

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

EAST GIBSON SCHOOL CORPORATION

GIBSON 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 Expenditure of Federal Awards	4-5
Finding 2014-002 - Internal Controls Over Receipts	5
Finding 2014-003 - Internal Controls Over Travel Disbursements	6
Finding 2014-004 - Internal Control Over Child Nutrition Cluster - Lack of Segregation of Duties	6-7
Corrective Action Plan	8-9
Audit Results and Comments:	
Collective Bargaining Agreement	10
Disposition of Assets	10-11
ECA Educational Fees	11
Travel Policy	11
Exit Conference	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	E. Jean Krieg	07-01-12 to 06-30-15
Superintendent of Schools	Dr. Henry M. Brewster	07-01-12 to 06-30-15
President of the School Board	Doug Meiring Steve Heldt	01-01-12 to 07-07-13 07-08-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE EAST GIBSON SCHOOL CORPORATION, GIBSON COUNTY, INDIANA

This report is supplemental to our audit report of the East Gibson 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 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 and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

April 2, 2015

EAST GIBSON 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).

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: two misstated program expenditures, one state match that was incorrectly included, and one grant that was not 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.
- (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.

EAST GIBSON SCHOOL CORPORATION
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 RECEIPTS

We noted several deficiencies in the internal control system of the School Corporation related to receipts.

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to receipts. The Treasurer handles all of the activities for receipts related to authorization, recording, custody, and comparison. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. Monitoring of Controls: An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control.

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)

EAST GIBSON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - INTERNAL CONTROLS OVER TRAVEL DISBURSEMENTS

We noted deficiencies in the internal control system of the School Corporation related to travel disbursements.

Of the 16 travel claims tested, four were not signed by the Treasurer as required by the School Corporation's control procedures. An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the School Corporation to monitor and assess the quality of the system of internal control.

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 2014-004 - INTERNAL CONTROL OVER CHILD NUTRITION
CLUSTER - LACK OF SEGREGATION OF DUTIES***

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program and School Breakfast Program

CFDA Numbers: 10.555 and 10.553

Federal Award Number and Year (or Other Identifying Number): FY 12-13 and 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 following compliance requirements: Allowable Activities, Allowable Costs, and Cash Management.

The School Corporation lacked controls necessary to ensure that allowable costs and activities were necessary, reasonable, and/or allocable, legal under state and local law, and in conformance with federal law, regulations, and grant terms. The School Corporation contracts with a food service management company to operate the National School Lunch Program and the School Breakfast Program. The food service management company pays all the bills and then submits an invoice to the School Corporation for reimbursements that only summarizes the type of expenses. While the claims for reimbursement were reviewed, no detailed information was requested by the School Corporation to be able to determine if the reimbursements were for allowable activities and allowable costs.

EAST GIBSON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The school lunch program must manage net cash resources in such a way that the balance does not exceed 3 months average expenditures for its nonprofit school food service. The School Corporation lacked controls related to the monitoring of net cash resources to ensure the amount does not exceed 3 months' average expenditures.

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.

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 of 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.

Dr. Henry M
Brewster
Superintendent

David Edwards
Director of
Maintenance/
Transportation

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Ginger Schenks
Executive Secretary
Payroll/Personnel

Jean Krieg
Treasurer

CORRECTIVE ACTION PLAN

AUDITEE CONTACT PERSON: Dr Henry M Brewster
TITLE OF CONTACT PERSON: Superintendent
PHONE NUMBER OF CONTACT PERSON: 812-749-4755

EXPECTED COMPLETION DATE: 9/1/2015

FINDING NO. 2014-001, Preparation of the Schedule of Expenditures of Federal Awards

We will review and adjust the office procedures, and implement internal controls to prevent or detect and correct, errors on the Schedule of Expenditure of Federal Awards(SEFA) to the best of our manpower abilities. The School Corporation will strive to have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records. We will look at segregation of duties to improve our internal control effectiveness and efficiency of operations, proper, execution of management's objectives compliance with laws and regulations.

FINDING NO. 2014-002, Internal Controls Over Receipts

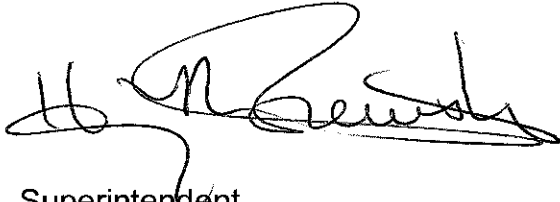
We will look at segregation of duties to improve our internal control effectiveness and efficiency. The receipts will be reviewed and compared to the revenue of the Bank Reconciliation each month by the Superintendent.

FINDING NO. 2014-003, Internal Controls Over Travel Disbursements

We will review and adjust the office procedures, and implement internal controls to prevent or detect and correct, errors to the best of our manpower abilities. We have already thrown out the old travel forms that did not have the signature information on the back. Also, The Corporation Travel Policy will be developed and implemented during the 2015-16 school year.

FINDING NO. 2014-004, Internal Control Over Child Nutrition Cluster--Lack of Segregation of Duties

Aramark will be providing a more detailed invoice so we can distribute the expense to better represent the reliability of financial information. Ginger will monitor the invoices and sign off on them. These changes should better follow compliance requirements.

A handwritten signature in black ink, appearing to read "H. M. [unclear]", written in a cursive style.

Superintendent

4/2/2015

EAST GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

COLLECTIVE BARGAINING AGREEMENT

The School Corporation did not post their Collective Bargaining Agreements to the School Corporation's website.

Indiana Code 20-29-6-19 states: "Not later than fourteen (14) business days after the parties have reached an agreement under this chapter, the school employer shall post the contract upon which the parties have agreed on the school employer's Internet web site."

DISPOSITION OF ASSETS

In May 2014, the School Corporation sold a used school bus receiving \$2,500 from the sale. No information presented for audit indicated the sale was advertised or that the asset was sold at a public sale or by sealed bids.

Indiana Code 5-22-22-4(a) states:

"If the property to be sold is:

- (1) one (1) item, with an estimated value of one thousand dollars (\$1,000) or more; or
- (2) more than one (1) item, with an estimated total value of five thousand dollars (\$5,000) or more;

the purchasing agency may engage an auctioneer licensed under IC 25-6.1 to advertise the sale and conduct a public auction."

Indiana Code 5-22-22-5 states:

"(a) If:

- (1) an auctioneer is not engaged under section 4 of this chapter; or
- (2) the surplus property is not sold through an Internet auction site under section 4.5 of this chapter;

EAST GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

the purchasing agency shall sell the property at a public sale or by sealed bids delivered to the office of the purchasing agency before the date of sale.

- (b) Advertisement of the sale shall be made in accordance with IC 5-3-1.
- (c) All sales shall be made to the highest responsible bidder."

ECA EDUCATIONAL FEES

The School Corporation charged an educational fee for Art, Technology, Physical Education, Science, Chemistry, etc., without obtaining written guidance from the School Corporation Attorney concerning whether fees are appropriate in regards to Constitutional provisions.

IC 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds. . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

TRAVEL POLICY

The School Corporation did not have a written travel policy.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EAST GIBSON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 2, 2015, with Dr. Henry M. Brewster, Superintendent of Schools, and E. Jean Krieg, Treasurer.