

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

SOUTH CENTRAL AREA SPECIAL
EDUCATION COOPERATIVE
ORANGE COUNTY, INDIANA

July 1, 2011 to June 30, 2013



FILED
08/15/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Ruth D. Gilbert	07-01-11 to 06-30-14
Director	Melissa D. Lancaster	07-01-11 to 06-30-16
President of the School Board	Gerald W. Jackson	07-01-11 to 06-30-14



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SOUTH CENTRAL AREA SPECIAL
EDUCATION COOPERATIVE, ORANGE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the South Central Area Special Education Cooperative (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 18, 2014, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.


Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.


Paul D. Joyce, CPA
State Examiner

June 18, 2014



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE SOUTH CENTRAL AREA SPECIAL
EDUCATION COOPERATIVE, ORANGE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the South Central Area Special Education Cooperative (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated June 18, 2014, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002.

South Central Area Special Education Cooperative's Response to Findings

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

June 18, 2014

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2012 and 2013

	Cash and Investments 07-01-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13
General	\$ 449,489	\$ 3,735,462	\$ 3,928,098	\$ (26,819)	\$ 230,034	\$ 4,069,336	\$ 4,054,967	\$ (31,199)	\$ 213,204
Post-Retirement/Severance Future Benefits	468	-	27,287	26,819	-	-	31,199	31,199	-
WHAS 05-06	2,598	-	-	-	2,598	-	-	-	2,598
WHAS 10-11/WHAS 12-13	-	5,722	5,722	-	-	748	748	-	-
WHAS 11-12	-	45,000	44,246	-	754	-	754	-	-
Access Indiana/WCCF Grant	-	669	669	-	-	300	300	-	-
Miscellaneous Programs	-	900	900	-	-	-	-	-	-
Part B 10-11/Part B 12-13	(227,826)	48,242	74,368	253,952	-	1,709,254	1,874,619	-	(165,365)
Part B 09-10/Part B 11-12	-	1,708,954	1,672,739	(253,952)	(217,737)	382,979	165,242	-	-
(IDEA, Part B) LEA Capacity Building (Sliver) Grants	-	-	-	-	-	3,000	3,000	-	-
Federal Preschool 10-11	(14,453)	50,674	36,221	-	-	36,657	49,924	-	(13,267)
Preschool Federal 11-12	-	30,861	47,674	-	(16,813)	42,784	25,971	-	-
Special Education - Part B	(131,486)	275,496	144,010	-	-	-	-	-	-
Special Education - Part B - Preschool	(11,984)	12,639	655	-	-	-	-	-	-
Payroll Withholdings	118,741	1,440,799	1,437,221	-	122,319	1,477,690	1,446,682	-	153,327
Totals	\$ 185,547	\$ 7,355,418	\$ 7,419,810	\$ -	\$ 121,155	\$ 7,722,748	\$ 7,653,406	\$ -	\$ 190,497

The notes to the financial statement are an integral part of this statement.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the School Corporation.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, School Corporation activities, revenue from community services activities, and other revenue from local sources.

State sources include distributions from the State of Indiana and are to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENT
(Continued)

Federal sources include distributions from the federal government and are to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

F. Other Financing Sources and Uses

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENT
(Continued)

specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level by the local Board. The Board consists of superintendents or their designee of the six participating school corporations: Crawford County Community School Corporation, East Washington School Corporation, Paoli Community School Corporation, Salem Community Schools, Springs Valley Community School Corporation, and West Washington School Corporation.

Note 3. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 4. Risk Management

The School Corporation may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 5. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENT
(Continued)

the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. Teachers' Retirement Fund

Plan Description

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
 NOTES TO FINANCIAL STATEMENT
 (Continued)

formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

C. Additional Pension Plan

The School Corporation also contributes to an additional pension plan unique to the School Corporation. Information regarding this plan may be obtained from the School Corporation.

Note 6. Cash Balance Deficits

The financial statement contains some funds with deficits in cash at June 30, 2012 and 2013. This is a result of funds being set up for reimbursable grants. The cash deficits arose from disbursements exceeding receipts due to timing delays in reimbursements being received from the grantors; these deficits are to be repaid from future grant reimbursement receipts.

