

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION

STARKE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
05/14/2015



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2014-001 - Preparation of the Schedule of Expenditures of Federal Awards .....	4
Finding 2014-002 - Internal Controls Over Financial Transactions and Reporting .....	5
Finding 2014-003 - Internal Controls Over the School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children .....	5-7
Finding 2014-004 - Internal Control Over Special Education - Grants to States and Special Education - Preschool Grants .....	7-8
Corrective Action Plan.....	9-10
Audit Results and Comments:	
Official Bonds.....	11
Average Daily Membership (ADM) - Lack of Records.....	11
Overdrawn Cash Balances.....	11
Exit Conference .....	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Guy Richie	07-01-12 to 06-30-15
Superintendent of Schools	Lynn Johnson	07-01-12 to 06-30-15
President of the School Board	Patricia Goin	07-01-12 to 06-30-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE NORTH JUDSON-SAN PIERRE  
SCHOOL CORPORATION, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the North Judson-San Pierre 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, was not verified for accuracy.

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

April 2, 2015

NORTH JUDSON-SAN PIERRE 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 control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). Although the School Corporation had a system in place for reviewing the original SEFA after preparation, this process failed to prevent, or detect and correct, material errors.

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 three programs in the Child Nutrition Cluster were omitted from the FY2014 SEFA prepared by the School Corporation, which resulted in an understatement in the amount of \$373,715. 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 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 total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

NORTH JUDSON-SAN PIERRE 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. The School Corporation's system of internal controls related to financial transactions and reporting was not working effectively. The failure to monitor the internal control system places the School Corporation at risk that controls may be either designed improperly or operating ineffectively and not provide reasonable assurance that controls will prevent, or detect and correct, misstatements in a timely manner.

The cash balances, receipt transactions, and disbursement transactions for the School Lunch fund and Textbook Rental fund were not properly reported on the School Corporation's financial statement. Although amounts were immaterial to the financial statement, audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement 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)

***FINDING 2014-003 - INTERNAL CONTROLS OVER THE SCHOOL BREAKFAST PROGRAM, NATIONAL SCHOOL LUNCH PROGRAM, AND SUMMER FOOD SERVICE PROGRAM FOR CHILDREN***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children  
CFDA Numbers: 10.553, 10.555, and 10.559  
Federal Award Years: FY 13 & FY 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 several of the compliance requirements that have a direct and material effect on the programs. This includes the compliance requirements for Allowable Activities, Allowable Costs, Cash Management, Eligibility, Reporting and Special Tests and Provisions - Verification of Free and Reduced Applications. 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.

*Allowable Activities and Allowable Costs*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the School Corporation expends funds for only allowable activities and allowable costs of the programs. A review or approval process has not been established.

NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cash Management*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the School Lunch fund monthly cash balances were in compliance with the Cash Management requirements. A monitoring or review process has not been established to ensure that the School Lunch fund's net cash resources are limited to three months' average expenditures in compliance with Cash Management requirements.

*Eligibility*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that eligibility for free and reduced price meals are accurately determined. Currently the application information is entered into the food service software which automatically makes the determination dependent on the information entered into the software. There was no segregation of duties, such as an oversight, review or approval process to ensure that the information entered into the food service software is correct.

*Reporting*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that required reports are accurately prepared and submitted. The monthly reimbursement request report is independently prepared by the Food Service Treasurer and submitted electronically via the Indiana Department of Education's website. This report is subjected to review prior to submission. The Food Service Treasurer also submits the Annual Financial Report which is not subjected to review prior to submission. There was no segregation of duties, such as an oversight, review, or approval process over compliance with the Reporting requirements.

*Special Tests and Provisions - Verification of Free and Reduced Applications*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the verifications of free and reduced meal applications are completed by another person other than the employee who made the initial eligibility determination. The applications are imputed into the software for eligibility determination by the same employee determining the verifications. There was no segregation of duties, such as an oversight, review, or approval process over compliance with this Special Test and Provision requirement.

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."



NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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 all compliance requirements that have a direct and material effect on the programs.

