

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PERU COMMUNITY SCHOOLS

MIAMI COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
02/11/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stanley Hall	07-01-12 to 06-30-15
Superintendent of Schools	Charles Brimbury Samuel E. Watkins	07-01-12 to 08-24-14 08-25-14 to 06-30-15
President of the School Board	Sharon Shuey	07-01-12 to 06-30-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE PERU COMMUNITY SCHOOLS, MIAMI COUNTY, INDIANA

This report is supplemental to our audit report of the Peru Community Schools (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 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, was not verified for accuracy.

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

January 25, 2016

PERU COMMUNITY SCHOOLS
FEDERAL FINDINGS

**FINDING 2014-001 - INTERNAL CONTROLS 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 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 errors: five grants were included that were state grants, seven federal grants were not included, including the Special Education grants, and six grants were presented with incorrect amounts. Audit adjustments totaling \$1,388,983 and \$1,623,113 for fiscal years ending June 30, 2013, and June 30, 2014, respectively, 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.
- (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.

PERU COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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 OVER THE CHILD NUTRITION CLUSTER

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children

CFDA Number: 10.553, 10.555, 10.559

Federal Award Number and Year (or Other Identifying Number): FY12-13, FY13-14

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 some of the compliance requirements that have a direct and material effect on the programs. This includes the compliance requirements for Eligibility, Suspension and Debarment, Program Income, Reporting and Special Tests and Provisions. 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 misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Eligibility

The Administrative Assistant is the only School Corporation employee who processes and reviews school lunch free and reduced applications. There was no segregation of duties, such as an oversight, review, or approval process.

Suspension and Debarment

The School Corporation has not designed or implemented adequate policies and procedures to ensure that vendors have not been suspended or debarred from conducting business with the federal government.

Program Income

Program income for the School Lunch Fund was not consistently verified to the number of meals served because of the allowance of credit balances in individual student accounts. The control was not functioning as intended by the School Corporation.

PERU COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Reporting

Sponsor claims for reimbursement for summer food service and snacks are prepared by the Food Service Director and submitted electronically to the Indiana Department of Education's website. These claims for reimbursement were not subjected to a review process prior to submission. In addition, the Annual Financial Reports prepared by the Deputy Treasurer were not properly verified by the Treasurer prior to submission. The School Corporation's procedures require the Treasurer to perform this review, but the review conducted was not adequate.

Special Tests and Provisions

Verification of Free and Reduced Price Applications:

Verified Free and Reduced Price Applications did not always contain a signature documenting approval and oversight.

School Food Accounts

Sponsor claims for reimbursement are not verified to subsequent receipt postings for summer food service and snacks and they are not reviewed for accuracy.

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 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 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. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect of the programs 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.

PERU COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - REPORTING

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children

CFDA Number: 10.553, 10.555, 10.559

Federal Award Number and Year (or Other Identifying Number): FY12-13, FY13-14

Pass-Through Entity: Indiana Department of Education

Annual Financial Reports for the fiscal years ending June 30, 2013 and 2014 did not agree with the School Corporation's financial records. A total of \$56,481 in Summer Food Service, Snacks and Dinner was reported as Breakfast and \$124,275 in Dinner and Summer Food Service was reported as Other Non-Federal on the Nutrition Annual Financial Reports for FY 2012-2013 and FY 2013-2014, respectively. In addition, the August 2013 sponsor claims for reimbursement for summer food service and snacks were inaccurate. A total of 2,337 meals were served and only 1,916 were claimed for reimbursement.

7 CFR 3016.20(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. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

Noncompliance with the reporting requirement of the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation officials ensure that all required reports are prepared on an accurate basis, in accordance with the reporting requirements and that all records are retained in accordance with retention requirements.



**Peru Community
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CORRECTIVE ACTION PLAN

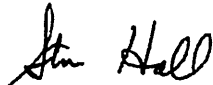
**FINDING NO. 2014-001. INTERNAL CONTROLS OVER THE PREPARATION OF
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person Responsible for Corrective Action: Stanley Hall, Treasurer
Contact Phone Number: (765) 473-3081

Description of Corrective Action Plan:

A list of all federal awards will be compiled by the Deputy Treasurer annually. The Treasurer shall verify the classification of awards as either federal or state sources as well as the documentation of supporting schedules. The Indiana Department of Education or the State Board of Accounts will be consulted as necessary to distinguish the proper classification.