Note 7. Restatement

For the year ended June 30, 2012, a change has been made to the beginning balance of the financial statement to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances.

Fund Name	Balance as Reported June 30, 2011	New Fund	Balance as Restated July 1, 2011
Payroll Withholdings	\$ -	\$ 118,741	\$ 118,741

Note 8. Other Postemployment Benefits

The School Corporation provides to eligible retirees and their spouses the following benefits: medical insurance and, until age 62, supplemental pension payments. These benefits pose a liability to the School Corporation for this year and in future years. Information regarding the benefits can be obtained by contacting the School Corporation.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's Office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012

	General	Post- Retirement/ Severance Future Benefits	WHAS 05-06	WHAS 10-11/ WHAS 12-13	WHAS 11-12	Access Indiana/ WCCF Grant	Miscellaneous Programs	Part B 10-11/ Part B 12-13
Cash and investments - beginning	\$ 449,489	\$ 468	\$ 2,598	\$ -	\$ -	\$ -	\$ -	\$ (227,826)
Receipts:								
Local sources	3,666,325	-	-	5,722	45,000	-	900	-
State sources	69,137	-	-	-	-	669	-	-
Federal sources	-	-	-	-	-	-	-	48,242
Other	-	-	-	-	-	-	-	-
Total receipts	<u>3,735,462</u>	<u>-</u>	<u>-</u>	<u>5,722</u>	<u>45,000</u>	<u>669</u>	<u>900</u>	<u>48,242</u>
Disbursements:								
Current:								
Instruction	3,364,451	9,800	-	5,722	-	-	900	48,093
Support services	562,389	17,487	-	-	-	669	-	26,275
Facilities acquisition and construction	1,258	-	-	-	44,246	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>3,928,098</u>	<u>27,287</u>	<u>-</u>	<u>5,722</u>	<u>44,246</u>	<u>669</u>	<u>900</u>	<u>74,368</u>
Excess (deficiency) of receipts over disbursements	<u>(192,636)</u>	<u>(27,287)</u>	<u>-</u>	<u>-</u>	<u>754</u>	<u>-</u>	<u>-</u>	<u>(26,126)</u>
Other financing sources (uses):								
Transfers in	-	26,819	-	-	-	-	-	253,952
Transfers out	<u>(26,819)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(26,819)</u>	<u>26,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,952</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(219,455)</u>	<u>(468)</u>	<u>-</u>	<u>-</u>	<u>754</u>	<u>-</u>	<u>-</u>	<u>227,826</u>
Cash and investments - ending	<u>\$ 230,034</u>	<u>\$ -</u>	<u>\$ 2,598</u>	<u>\$ -</u>	<u>\$ 754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	Part B 09-10/ Part B 11-12	(IDEA, Part B) LEA Capacity Building (Sliver) Grants	Federal Preschool 10-11	Preschool Federal 11-12	Special Education - Part B	Special Education - Part B - Preschool	Payroll Withholdings	Totals
Cash and investments - beginning	\$ -	\$ -	\$ (14,453)	\$ -	\$ (131,486)	\$ (11,984)	\$ 118,741	\$ 185,547
Receipts:								
Local sources	-	-	-	-	-	-	-	3,717,947
State sources	-	-	-	-	-	-	-	69,806
Federal sources	1,708,954	-	50,674	30,861	275,496	12,639	-	2,126,866
Other	-	-	-	-	-	-	1,440,799	1,440,799
Total receipts	1,708,954	-	50,674	30,861	275,496	12,639	1,440,799	7,355,418
Disbursements:								
Current:								
Instruction	1,229,983	-	36,221	47,674	20,851	655	-	4,764,350
Support services	442,541	-	-	-	59,369	-	-	1,108,730
Facilities acquisition and construction	-	-	-	-	63,790	-	-	109,294
Debt services	215	-	-	-	-	-	-	215
Nonprogrammed charges	-	-	-	-	-	-	1,437,221	1,437,221
Total disbursements	1,672,739	-	36,221	47,674	144,010	655	1,437,221	7,419,810
Excess (deficiency) of receipts over disbursements	36,215	-	14,453	(16,813)	131,486	11,984	3,578	(64,392)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	280,771
Transfers out	(253,952)	-	-	-	-	-	-	(280,771)
Total other financing sources (uses)	(253,952)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(217,737)	-	14,453	(16,813)	131,486	11,984	3,578	(64,392)
Cash and investments - ending	\$ (217,737)	\$ -	\$ -	\$ (16,813)	\$ -	\$ -	\$ 122,319	\$ 121,155

