

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
HENRY COUNTY, INDIANA  
July 1, 2012 to June 30, 2014



**FILED**  
07/08/2016



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stephanie L. Madison	01-01-12 to 12-31-16
Superintendent of Schools	Amy Rauch Joe Backmyer (Interim) Jediah T. Behny	07-01-12 to 06-30-13 07-01-13 to 06-30-14 07-01-14 to 06-30-16
President of the School Board	Wade Beatty	01-01-12 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CHARLES A. BEARD MEMORIAL  
SCHOOL CORPORATION, HENRY COUNTY, INDIANA

This report is supplemental to our audit report of the Charles A. Beard Memorial School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

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 Corrective Action Plan for the Federal Findings, incorporated within this report, were not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

May 24, 2016

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted a deficiency in the internal control system of the School Corporation related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA. The Corporation Treasurer was solely responsible for the preparation of the SEFA. There was no control procedure in place to ensure the accuracy of the SEFA prior to submission.

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 that the expenditures that the New Castle Area Special Services Cooperative made on behalf of the School Corporation's students were not reported within the Special Education Cluster. These omissions were \$346,532 for school year 2012-2013 and \$341,269 for school year 2013-2014. These omissions also caused the total federal expenditures to be incorrectly reported. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

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."

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.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (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."

***FINDING 2014-002 - INTERNAL CONTROLS RELATED TO  
FINANCIAL TRANSACTIONS AND REPORTING***

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

1. 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, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Monitoring of Controls: Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Board has no process to identify or communicate corrective actions to improve controls.

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)

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-003 - REPORTING***

Federal Agency: Department of Agriculture  
Federal Program: School Breakfast Program; School Lunch Program  
CFDA Number: 10.553, 10.555  
Federal Award Number and Years: 2012-2013 and 2013-2014  
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 requirement. There was no control procedure in place to ensure the accuracy of the reports submitted.

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. 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 programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a 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 programs. 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 with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

***FINDING 2014-004 - CASH MANAGEMENT***

Federal Agency: Department of Agriculture  
Federal Program: School Breakfast Program; School Lunch Program  
CFDA Number: 10.553, 10.555  
Federal Award Years: 2012-2013 and 2013-2014  
Pass-Through Entity: Indiana Department of Education



CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The School Lunch fund balance for the School Corporation exceeded its average expenditures for three months 22 of the 24 months of the audit period. The accumulation of cash was initially intended to purchase new cafeteria equipment for school buildings that ultimately closed, eliminating the need for the equipment and leaving the cash balance above the required maximum. While a proper internal control system was in place that identified the noncompliance, the School Corporation was unable to correct the excessive balances due to the closing of the school buildings.

Per 7 CFR 210.14(b) states: "The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State Agency . . ."

The cash balance maintained by the School Corporation results in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resource. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal reimbursements.

We recommended that School Corporation officials implement procedures that would limit net cash resources to average expenditures for three months and to ensure that its school food service program is operated as a nonprofit service.

***FINDING 2014 - 005 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, CASH MANAGEMENT, PERIOD OF AVAILABILITY, AND REPORTING***

Federal Agency: Department of Education

Federal Program: Special Education Grants to States, Special Education Preschool Grants

CFDA Number: 84.027, 84.173

Federal Award Numbers and Year (or Other Identifying Number): 14212-044-PN01, 14213-044-PN01,  
14214-044-PN01, 99914-044-PN01,  
45713-044-PN01, 45713-044-PN01,  
45714-044-PN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting. The School Corporation is a member of the New Castle Area Special Services Cooperative (NCASS), and it provides oversight of the NCASS through the School Corporation Superintendent who serves as a member of the NCASS Board. However, NCASS has not established an effective internal control system in relation to Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting.

***Activities Allowed or Unallowed***

For the Fiscal Years 2013 and 2014 there was no control procedure in place to ensure that all employees paid from Special Education funds were allowed. This could lead to ineligible employees getting paid from the Special Education funds.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Allowable Costs/Cost Principles*

For Fiscal Year 2013 and 2014 the Special Education Director, at NCASS was solely responsible for preparing, reviewing, and maintaining the personnel activity logs and Semi-Annual Certifications. There were no control procedures in place to detect errors and omissions. This could cause an employee to be paid an improper amount from Special Education funds.

*Cash Management, Period of Availability, and Reporting*

For Fiscal Year 2013, the NCASS Treasurer was the only employee involved in the preparation and submission of Requests for Reimbursement for Special Education. There was no documentation of their review control procedure over Requests for Reimbursement by another employee before they were submitted to the Indiana Department of Education. This could lead to the School Corporation requesting reimbursements for expenses before those expenses have been paid, spending grant funds after the Period of Availability is over, or errors in reporting. The control was in place and documented for Fiscal Year 2014.

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. 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 programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a 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 programs. 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."

