

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
SOUTH BEND COMMUNITY SCHOOL CORPORATION
ST. JOSEPH COUNTY, INDIANA
July 1, 2019 to June 30, 2020



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jenise Palmer Kareemah Fowler	10-16-18 to 08-31-19 09-01-19 to 06-30-22
Superintendent of Schools	Dr. C. Todd Cummings	07-01-19 to 06-30-22
President of the School Board	John Anella	01-01-19 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SOUTH BEND COMMUNITY SCHOOL
CORPORATION, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the South Bend Community School Corporation (School Corporation), for the period from July 1, 2019 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

December 16, 2021

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Report B54484.

Condition and Context

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not established a system of internal controls or separated incompatible activities related to cash and investments, capital assets, depreciation expenses, accumulated depreciation, expenses, component unit, census data, and classification of receipts and disbursements.

Cash and Investments (Bank Reconciliations)

Internal controls had not been developed to ensure that reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute.

The bank reconcilements for the operating, payroll, and accounts payable bank accounts (the three main bank accounts) were not performed until May 2020. The School Corporation hired a consulting firm to identify the reconciling items from the bank statements to the financial software system.

The School Corporation provided a list of over 800 reconciling items that included bank accounts that owed amounts to other bank accounts, and outstanding checks that had subsequently cleared the bank but were still listed on the outstanding check list.

The net effect of the identified reconciling items noted was an increase in the balance of the operating bank account by \$33,628,572, and a decrease in the balance of the payroll and accounts payable bank accounts by \$4,069,560 and \$2,271,732, respectively.

The net effect of the unidentified reconciling items noted was an increase in the balance of the operating and payroll bank accounts by \$74,579 and \$122,584, respectively, and a decrease in the balance of the accounts payable bank account by \$48,358.

The School Corporation had not performed any research or posted any correcting adjustments needed due to the reconciling items identified. We requested that the School Corporation research and record corrections since it was unknown if the reconciling items would be material to the financial statements.

After further analysis and posting of corrections by the School Corporation, the bank balance exceeded the ledger and the financial statements cash and investment balances by \$110,626.

Capital Assets, Depreciation Expense, and Accumulated Depreciation

The School Corporation did not have effective internal controls in place to ensure capital assets, depreciation expense, and accumulated depreciation amounts reported in the financial statements and notes were accurate and complete.

The School Corporation was not able to provide supporting documentation for capital asset balances, depreciation expenses, and accumulated depreciation as reported in the financial statements and notes to the financial statements. The following errors were noted:

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

1. The capital asset listing provided included miscellaneous equipment totaling over \$45,000,000 for the School Corporation. There was no supporting documentation to substantiate the amount being reported or a detailed description of the miscellaneous equipment.
2. The School Corporation had not listed the buildings at estimated purchase price or fair market value at the time of acquisition, as stated in its policy. The 25 buildings tested were reported as \$530,173,628 on the capital asset listing. Using the insurance fair market value provided by the School Corporation and a historical cost index, the buildings should have been listed as a total of \$181,983,762. This resulted in the 25 buildings tested to be overstated by \$348,189,866, the difference between the reported costs and the historical costs.
3. A complete physical inventory has not been performed in the past two years and the date of the last inventory is unknown.
4. The School Corporation does not have a formal policy in place for depreciation that addresses an asset's useful life or depreciation methods.

As a result, we were unable to audit capital assets, depreciation expenses, and accumulated depreciation for the School Corporation. The opinion on the Governmental Activities reflects this matter.

Debt Expenses

The School Corporation did not have an oversight, review, or approval process in place to ensure that debt payments were properly posted to the ledgers in a timely manner. The School Corporation paid the 2006 General Obligation Bond on July 2, 2019, for \$1,575,943, but did not record the payment in the ledgers until December 31, 2019.

Vendor Expenses

The School Corporation did not have effective internal controls in place over vendor expenses. There was no documentation to verify that the list of claims entered in the software system for payment were compared to the actual invoice.

Payroll Expenses

The School Corporation did not segregate incompatible duties related to payroll processing as follows:

1. A human resources employee entered the employees' wages into the financial software system without an oversight, review, or approval process.
2. A payroll employee prepared the payroll, verified the reports, prepared the deposits, and paid the taxes without an oversight, review, or approval process.
3. A documented oversight or review process was not established for nonfederal grant employees to ensure the accuracy of the biweekly payroll claim.

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AUDIT RESULTS AND COMMENTS
(Continued)

Component Unit

The School Corporation reported the building corporation as a blended component unit; however, there were no internal controls in place for the cash and investment balances, revenue, or expense activity reported on the financial statements.

Covered Wages for INPRS Pension Census Data

The School Corporation had not separated incompatible activities related to the Indiana Pension Retirement System (INPRS) census data for both the Public Employees' Retirement Fund (PERF) plan and the 1996 Teachers' Retirement Fund (TRF) plan. There was no written indication that the supporting detail for the census data (covered wages) was reviewed prior to submission to ensure the census data was accurate and correctly presented.