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013

	General	Post- Retirement/ Severance Future Benefits	WHAS 05-06	WHAS 10-11/ WHAS 12-13	WHAS 11-12	Access Indiana/ WCCF Grant	Miscellaneous Programs	Part B 10-11/ Part B 12-13
Cash and investments - beginning	\$ 230,034	\$ -	\$ 2,598	\$ -	\$ 754	\$ -	\$ -	\$ -
Receipts:								
Local sources	4,000,199	-	-	748	-	-	-	-
State sources	69,137	-	-	-	-	300	-	-
Federal sources	-	-	-	-	-	-	-	1,709,254
Other	-	-	-	-	-	-	-	-
Total receipts	<u>4,069,336</u>	<u>-</u>	<u>-</u>	<u>748</u>	<u>-</u>	<u>300</u>	<u>-</u>	<u>1,709,254</u>
Disbursements:								
Current:								
Instruction	3,516,249	14,400	-	-	-	-	-	1,366,456
Support services	538,695	16,799	-	748	-	300	-	507,623
Facilities acquisition and construction	23	-	-	-	754	-	-	-
Debt services	-	-	-	-	-	-	-	540
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>4,054,967</u>	<u>31,199</u>	<u>-</u>	<u>748</u>	<u>754</u>	<u>300</u>	<u>-</u>	<u>1,874,619</u>
Excess (deficiency) of receipts over disbursements	<u>14,369</u>	<u>(31,199)</u>	<u>-</u>	<u>-</u>	<u>(754)</u>	<u>-</u>	<u>-</u>	<u>(165,365)</u>
Other financing sources (uses):								
Transfers in	-	31,199	-	-	-	-	-	-
Transfers out	<u>(31,199)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(31,199)</u>	<u>31,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(16,830)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(754)</u>	<u>-</u>	<u>-</u>	<u>(165,365)</u>
Cash and investments - ending	<u>\$ 213,204</u>	<u>\$ -</u>	<u>\$ 2,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (165,365)</u>

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	Part B 09-10/ Part B 11-12	(IDEA, Part B) LEA Capacity Building (Sliver) Grants	Federal Preschool 10-11	Preschool Federal 11-12	Special Education - Part B	Special Education - Part B - Preschool	Payroll Withholdings	Totals
Cash and investments - beginning	\$ (217,737)	\$ -	\$ -	\$ (16,813)	\$ -	\$ -	\$ 122,319	\$ 121,155
Receipts:								
Local sources	-	-	-	-	-	-	-	4,000,947
State sources	-	3,000	-	-	-	-	-	72,437
Federal sources	382,979	-	36,657	42,784	-	-	-	2,171,674
Other	-	-	-	-	-	-	1,477,690	1,477,690
Total receipts	382,979	3,000	36,657	42,784	-	-	1,477,690	7,722,748
Disbursements:								
Current:								
Instruction	94,871	-	49,924	25,971	-	-	-	5,067,871
Support services	69,831	3,000	-	-	-	-	-	1,136,996
Facilities acquisition and construction	-	-	-	-	-	-	-	777
Debt services	540	-	-	-	-	-	-	1,080
Nonprogrammed charges	-	-	-	-	-	-	1,446,682	1,446,682
Total disbursements	165,242	3,000	49,924	25,971	-	-	1,446,682	7,653,406
Excess (deficiency) of receipts over disbursements	217,737	-	(13,267)	16,813	-	-	31,008	69,342
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	31,199
Transfers out	-	-	-	-	-	-	-	(31,199)
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	217,737	-	(13,267)	16,813	-	-	31,008	69,342
Cash and investments - ending	\$ -	\$ -	\$ (13,267)	\$ -	\$ -	\$ -	\$ 153,327	\$ 190,497

