

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

OREGON-DAVIS SCHOOL CORPORATION

STARKE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
06/05/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nicole L. Salazar	07-01-12 to 06-30-15
Superintendent of Schools	Dr. Steven C. Disney, Jr. Gregory L. Briles	07-01-12 to 06-30-13 07-01-13 to 06-30-15
President of the School Board	Seth Huitt Christopher Lawrence Kurt Hayes	07-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-15



STATE OF INDIANA
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TO: THE OFFICIALS OF THE OREGON-DAVIS SCHOOL CORPORATION, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the Oregon-Davis 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 1, 2015

OREGON-DAVIS SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - 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,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Years: FY 2012-13, FY 2013-14

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, Eligibility, and Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirements.

Cash Management

The School Corporation has not designed or implemented adequate policies or procedures to ensure that the School Lunch fund's net cash resources are limited to three months' average expenditures. Responsibility for monitoring the cash balance of the School Lunch fund for compliance with the Cash Management requirements has not been assigned.

Eligibility and Verification of Free and Reduced Price Applications

The School Corporation has not designed or implemented adequate policies or procedures to ensure that students' eligibility for free and reduced price lunches is properly determined, that the applications for free and reduced price lunches are verified in compliance with program requirements, and that the verification summary reports are accurately prepared and submitted. The High School Secretary/Extra-Curricular Treasurer is solely responsible for the eligibility determinations, verifications, and the verification summary report. An oversight or review process has not been established.

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."

OREGON-DAVIS SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 2014-002 - ELIGIBILITY

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Years: FY 2012-13, FY 2013-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation did not ensure that applications for free and reduced priced lunches were on file to support each student receiving the benefits. Applications for free and reduced price lunches were not presented for 10 percent of those students tested. In addition, 55 percent of the applications on file tested for proper notification did not include eligibility notification letters to the household.

7 CFR 245.6(e) states:

"The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain, except that if audit findings have not been resolved, the documentation must be maintained as long as required for resolution of the issues raised by the audit."

7 CFR 245.6(c)(i) states:

"The local educational agency must notify the household of the children's eligibility and provide the eligible children the benefits to which they are entitled within 10 operating days of receiving the application from the household."

7 CFR 245.6(c)(ii) states:

"Households approved for benefits "via direct certification" must be notified, in writing, that their children are eligible for free meals or free milk, that no application for free and reduced price school meals is required."

The failure to comply with Eligibility requirements enabled material noncompliance to go undetected. Benefits could have been provided for students not eligible to participate in the programs. 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 comply with Eligibility requirements which have a direct and material effect on the programs.

OREGON-DAVIS SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - INTERNAL CONTROLS OVER THE TEACHER INCENTIVE FUND

Federal Agency: Department of Education
Federal Program: Teacher Incentive Fund
CFDA Number: 84.374
Federal Award Years: FY 2012-13, FY 2013-14
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 and Reporting compliance requirements.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that required reports, the requests for reimbursement, were accurately prepared and submitted. The Treasurer was solely responsible for preparing and submitting the required requests. Segregation of duties, such as an oversight, review, or approval process, has not been established.

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. 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.

OREGON-DAVIS SCHOOL CORPORATION

ADMINISTRATIVE OFFICE

GREGORY G. BRILES, SUPT.
NICOLE L. SALAZAR, TREASURER
BRENDA L. MILLER, ASST. TREASURER
JULIE A. MC LIVER, SECRETARY

5998 North 750 East • Hamlet, IN 46532-9524
Phone: 574-867-2111 • Fax: 574-867-8191 • E-Mail: od.k12.in.us

SCHOOL BOARD

CHRISTOPHER LAWRENCE, PRESIDENT
ANDREA MC INTOSH, VICE PRESIDENT
KURT HAYES, SECRETARY
SHIRLEY BUDKA, MEMBER
LEE NAGAI, MEMBER

CORRECTIVE ACTION PLAN

FINDING 2014-001

Federal Agency: US Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service
Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Years: FY 2012-13, FY 2013-14
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Greg Briles
Contact Phone Number: 574-867-2111

Description of Corrective Action Plan: Management of the School Corporation will established an effective internal control system, which would include segregation of duties, related to the grant agreement and the cash management, eligibility, and special tests and provisions for verification of free and reduced price applications compliance requirements.

The School Corporation will implement adequate policies or procedures to ensure that the School Lunch Fund's net cash resources are limited to three months' average expenditures. Responsibility for monitoring the cash balance of the School Lunch Fund for compliance with the cash management requirements will be assigned.

The School Corporation will implement adequate policies or procedures to ensure that students' eligibility for free and reduced price lunches is properly determined or that the applications for free and reduced price lunches are verified in compliance with program requirements, and that verification summary report is accurately prepared and submitted. The High School Secretary/Extra-Curricular Treasurer is solely responsible for the eligibility determinations, verifications and the verification summary report. A review process will be established to ensure accurate eligibility determinations, proper verification of the applications, and proper approval of the verification summary report.

FINDING 2014-002 - ELIGIBILITY

Federal Agency: US Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service
Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Years: FY 2012-13, FY 2013-14
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Greg Briles
Contact Phone Number: 574-867-2111



Management of the School Corporation will ensure that applications for free and reduced priced lunches are on file to support each student receiving the benefits, and proper notification will include eligibility notification letters to the household.

FINDING 2014-003 – INTERNAL CONTROLS OVER THE TEACHER INCENTIVE FUND PROGRAM

Federal Agency: US Department of Education
Federal Program: Teacher Incentive Fund
CFDA Number: 84.374
Federal Award Years: FY 2012-13, FY 2013-14
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Greg Briles
Contact Phone Number: 574-867-2111

Management of the School Corporation will establish an effective internal control system, which would include segregation of duties, related to the grant agreement and the cash management and reporting compliance requirements.

The School Corporation will implement adequate policies or procedures to ensure that required reports, the requests for reimbursement, were accurately prepared and submitted. The Treasurer was solely responsible for preparing and submitting the required requests. Segregation of duties, such as an oversight, review or approval process, has been established.

Anticipated Completion Date:

4/1/15

Megony H. Briles
(Signature)

SUPERINTENDENT
(Title)

4/1/15
(Date)

OREGON-DAVIS SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PREPAID FOOD ACCOUNT RECONCILIATION

Reconciliations of the students' individual prepaid food account balances to the Prepaid Food Fund balance were not performed during the audit period.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 3)

OVERDRAWN CASH BALANCES

The financial statement presented for the School Corporation includes several funds with negative cash balances. The School Library Printed Material fund's negative cash balance of \$1,105 has been consistent for the past four years.

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)

HONORS DIPLOMA - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates honors diploma figures on Form No. 30A and DOE-GR submitted to the Indiana Department of Education (IDOE), were incorrect for the school year ending June 30, 2013. For the graduating class of 2011-2012, reported to IDOE in the fall of 2013, the School Corporation reported 17 honors diplomas, but School Corporation records provided indicated that only 16 honors diplomas were awarded.

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OREGON-DAVIS SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 1, 2015, with Nicole L. Salazar, Treasurer; Gregory L. Briles, Superintendent of Schools; and Kurt Hayes, President of the School Board.