We recommended that the School Corporation establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

# Charles A. Beard Memorial School Corporation

8139 W US Hwy 40  
Knightstown, Indiana 46148

## School Board

Wade Beatty, President  
Tom Schaetzle, Vice President  
John Swartz, Secretary  
Steve Ferrell  
Gerald Leonard  
Cynthia Neal  
Graham Richardson



Jediah Behny  
Superintendent

Voice: 765-345-5101  
Fax: 765-345-5103

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## CORRECTIVE ACTION PLAN

### FINDING 2014-001

Contact Person Responsible for Corrective Action: Stephanie Madison  
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

Charles A. Beard School Corporation received guidance from Amy Blake, Director of the New Castle Special Education Cooperative, on August 14, 2015, along with a memorandum from the Department of Education dated August 7, 2015, requesting that schools report their individual Federal Part B expenditures on each school's Schedule of Expenditures of Federal Awards (SEFA). Due to this timeline, the Treasurer and Superintendent were unaware of the new requirements when preparing and approving the SEFA for Fiscal Years 2013 and 2014. The Treasurer was contacted by State Board of Accounts Auditor Mike Wade on May 10, 2016, stating that the corporation's audit, ending June 2014, would be reopened to include a Section II Finding since the agency was also unaware of the new requirements while conducting the audit. Now that the Treasurer and Superintendent have been made aware of the new requirements, they will take every step necessary to ensure that the corporation's SEFA includes Federal Part B expenditures.

Anticipated Completion Date: May 24, 2016

### FINDING 2014-002

Contact Person Responsible for Corrective Action: Stephanie Madison  
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

Charles A. Beard School Corporation will review office procedures and attempt to institute duties that would involve to some degree, segregation of the work being performed by each of the office employees. However, Charles A. Beard Schools is a small school corporation and management has determined that the cost associated with employing additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current design of the business office.

Anticipated Completion Date: May 24, 2016

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# Charles A. Beard Memorial School Corporation

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Jediah Behny  
Superintendent

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## FINDING 2014-003

Contact Person Responsible for Corrective Action: Stephanie Madison  
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

Charles A Beard School Corporation will review procedures and attempt to institute suggested changes. In regards to controls over reporting in the area of Food Services, reports will be signed/initialed to create documentation of the approval process. However, Charles A Beard Schools is a small school corporation and management has determined that the cost associated with employing additional staff necessary to properly segregate the duties in Food Services would outweigh the benefits of a stronger internal control structure. Management acknowledges and assumes the risks inherent with the current design of the business office and Food Services Department.

Anticipated Completion Date: May 24, 2016

## FINDING 2014-004

Contact Person Responsible for Corrective Action: Stephanie Madison  
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

Charles A. Beard School Corporation had anticipated, due to the significant changes in dietary guidelines, a significant increase in expenditures. Also, over the majority of the time frame in which this audit covers, school closures were contemplated. These discussions resulted in the Board action which closed two elementary schools. Spending funds on updating kitchens in any of our schools prior to having reached a final decision on closures would have been financially irresponsible. Now that the schools have been closed, and we have an accurate assessment of need, the corporation will be using excess funds to purchase updated equipment.

Anticipated Completion Date: May 24, 2016

## FINDING 2014-005

Contact Person Responsible for Corrective Action: Jediah Behny  
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with this finding.

### Description of Corrective Action Plan:

As a member of the NCASS, the Superintendent of Charles A Beard Memorial School Corporation serves on the board of directors for the cooperative. The Superintendent will take all necessary steps to ensure that proper internal controls are in place, to the best of his ability. Any actions taken to ensure internal controls will need to be put in place by the NCASS board as a whole.

Anticipated Completion Date: May 24, 2016

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# Charles A. Beard Memorial School Corporation

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Knightstown, Indiana 46148

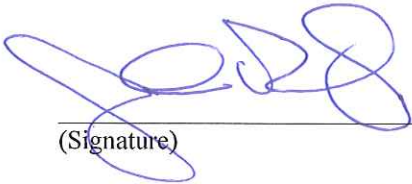
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Graham Richardson



Jediah Behny  
Superintendent

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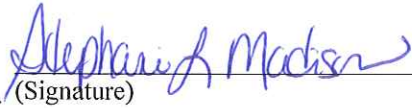
(Signature)

*SUPERINTENDENT*

(Title)

*5.24.16*

(Date)



(Signature)

*Business Manager/Treasurer*

(Title)

*5.24.16*

(Date)

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CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

***CONDITION OF PAYROLL WITHHOLDING RECORDS***

The Payroll Withholding fund balances were not correct. On occasion, expenses of the School Corporation were charged in error to various withholding funds. Additionally, some withholdings were receipted to the wrong fund, but paid from the correct fund, resulting in negative fund balances. Fund balances at June 30, 2013 and 2014, did not agree to the actual liabilities based on subsequent vendor billings.

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)

***OFFICIAL BOND***

The Corporation Treasurer had two continuation certificates for our audit period, instead of receiving a new bond each year. The Corporation Treasurer bond is bound unto the School Corporation instead of the State of Indiana.

The Extra-Curricular Treasurers did not obtain individual Surety Bonds or a Single Blanket Position Bond for all Extra-Curricular Treasurers, but were covered by an employee dishonesty insurance policy.

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurers bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be payable to the State of Indiana.

The treasurer of each extra-curricular account shall provide a faithful performance of duty bond for one year, the term of the office. The amount of the bond shall be fixed and approved by the school superintendent and principal approximating the total amount of anticipated funds which will come into the hands of the treasurer at any one time during the regular school year. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on February 3, 2015, with Stephanie L. Madison, Treasurer; Jediah T. Behny, Superintendent of Schools; and Wade Beatty, President of the School Board.