The pension census data (covered wages) reported to INPRS did not agree with the detail by individual provided. Although the School Corporation's total of the covered wage reports by individual was comparable to the calculated covered payroll from the School Corporation's financial records for both PERF and TRF, it was not comparable to the covered wages reported to INPRS for the fiscal year ended June 30, 2019. The School Corporation's detail by individual for PERF and TRF included more than \$397,000 and \$3,400,000, respectively, than the reported covered wages to INPRS for the same time period.

OPEB Census Data

The School Corporation failed to establish internal controls to ensure Other Post-Employment Benefits (OPEB benefits) were only paid to retirees and beneficiaries that were alive and eligible for the OPEB benefits.

Classification of Receipt and Disbursements

The School Corporation failed to establish internal controls to ensure that receipts and disbursements were recorded under the correct classification, which is the basis for the classification of revenues and expenditures/expenses reported in the financial statements.

The Summer Food Service Program, as part of the National School Lunch Program, was classified as State Basic Aid and should have been classified as Federal Sources. Employee benefits expenses were classified as capital outlay instead of support services.

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.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions . . ."

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)

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 of 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)

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 Guidelines Manual for Indiana Public School Corporations, Chapter 1)

All documents and entries to the records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

COMPLIANCE OVER PAYROLL EXPENSES

A similar comment also appeared in prior Report B54484, entitled *PUBLIC RECORDS RETENTION - PAYROLL RECORDS*.

Condition and Context

The following noncompliance was noted relating to payroll expenses:

1. 25 percent of tested employees pay, or a portion of their pay, could not be verified to School Board approval through a labor contract, salary schedule, or resolution or ordinance.

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AUDIT RESULTS AND COMMENTS
(Continued)

2. 29 percent of the attendance registers tested were not approved by the appropriate official or department head verifying the employee's hours worked.
3. For all 29 items tested, the fiscal officer did not certify the Accounts Payable Voucher Register (docket).
4. For all 29 items tested, the School Board minutes noted the authorization of the distribution of payroll; however, there was no documentation presented for audit to verify the funds or amounts approved. None of the payroll dockets from July 2019 through June 2020 were provided.
5. 11 percent of employees tested did not have timesheets or attendance records presented for audit.
6. 7 percent of employees tested had additional hours paid with no supporting documentation provided for audit.

Criteria

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)

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 5-11-10-1.6(c) states in part:

"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;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

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AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . ."

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)

COLLECTION OF AMOUNTS DUE

A similar comment also appeared in prior Report B54484, entitled *CURRICULAR MATERIALS RENTAL*.

Condition and Context

The School Corporation did not follow its own adopted policy in pursuing delinquent curricular materials rental payments and negative student school lunch accounts.

Criteria

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (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)

TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The School Corporation incorrectly certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted, as required by Indiana Code 5-11-1-27(g).

Of the employees tested, 42 percent did not receive the training, and 60 percent of the trained employees that were selected for testing did not receive the training until after the list of employees was sent to the administrative office.

SOUTH BEND 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](#)."

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

ACCOUNTS PAYABLE VOUCHERS

Condition and Context

The following deficiencies were noted during the testing of vendor expenditures:

1. The Accounts Payable Vouchers (APV) paid on December 31, 2019, were not listed on the Accounts Payable Voucher Register (docket) for approval until February 18, 2020.
2. The approval of vendor APVs was noted in the School Board minutes; however, the dockets from December 2019 to June 2020 were not provided to verify the APVs that the School Board approved.
3. There was no documentation that the fiscal officer certified any APVs tested.

Criteria

Indiana Code 5-11-10-1.6(c) states in part:

"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;
- (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. . . ."

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

PREPAID SCHOOL MEAL ACCOUNTS

The same comment also appeared in prior Report B54484.

Condition and Context

Collections for prepaid school meals were not accounted for properly and consistently in the School Corporation records. Prepayments that were collected at each school were receipted into the School Lunch fund instead of the Cafeteria Prepaid Meals fund. Prepayments that were collected electronically (School Corporation's website) were receipted into the Cafeteria Prepaid Meals fund, but transfers to the School Lunch fund were not made timely for subsequent sales of meals.

The School Corporation did not reconcile the Cafeteria Prepaid Meals fund to the individual students' accounts.

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, February 2019)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2021, with Kareemah Fowler, Treasurer; Dr. C. Todd Cummings, Superintendent of Schools; John Anella, President of the School Board; Jeanette McCullough, School Board member; Ruth Warren, School Board member; Oletha Jones, School Board member; Leslie Wesley, Vice President of the School Board; Stuart Greene, School Board member; Alejandro Flores, Internal Auditor; and Jenise Palmer, interim Treasurer.