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SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF CAPITAL ASSETS
June 30, 2013

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Machinery, equipment, and vehicles	<u>\$ 22,129</u>

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
AUDIT RESULT AND COMMENT

COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement presented for audit for the 2012-2013 school year and ratified on October 9, 2012, contained the following items prohibited by Indiana Code 20-29-6-4.5:

1. Unpaid leave.
2. Management rights.
3. Boilerplate contract terms not authorized by statute, such as Supremacy (supersedes any other agreements).

Indiana Code 20-29-6-4 states:

"(a) A school employer shall bargain collectively with the exclusive representative on the following:

- (1) Salary.
- (2) Wages.
- (3) Salary and wage related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off as permitted to be bargained under IC 20-28-9-11.

(b) Salary and wages include the amounts of pay increases available to employees under the salary scale adopted under IC 20-28-9-1.5, but do not include the teacher evaluation procedures and criteria, or any components of the teacher evaluation plan, rubric, or tool."

Indiana Code 20-29-6-4.5 states:

"(a) For a contract entered into after June 30, 2011, a school employer may not bargain collectively with the exclusive representative on the following:

- (1) The school calendar.
- (2) Teacher dismissal procedures and criteria.
- (3) Restructuring options available to a school employer under federal or state statutes, regulations, or rules because of the failure of the school corporation or a school to meet federal or state accountability standards.
- (4) The ability of a school employer to contract, partner, or operate jointly with an educational entity that provides postsecondary credits to students of the school employer or dual credits from the school employer and the educational entity.
- (5) Any subject not expressly listed in section 4 of this chapter.

(b) A subject set forth in subsection (a) that may not be bargained collectively may not be included in an agreement entered into under this article."

SBOA will review school corporations' collective bargaining agreements during the audit process to determine whether the agreements contained prohibited subjects of bargaining. . . . Financial losses related to a corporation's inclusion of prohibited subjects may be the personal obligation of the responsible school official or employee. (The School Administrator and Uniform Compliance Guidelines Volume 198, June 2012)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE SOUTH CENTRAL AREA SPECIAL
EDUCATION COOPERATIVE, ORANGE COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the South Central Area Special Education Cooperative's (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the period of July 1, 2011 to June 30, 2013. The School Corporation's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

Opinion on the Major Federal Program

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period of July 1, 2011 to June 30, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003 and 2013-004. Our opinion on the major federal program is not modified with respect to these matters.

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance


Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003, 2013-004, and 2013-005 to be material weaknesses.

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

June 18, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

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SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2012 and 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>DEPARTMENT OF EDUCATION</u>					
Special Education Cluster (IDEA)					
Special Education - Grants to States	Indiana Department of Education	82.027			
Part B 611-FY2011			14211-056-PN01	\$ 302,194	\$ -
Part B 611-FY2012			14212-056-PN01	1,708,954	382,979
Part B 611-FY2013			14213-056-PN01	<u>-</u>	<u>1,709,254</u>
Total - Special Education - Grants to States				<u>2,011,148</u>	<u>2,092,233</u>
Special Education - Preschool Grants					
Special Education - Preschool Grants	Indiana Department of Education	84.173			
Part B 619-FY2011			45711-056-PN01	50,674	-
Part B 619-FY2012			45712-056-PN01	30,861	42,784
Part B 619-FY2013			45713-056-PN01	<u>-</u>	<u>36,657</u>
Total - Special Education - Preschool Grants				<u>81,535</u>	<u>79,441</u>
ARRA - Special Education - Grants to States, Recovery Act	Indiana Department of Education	84.391	33310-056-SN01	<u>275,496</u>	-
ARRA - Special Education - Preschool Grants, Recovery Act	Indiana Department of Education	84.392	44410-056-SN01	<u>12,639</u>	-
Totals for cluster				<u>2,380,818</u>	<u>2,171,674</u>
Total federal awards expended				<u>\$ 2,380,818</u>	<u>\$ 2,171,674</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School Corporation and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2012 and 2013:

Program Title	Federal CFDA Number	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2013
ARRA - Special Education - Grants to States, Recovery Act	84.391	\$ 32,759	\$ -

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

_____ Name of Federal Program or Cluster _____
Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting that we believe constitute material weaknesses.

