

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX COMMUNITY SCHOOL CORPORATION

STARKE COUNTY, INDIANA

July 1, 2020 to June 30, 2022



FILED
04/12/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kasey Clark	07-01-20 to 06-30-23
Superintendent of Schools	Dr. William Reichhart	07-01-20 to 06-30-23
President of the School Board	Kirk Bennett Gary Dulin Kirk Bennett	07-01-20 to 12-31-20 01-01-21 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 KNOX COMMUNITY SCHOOL
CORPORATION, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the Knox 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 29, 2023

KNOX COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment appeared in the prior Report B56628, entitled *FINANCIAL REPORTING*.

Condition and Context

The School Corporation had not established effective internal controls over the financial information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's financial statement.

The School Corporation failed to properly review the financial information prepared and submitted in Gateway. One employee entered the information into Gateway without an oversight or review process in place to prevent, or detect and correct, errors on the financial statement.

Due to the lack of internal controls, the financial statement presented for audit included the following errors:

1. The School Corporation entered the ending cash and investments balances from June 30, 2021, as the beginning cash and investments balances for July 1, 2020. This error caused the beginning cash and investments balances of 32 funds to be overstated by \$9,292,901 and 20 funds to be understated by \$11,062,364.
2. The School Corporation included a \$10,500,000 investment in the Construction 2019 fund as a receipt in the current audit period; however, it had already been reported in the prior audit period. This caused the cash and investments balances as of June 30, 2021, and June 30, 2022, in the Construction 2019 fund to be overstated by \$10,500,000.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement presented in the Financial Statement Audit Report.

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. . . ."

KNOX 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](#)."

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Condition and Context

The School Corporation was unable to provide enrollment documentation for 85 out of the 89 students tested in the Average Daily Membership (ADM) count.

Additionally, the School Corporation could not provide documentation for audit as follows:

1. The School Corporation was unable to provide documentation for proof of residency for 80 of the 89 students tested.
2. The School Corporation was unable to provide documentation to verify that the students met the age requirement (birth certificate) for 5 out of the 89 students tested.
3. The School Corporation was unable to provide documentation that one "Virtual Student due to COVID" was attending school.

Criteria

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)

KNOX COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL FINANCIAL REPORT

Condition and Context

Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The School Corporation had not established effective internal controls over the financial and other information entered into the AFR.

One employee prepared and entered the information into Gateway without an oversight or review process in place to prevent or detect and correct errors.

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

1. The detailed fund cash balances, receipts, and disbursements entered into Gateway contained material errors:
 - a. The School Corporation entered the ending cash and investments balances from June 30, 2021, as the beginning cash and investments balances for July 1, 2020. This error caused the beginning cash and investments balances of 32 funds to be overstated by \$9,292,901 and 20 funds to be understated by \$11,062,364.
 - b. The School Corporation included a \$10,500,000 investment in the Construction 2019 fund as a receipt in the current audit period; however, it had already been reported in the prior audit period. This caused the cash and investments balance in the Construction 2019 fund to be overstated by \$10,500,000.
2. There were material differences in the federal grant information entered into Gateway compared to supporting documentation provided by the School Corporation as follows:
 - a. Several grants had individually immaterial errors that resulted in misstatements of expenditures of \$631,904, in total.
 - b. Other errors included incorrect federal program names and identifying numbers.
3. The debt information entered into Gateway erroneously reported the Knox Middle School Building Corporation Leases as General Obligation Bonds.
4. The capital asset information entered in Gateway did not report all additions and deletions of assets from July 1, 2021 to June 30, 2022. The School Corporation requested that the Schedule of Capital Assets not be included in the Financial Statement Audit Report since a complete capital asset listing was not being properly maintained during the audit period.

Adjustments were proposed, accepted by the School Corporation, and made to the Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses) and Cash and Investment Balances - Regulatory Basis and the Schedule of Leases and Debt contained in the Financial Statement Audit Report.

Adjustments were proposed, accepted by the School Corporation, and made to the Schedule of Expenditures of Federal Awards contained in the Federal Compliance Audit Report.

KNOX COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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](#)."

CAPITAL ASSETS

Condition and Context

The School Corporation did not properly maintain its capital asset listing. The School Corporation provided a capital asset list for June 30, 2021, but did not update the listing for additions or deletions up to June 30, 2022. The School Corporation does an inventory every two years but does not maintain a ledger for capital assets that lists all additions and deletions throughout the school year. The omission of this information was determined to be material to the capital asset listing.

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)

CONSTRUCTION CONTRACTS

Condition and Context

The School Corporation was unable to provide documentation on the bids for two construction projects. There was no documentation provided for audit that indicated that the school publicized the bids through proper advertisements.

Criteria

Indiana Code 5-22-7-2 states:

- "(a) A purchasing agent shall issue an invitation for bids.
- (b) An invitation for bids must include the following:
 - (1) A purchase description.
 - (2) All contractual terms and conditions that apply to the purchase.
 - (3) A statement of the evaluation criteria that will be used, including any of the following:
 - (A) Inspection.

KNOX COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

(B) Testing.

(C) Quality.

(D) Workmanship.

(E) Delivery.

(F) Suitability for a particular purpose.

(G) The requirement imposed under [IC 5-22-3-5](#).

(4) The time and place for opening the bids.

(5) A statement concerning whether the bid must be accompanied by a certified check or other evidence of financial responsibility that may be imposed in accordance with rules or policies of the governmental body.

(6) A statement concerning the conditions under which a bid may be canceled or rejected in whole or in part as specified under [IC 5-22-18-2](#)."

Indiana Code 5-22-7-5(a) states: "The purchasing agent shall give notice of the invitation for bids in the manner required by [IC 5-3-1](#)."

Indiana Code 5-22-7-6 states: "The purchasing agent shall open bids publicly in the presence of one (1) or more witnesses at the time and place designated in the invitation for bids."

Indiana Code 5-22-7-7 states:

"Bids must be:

(1) unconditionally accepted without alteration or correction, except as provided in sections 11 through 13 of this chapter; and

(2) evaluated based on the requirements provided in the invitation for bids."

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

KNOX COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 29, 2023, with Kasey Clark, Treasurer, and Kirk Bennett, President of the School Board.