***FINDING 2014-004 - INTERNAL CONTROL OVER SPECIAL EDUCATION - GRANTS TO STATES AND SPECIAL EDUCATION - PRESCHOOL GRANTS***

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States, Special Education - Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Years: FY 13, FY14, FY 12 (Impr), FY 13, FY 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 several of the compliance requirements that have a direct and material effect on the programs. This includes the compliance requirements for Allowable Activities, Allowable Costs, Cash Management, Period of Availability and Reporting. 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.

*Allowable Activities and Allowable Costs*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that programs expenditures were in compliance with activities allowed and allowable costs requirements. Program expenditures were not always approved to indicate that the expenditures were for allowable activities and allowable costs of the programs.

*Cash Management and Reporting*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that required reports are accurately prepared and submitted or that the expenditures submitted for reimbursement were paid prior to the request. Requests for reimbursement were prepared by the School Corporation Treasurer and properly filed with the Indiana Department of Education. However, the reports were not subjected to review prior to submission. There was no segregation of duties, such as an oversight, review, or approval process.

*Period of Availability*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that accounts payable vouchers for program expenditures were monitored for compliance with the Period of Availability requirements. There was no segregation of duties, such as an oversight, review, or approval process.

NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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 all compliance requirements that have a direct and material effect on the programs.



# NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION

801 Campbell Drive • North Judson, IN 46366 • Ph (574) 896-2155 • Fax (574) 896-2156

LYNN JOHNSON, ED.S.  
SUPERINTENDENT

April 2, 2015

## CORRECTIVE ACTION PLAN

### FINDING 2014-001

Contact Person Responsible for Corrective Action: Guy Richie  
Contact Phone Number: 574-896-2155 ext. #3

#### Description of Corrective Action Plan:

The School Corporation will implement internal controls to oversee that the SEFA report is reviewed by at least two persons familiar with the information being requested on report.

### FINDING 2014-002

Contact Person Responsible for Corrective Action: Guy Richie  
Contact Phone Number: 574-896-2155 ext. #3

#### Description of Corrective Action Plan:

The School Corporation will implement internal controls to oversee that the Food Service and Textbook Rental Funds are reviewed by at least two persons familiar with the information being requested on reports. There will also be a segregation of duties for receipting and expending funds.

### FINDING 2014-003

Contact Person Responsible for Corrective Action: Guy Richie  
Contact Phone Number: 574-896-2155 ext. #3

#### Description of Corrective Action Plan:

The School Corporation will implement internal controls to oversee that the Food Service Program is reviewed by at least two persons familiar with the Food Service Program. There will be a segregation of duties for receipting and expending funds along with two persons reviewing all Food Service reports.

**FINDING 2014-004**

Contact Person Responsible for Corrective Action: Guy Richie

Contact Phone Number: 574-896-2155 ext. #3

Description of Corrective Action Plan:

The School Corporation will implement internal controls to oversee that the Special Education Grants are reviewed by at least two persons familiar with the Special Education Grants. There will be a segregation of duties for receipting and expending funds along with two persons reviewing all Special Education Grant reports.

Anticipated Completion Date: April 2, 2015

Guy Richie

(Signature)

Treasurer

(Title)

4/2/15

(Date)

NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**OFFICIAL BONDS**

The School Corporation Treasurer and all other treasurers handling corporation funds were not adequately bonded for the audit period. Position Bond # 037602-66052061, which covered all applicable employees for the period of July 1, 2011 to June 30, 2012, was renewed for the following three years: July 1, 2012 to June 30, 2013, July 13, 2013 to June 30, 2014, and July 1, 2014 to June 30, 2015.

The State Board of Accounts is of the audit position that a new bond should be obtained each year and continuation certificates should not be used in lieu of obtaining a new bond. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

**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 claimed were accurate.

Indiana Code 5-15-6-3(f) 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 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)

**OVERDRAWN CASH BALANCES**

The financial statement presented for the School Corporation included the Extra-Curricular Activities fund, a non-grant fund, with overdrawn cash balances of \$1,048 and \$1,056 at June 30, 2013 and 2014, respectively. The Extra-Curricular Activities fund was used to pay salaries for referees of athletic events that were subsequently reimbursed by the individual schools' extra-curricular athletic funds. The reimbursements were not all received as of June 30, 2013 and 2014.

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)

NORTH JUDSON-SAN PIERRE SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on April 2, 2015, with Guy Richie, Treasurer; Lynn Johnson, Superintendent of Schools; and Patricia Goin, President of the School Board.