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts and disbursements (including payroll). The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

The Treasurer prepares the bank deposit and takes the deposit to the bank. She is also responsible for issuing, recording, reconciling, and reporting of receipts. There is insufficient segregation of duties, including no oversight, review, or approval processes.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Upon approval by the Board, the Treasurer prepares the checks, puts them into envelopes, and mails them to the vendors. She is also responsible for recording, reconciling, and reporting of disbursements. There is insufficient segregation of duties, including proper oversight and review.

The Payroll Clerk obtains absence worksheets from the various participating schools in the School Corporation identifying which employees were absent and for how long. The absence worksheets have a line to be approved by the Supervisor or Principal. We noted multiple occasions when the absence worksheets were not approved by the Supervisor or Principal.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FINDING 2013-002 - INTERNAL CONTROL OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation Treasurer prepares the SEFA, but no other review or approval is performed to verify the accuracy of the information and the amounts. The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following material errors: two federal grants totaling \$288,135 were excluded; two projects totaling \$352,868 were excluded; the federal grantor agency was incorrect; and the pass-through entity was incorrect. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III - Federal Award Findings and Questioned Costs

FINDING 2013-003 - INTERNAL CONTROLS AND NONCOMPLIANCE OVER CASH MANAGEMENT

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States; Special Education - Preschool Grants;
ARRA - Special Education - Grants to States, Recovery Act;
ARRA - Special Education - Preschool Grants, Recovery Act

CFDA Number: 84.027; 84.173; 84.391; 84.392

Federal Award Numbers and Years (or Other Identifying Numbers): 14211-056-PN01; 14212-056-PN01;
14213-056-PN01; 45711-056-PN01;
45712-056-PN01; 45713-056-PN01;
33310-056-SN01; 44410-056-SN01

Pass-Through Entity: Indiana Department of Education

The School Corporation did not have controls in place to monitor the grant reimbursement requests to ensure expenditures were incurred and/or paid prior to requesting the reimbursement. By not establishing such controls, the School Corporation claimed and received reimbursement of expenditures which were not

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

incurred and/or paid prior to the date of claiming the reimbursement. Instances were noted where expenditure reports generated for the period did not agree with the amounts claimed for reimbursement. Examination of supporting documentation for five reimbursement claims disclosed that on four of the claims, the supporting documentation did not agree with the budget category amounts requested or there was no supporting documentation attached to the reimbursement request. Inaccurate reimbursement requests resulted in unexpended grant funds being on hand at months end 15 times during the audit period for the various special education grants. The unexpended funds ranged from \$550 to \$161,607. There should be no grant funds on hand for reimbursable grants. Total expenditures and reimbursements requested equaled the award amount by the end of the grant period.

Failure to establish proper controls has affected the School Corporation's ability to provide accurate reimbursement requests to the pass-through agency. No procedures were in place to allow for the review of the reimbursement requests or the underlying documentation. The failure to establish an effective internal control system places the School Corporation at risk of material noncompliance with the grant agreement and with Cash Management compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operated effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

34 CFR 80.21 states in part:

"(b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205. . . .

(d) *Reimbursement.* Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met."

31 CFR 205.12 (b) states in part: "(5) Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the School Corporation's management develop and implement procedures and establish controls to ensure that reimbursement basis grant expenditures are paid prior to the date that the reimbursement is claimed and amounts claimed agree to supporting documentation in accordance with Cash Management requirements.

