

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CASTON SCHOOL CORPORATION

FULTON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
03/31/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Denise Chandler Angela Chapman	07-01-12 to 01-13-14 01-14-14 to 06-30-15
Superintendent of Schools	Danny L. Foster Iran Floyd (Interim) Lucinda Douglass (Interim) Lucinda Douglass	07-01-12 to 08-23-13 08-24-13 to 11-19-13 11-20-13 to 06-30-14 07-01-14 to 06-30-15
President of the School Board	Dr. James Ayers Jason Herd Bruce Cress	07-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CASTON SCHOOL CORPORATION, FULTON COUNTY, INDIANA

This report is supplemental to our audit report of the Caston 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/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment 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 was not verified for accuracy.

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

February 17, 2015

CASTON SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). 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. The Superintendent independently prepares the SEFA without oversight, review, or approval.

During the audit of the SEFA for the 2013-2014 school year, we noted that federal awards were incorrectly reported. This error resulted in the SEFA presented for audit to be understated by \$279,197. An audit adjustment was 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 in part:

"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 the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

CASTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. 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 cash and investment balances and receipts. One person is responsible for issuing, recording, depositing, and reconciling of receipts for the School Lunch fund. There is no segregation of duties, including no oversight, review, or approval process. We believe these deficiencies constitute a material weakness:

A. The Extra-Curricular Treasurer records the receipts, takes the deposits to the bank, receives the bank statement and reconciles the depository balance with the fund balances, including the School Lunch fund, without oversight, review, or approval.

B. The Head Cashier in the cafeteria collects all point of sale cash payments, prepares the daily receipt report (Cafeteria Daily Sheet), and prepares the deposit slip. The Head Cashier takes the collections, deposit slip, and receipt report, prepared without oversight or review, to the Extra-Curricular Treasurer to record and deposit. The Head Cashier also records the receipts paid through student prepaid accounts, records these transactions to the student's accounts, and reconciles the student balances to the Prepaid Food fund.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material misstatements of the financial statements 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 financial transactions and reporting. 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.

The failure to establish these controls could enable misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

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)

CASTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - INTERNAL CONTROL OVER CASH MANAGEMENT

Federal Agency: Department of Education
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
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 Cash Management compliance requirements that have a direct and material effect on the programs. 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 program.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that the School Lunch fund monthly cash balances were maintained in compliance with the Cash Management requirements.

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 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. Noncompliance 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 that have a direct and material effect on the programs.

Caston School Corporation
P.O. Box 8
Fulton, Indiana 46931-0008
OFFICE OF THE SUPERINTENDENT
Phone: 574-857-2035
FAX: 574-857-6795

CORRECTIVE ACTION PLAN

FINDING 2014 – 001

Contact Person Responsible for Corrective Action

Caston School Corporation Superintendent

Caston School Corporation Treasurer

Contact Phone Number

(574) 857-2035 ext. 336

(574) 857-2035 ext. 337

Description of Corrective Action:

The Caston School Corporation will take steps to improve the internal controls in preparing the Schedule of Federal Awards (SEFA). We will implement a procedure that will require two essential personnel the responsibility of completing and/or reviewing the schedule. We will also begin a monthly review of the grant activity for our federal grants, and establish a communication system with those at the building level (primarily the two building-level Principals and the Food Service Director) who would have oversight roles for those programs funded by federal grant dollars in an effort to provide an additional level of checks and balances, as well as to enhance communication. This will further assure the guidelines of the federal grants are adhered to at all times.

Anticipated Completion Date:

This corrective action will immediately be put into place; in fact the schedule was started during the audit process.

FINDING 2014 – 002

Contact Person Responsible for Corrective Action

Contact Phone Number

Caston School Corporation Superintendent (574) 857-2035 ext. 336

Caston School Corporation High School Principal (574) 857-3505 ext. 310

The Caston School Corporation will take steps to improve the internal control system related to financial transactions and reporting for both the extracurricular and school cafeteria funds by addressing areas identified as problematic due to lack of segregation of duties. We will immediately implement these procedures as a means of protecting against misstatements or irregularities in financial reporting and to provide additional oversight. Individuals participating in the sharing of responsibilities and oversight/review will indicate their participation by signing or initializing the records to verify fulfillment of responsibilities as well as verification of accuracy.