Anticipated Completion Date: December 30, 2015



 Signature

Treasurer

 Title

3/31/2015

 Date



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CORRECTIVE ACTION PLAN

FINDING NO. 2014-002. INTERNAL CONTROLS OVER CHILD NUTRITION
CLUSTER

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program, Summer
Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Number and Year (or Other Identifying Number): FY 2012-13, FY 2013-
14
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Stanley Hall, Treasurer
Contact Phone Number: (765) 473-3081

Description of Corrective Action Plan:

Eligibility

The building principal or designee will be trained to process applications for free and reduced lunch. This person will be responsible for determining eligibility for each application. The Executive Secretary shall then verify the status of each application for free or reduced lunch.

Suspension and Debarment

The Accounts Payable Coordinator will send out statements for each vendor's signature for contracts over \$25,000. The Treasurer shall verify receipt of all signed statements of Suspension and Debarment.

Program Income

The Treasurer shall reconcile the income to the number of meals served on a monthly basis, accounting for credit balances in individual student accounts.

Reporting

Sponsor claims for reimbursement for summer food service and snacks shall be verified by the Deputy Treasurer prior to submittal by the Food Service Director. Annual

Financial Reports shall be verified by the Treasurer prior to submittal by the Deputy Treasurer.

Special Tests and Provisions

Verification of Free and Reduced Price Applications:

The responsibility for approving free and reduced lunch verifications will continue to be that of the Treasurer. The Executive Secretary will then retain the verification on file.

School Food Accounts

The Deputy Treasurer shall verify the reimbursement to the claim for summer food service and snacks. The Food Service Director will continue to prepare the claims for summer food service and snacks.

Anticipated Completion Date: August 5, 2015

St. Hall

Signature

Treasurer

Title

4 | 1 | 2015

Date



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CORRECTIVE ACTION PLAN

FINDING NO. 2014-003. REPORTING

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Number and Year (or Other Identifying Number): FY 2012-13, FY 2013-14
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Stanley Hall, Treasurer
Contact Phone Number: (765) 473-3081

Description of Corrective Action Plan:

The Annual Financial Report will be prepared by the Deputy Treasurer. The Treasurer shall review and verify the accuracy of the report prior to submittal.

Sponsor claims for reimbursement of summer food service and snacks will be reviewed by the Treasurer prior to submittal by the Food Service Director.

Anticipated Completion Date: December 30, 2015

St Hall
Signature

Treasurer
Title

3/31/2015
Date

PERU COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

RECONCILIATION OF SUBSIDIARY LEDGERS

The control ledger for prepaid lunches reconciles to the depository; however, it does not reconcile to the detail of individual students in the subsidiary ledger maintained by the Harmony system. The control ledger balance at June 30, 2014, was \$8,756, while the detail on the Harmony system was \$7,292.

A similar comment appeared in prior Report B41531.

Subsidiary ledger balances must reconcile to the control ledger fund balance. Every transaction should be posted to the control ledger and to the appropriate subsidiary ledger. Fund balances should reconcile between the control ledger and the subsidiary ledger. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OVERDRAWN CASH BALANCE

The Retirement/Severance Bond fund was overdrawn at June 30, 2014, by \$74,702.

A similar comment appeared in prior Report B41531.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

POSTING OF CONTRACT ON WEBSITE

Nonteaching certificated employees contracts were not posted on the School Corporation website.

Indiana Code 20-26-5-4.7(b) states: "The superintendent shall post the provisions of an employment contract that the school corporation enters into with a certificated employee on the school corporation's Internet web site."

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

The designated building level personnel did not provide written certification that the detailed student records maintained to support the Average Daily Membership (ADM) claimed was accurate.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for the ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

PERU COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 31, 2015, with Stanley Hall, Treasurer; Samuel E. Watkins, Superintendent of Schools; and Sharon Shuey, President of the School Board.

An additional exit conference was held on January 25, 2016, with Stanley Hall, Treasurer; Samuel E. Watkins, Superintendent of Schools; and Sharon Shuey, President of the School Board.