FINDING 2013-004 - INTERNAL CONTROLS AND NONCOMPLIANCE OVER REPORTING

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States; Special Education - Preschool Grants;
ARRA - Special Education - Grants to States, Recovery Act;
ARRA - Special Education - Preschool Grants, Recovery Act

CFDA Number: 84.027; 84.173; 84.391; 84.392

Federal Award Numbers and Years (or Other Identifying Numbers): 14211-056-PN01; 14212-056-PN01;
14213-056-PN01; 45711-056-PN01;
45712-056-PN01; 45713-056-PN01;
33310-056-SN01; 44410-056-SN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system over compliance for reporting. The failure to establish an effective internal control system places the School Corporation at risk of material noncompliance with the compliance requirement.

The School Corporation submitted reports requesting reimbursement for expenses for each month; however, they did not have controls in place to ensure expenditures were incurred and/or paid prior to requesting the reimbursement. Instances were noted where expenditure reports generated for the period were for less than amounts claimed for reimbursement for the same period. Examination of supporting documentation for 7 out of 11 reimbursement requests did not agree with the School Corporation's records, ranging from \$500 to \$197,339. Total expenditures and reimbursements requested equaled the award amount by the end of the grant period.

An internal control system, including segregation of duties, should be designed and operated effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

34 CFR 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial Reporting.* Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

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(Continued)

- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, to ensure compliance with the grant agreement and requirements governing Reporting.

FINDING 2013-005 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO SPECIAL EDUCATION CLUSTER

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States; Special Education - Preschool Grants;
ARRA - Special Education - Grants to States, Recovery Act;
ARRA - Special Education - Preschool Grants, Recovery Act

CFDA Number: 84.027; 84.173; 84.391; 84.392

Federal Award Numbers and Years (or Other Identifying Numbers): 14211-056-PN01; 14212-056-PN01;
14213-056-PN01; 45711-056-PN01;
45712-056-PN01; 45713-056-PN01;
33310-056-SN01; 44410-056-SN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements governing Activities Allowed or Unallowed and Allowable Costs/Cost Principles. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. The School Corporation does not have sufficient segregation of duties regarding their disbursement process, nor is there sufficient oversight and review. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operated effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation

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of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, related to the grant agreement and requirements governing Activities Allowed or Unallowed and Allowable Costs/Cost Principles that have a direct and material effect to the program.

South Central Area Special Education Cooperative

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East Washington

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CORRECTIVE ACTION PLAN AUDIT FINDINGS

Section II: Financial Statement Findings

Finding 2013-001: Internal Controls over Financial Transactions and Reporting

SCASEC will take steps to further segregate financial duties. Some duties have been shifted to other staff, and other staff members are also responsible for duties that the Treasurer was solely responsible for. See attached chart for changes in duties.

These changes will be in place by July 1, 2014.

Bank deposits:

Treasurer: Prepares bank deposit. Records, reconciles, and posts receipts.

Director: Prepares and reviews bank deposit. Makes bank deposits. Reviews and approves reconcilements, reports, and adjustments.

Payroll: Makes bank deposits.

Cash disbursements:

Treasurer: Prepares and posts checks and some purchase orders. Signs checks.

Director: Authorizes purchases and approves claims and adjustments. Mails or distributes checks. Signs checks.

Payroll: Prepares purchase orders. Certifies receipt of goods/services. Mails or distributes checks.

HR: Control of signature stamp. Custodian of petty cash.

Cash:

Treasurer: Prepares bank reconciliation.

Director: Receives bank statement in mail and opens it. Approves bank reconciliation.

Payroll: Compares checks cleared to disbursements posted. Compares deposits to receipts posted.

Absence worksheets:

Finding corrected. All absence sheets are signed by Director, Supervisor, or Principal.

Finding 2013-002: Internal Control over the Preparation of the Schedule of Expenditures and Federal Awards

The Treasurer and Director did not have a clear understanding of this report since it was new. The report has been further explained and has been corrected. Corrected by June 18, 2014.

Treasurer: Prepare SEFA according to OMB and SBOA requirements.

Director: Reviews SEFA for accuracy before submitting to auditor.