Duties currently fulfilled by the Extracurricular/Bookstore Manager will be reviewed/approved by the High School Principal who serves as the Extra- Curricular Administrator. Further oversight will be provided by the treasurer through periodic review of food service accounts in accordance with board policy 8500.

The Head Cashier will have duties segregated and shared by The Food Service Director and Extracurricular/Bookstore Manager. The Food Service Director will check and verify accuracy of daily transactions and will sign-off to verify the procedure/accuracy. The Extracurricular/Bookstore Manager will verify the deposits from the cafeteria by running a tape to confirm the accuracy of the deposit and by signing off on the verification to

document the procedure. Additionally, in areas of cash management, duties that involve the collection and/or handling of cash will be further segregated so that more than one individual has responsibility for safeguarding the controls over cash processed as a part of those funds and operations for the corporation. Simple routine procedures such as using a buddy system for making rounds to the classrooms to collect the lunch money that elementary students bring in weekly will be implemented immediately. Following point of sale cash payments and preparation of the daily receipt report and deposit slip, verification by the Food Service Director, prior to delivery to the Extra-Curricular Treasurer for purposes of recording and deposit, will take place as a means of strengthening internal control and providing further segregation of those duties.

Anticipated Completion Date:

These actions will be implemented yet this school year, and will be in place prior to the end of the 2014-15 school year and fully implemented at the start of the 2015-16 school year.

FINDING 2014 – 003

Contact Person Responsible for Corrective Action **Contact Phone Number**

Caston School Corporation Superintendent (574) 857-2035 ext. 336

Caston School Corporation Treasurer (574)857-2035 ext. 337

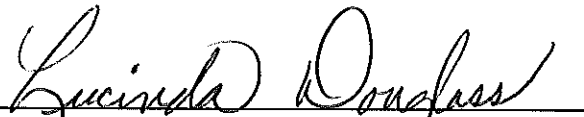
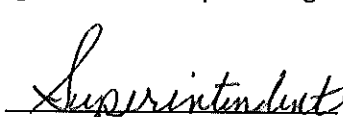

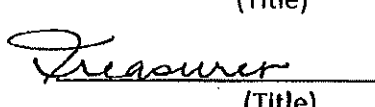
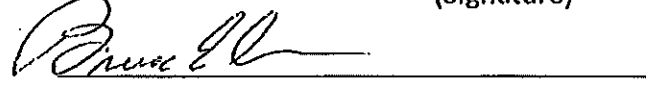

Caston School Corporation Food Service Director (574)857-3505 ext. 327

Description of Corrective Action:

Caston School Corporation will assure that the Federal Programs for School Breakfast and National School Lunch are managed in accordance with Caston School Corporation's Board Policy 8500 – Food Services as follows: "A periodic review of the food service accounts will be made by the Caston School Corporation Treasurer. Any surplus funds from the National School Lunch Program will be used to reduce the cost of the service to students or to purchase cafeteria equipment. Surplus funds from a-la-carte foods may accrue to the food service program." The treasurer will review the cafeteria statements monthly to review the balances and accounting of the operation. Signature on the statements will verify this procedure. Additionally, the Superintendent will review the federal grant annually with the cafeteria manager and will provide oversight in the administration of the grant to assure that federal compliance requirements are in place.

Anticipated Completion Date:

By March 31, 2015 – review of FY 2015 Grant; ongoing review of new grants will take place as grants are written & approved.

 (Signature)	 (Title)	<u>2-17-15</u> (Date)
 (Signature)	 (Title)	<u>2-17-15</u> (Date)
 (Signature)	 (Title)	<u>2-17-15</u> (Date)

CASTON SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement, entered into on September 26, 2014, contained the following item prohibited by Indiana Code 20-29-6-4.5(b):

1. Article VII entitled "Leaves," sections (I) discuss "Unpaid Leave"

Indiana Code 20-29-6-4.5 states in part:

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

- (5) Any subject not expressly listed in section 4 of this chapter. . . ."

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."

CASTON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 17, 2015, with Lucinda Douglass, Superintendent of Schools; Angela Chapman, Treasurer; and Bruce Cress, President of the School Board.