior Reports B52682 and B56950, entitled *ANNUAL FINANCIAL REPORT - SUPPLEMENTAL SCHEDULES*.

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report via the Indiana Gateway for Government Units (Gateway) financial reporting system. The capital assets information entered into Gateway was incorrect and did not reflect the financial activity of the School Corporation.

The Schedule of Capital Assets will not be presented in the Financial Statement Audit Report as Other Information.

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from 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](#)."

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

Condition and Context

The School Corporation did not maintain a proper detailed listing of all capital assets owned. The School Corporation provided an improper listing of capital assets that were commingled with all other assets owned as of June 30, 2021. The School Corporation did not provide any listing of assets for the fiscal year ended June 30, 2022.

A capital assets policy was formally adopted by the governing board; however, the policy did not comply with the basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by IC 5-11-1-6, which is a comprehensive basis of accounting other than generally accepted accounting principles. The School Corporation did not complete a physical inventory every year as required by their capital assets policy.

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)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (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)

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Reports B49487, B52682, and B56950, entitled *OVERDRAWN CASH BALANCES*.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at June 30, 2021 and 2022, which were not attributed to timing of reimbursements.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Fund	Amount Overdrawn June 30, 2021	Amount Overdrawn June 30, 2022
Cn Group Insurance	\$ 136,239	\$ 68,013
Holding Account	788	788
Federal Tax	521	505
Social Security	289	212
State Tax	778	739
Public Employees' Retirement	1,863	1,863
Group Insurance	1,460	1,675
Accident/Cancer/Etc Insurance	1,734	1,734
Sect 125*Flex Spending Accts	725	-

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)

PREPAID SCHOOL MEAL ACCOUNTS

A similar comment appeared in prior Reports B49487, B52682, and B56950, entitled *PREPAID SCHOOL MEAL ACCOUNTS*.

Condition and Context

The School Corporation did not reconcile the balance of the Prepaid School Lunch Account fund with the total balance of the individual meal accounts for any month during the audit period. The total balance of the individual meal accounts was \$817 and \$8,430, more than the Prepaid School Lunch Account fund balance as of June 30, 2021, and June 30, 2022, respectively.

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 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 the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, Volume 225)

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

AVERAGE DAILY MEMBERSHIP (ADM)

Condition and Context

The School Corporation did not maintain proof of residency documents for 12 out of 50 students selected for testing. The School Corporation did not properly follow their local policy for verifying proof of residency.

The School Corporation did not formally adopt an engagement policy for students who were virtual due to Covid.

Criteria

Proof of residency must be on hand for each student prior to the student being claimed on the fall and/or spring membership count dates. (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)

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)

The Indiana Department of Education (IDOE) has released guidance for reporting ADM information and requires supporting documentation of enrollment and attendance information by grade and school to be signed by the building principle, or head of school, and made available in the event of an audit. There is no further guidance as to what the terms "enrolled" and "attending" mean outside of IC 20-43-1. Therefore, we are of the audit position that each school should adopt a student engagement policy which would mirror the requirements set forth for virtual charter schools in IC 20-247-13(h). (School Bulletin and Uniform Compliance Guidelines Volume 228)

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)

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 15, 2023, with Tyler C. Osenbaugh, Treasurer; Robert C. Morgan, Superintendent of Schools; Jason Schoeff, Vice President of the School Board; and Brian Geiger, School Board member.