Section III: Federal Award Findings and Questioned Costs

Finding 2013-003: Internal Controls and Noncompliance over Cash Management

Late grant approval and disbursement delays by DOE contributed to this finding. DOE has recently changed the grant application and approval process which may assist with correction of this finding. The following plan will be enacted by July 1, 2014 to correct these issues:

- 1) Director submits grant application by new DOE deadline of July 1. This step will hopefully speed up the approval process.
- 2) Treasurer has grant money and line item appropriations in budget program prior to August 1 to speed up ability to request reimbursement. Director confirms accuracy.
- 3) Treasurer prepares Reimbursement Request Form with attached expense reports to document actual expenditures.
- 4) Director reviews and approves Reimbursement Requests before submitted to DOE to make sure that expenditures match reimbursement request.
- 5) After approval, Treasurer submits Reimbursement Requests to DOE.
- 6) Treasurer will prepare Reimbursement requests twice a month if needed to avoid cash flow issues.
- 7) See Finding 2013-001 for changes in segregation of duties as well as attached chart. These apply to federal awards as well.

Finding 2013-004: Internal Controls and Noncompliance over Reporting

Late grant approval and disbursement delays by DOE contributed to this finding. DOE has recently changed the grant application and approval process which may assist with correction of this finding. The following plan will be enacted by July 1, 2014 to correct these issues:

- 1) Director submits grant application by new DOE deadline of July 1. This step will hopefully speed up the approval process.
- 2) Treasurer has grant money and line item appropriations in budget program prior to August 1 to speed up ability to request reimbursement. Director confirms accuracy.
- 3) Treasurer prepares Reimbursement Request Form with attached expense reports to document actual expenditures.
- 4) Director reviews and approves Reimbursement Requests before submitted to DOE to make sure that expenditures match reimbursement request.

- 5) After approval, Treasurer submits Reimbursement Requests to DOE.
- 6) Treasurer will prepare Reimbursement requests twice a month if needed to avoid case flow issues.
- 7) See Finding 2013-001 for changes in segregation of duties as well as attached chart. These apply to federal awards as well.

Finding 2013-005: Internal Controls over Compliance Requirements that have a Direct and Material Effect to Special Education Cluster

SCASEC will take steps to further segregate financial duties related to federal awards. Some duties have been shifted to other staff, and other staff members are also responsible for duties that the Treasurer was solely responsible for. See attached chart for changes in duties. These changes will be in place by July 1, 2014.

Federal Awards

Director: Prepares grant application by deadline. Reviews grant budget with Treasurer for accuracy. Approves reimbursement requests. Approves quarterly reports. Writes final report for grant.

Treasurer: Prepares and submits Reimbursement requests. Records and reconciles receipt and expenditure of funds. Prepares quarterly reports. Reviews final report for accuracy.

Cash Receipts:

Treasurer: Prepares bank deposit. Records, reconciles, and posts receipts.

Director: Prepares and reviews bank deposit. Makes bank deposits. Reviews and approves reconcilements, reports, and adjustments.

Payroll: Makes bank deposits.

Cash disbursements:

Treasurer: Prepares and posts checks and some purchase orders. Signs checks.

Director: Authorizes purchases and approves claims and adjustments. Mails or distributes checks. Signs checks.

Payroll: Prepares purchase orders. Certifies receipt of goods/services. Mails or distributes checks.

HR: Control of signature stamp. Custodian of petty cash.

Cash:

Treasurer: Prepares bank reconciliation.

Director: Receives bank statement in mail and opens it. Approves bank reconciliation.

Payroll: Compares checks cleared to disbursements posted. Compares deposits to receipts posted.

PERSON(S) RESPONSIBLE FOR IMPLEMENTING CORRECTIVE ACTION PLAN:

Melissa Lancaster, Director
Ruth Gilbert, Treasurer

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE
EXIT CONFERENCE

The contents of this report were discussed on June 18, 2014, with Gerald W. Jackson, President of the School Board; Casey Brewster, School Board member; Melissa D. Lancaster, Director; and Ruth D. Gilbert, Treasurer.