

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
HAMILTON HEIGHTS SCHOOL CORPORATION  
HAMILTON COUNTY, INDIANA  
July 1, 2012 to June 30, 2014



**FILED**  
06/11/2015



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kristin McCarty Caryn Provence	07-01-12 to 06-30-14 07-01-14 to 06-30-15
Superintendent of Schools	Anthony Cook Derek Arrowood	07-01-12 to 12-31-13 01-01-14 to 06-30-15
President of the School Board	Laura Reuter Gwendalyn Hunter Rex McKinney Laura Reuter	01-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 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 HAMILTON HEIGHTS SCHOOL  
CORPORATION, HAMILTON COUNTY, INDIANA

This report is supplemental to our audit report of the Hamilton Heights 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 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 describes 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

March 19, 2015

HAMILTON HEIGHTS 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 Treasurer prepared and submitted the SEFA through the Gateway system; however, there was no additional oversight of the SEFA information. 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: (a) total federal expenditures were incorrectly reported; (b) expenditures and information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were omitted for some grant awards. 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 total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

HAMILTON HEIGHTS 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 FINANCIAL TRANSACTIONS AND REPORTING***

We noted the following deficiencies in the internal control system of the School Corporation related to financial transactions and reporting of receipts.

- 1. The School Corporation had not sufficiently separated activities related to receipting Electronic Fund Transactions (EFT). The School Corporation Treasurer received the EFT notice of funds deposited in the bank, issued the receipt, and then posted the receipt to the ledger. There was no review process for the posting to the ledger. 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. Controls over receipting of textbook rental fees and school lunch monies received at the Extra-Curricular Account (ECA) level had not been established. The textbook rental fees and school lunch monies were collected at each school building on a daily basis. The funds were reconciled daily by the designated official, who would verify the money received to the Daily Collection Report. The designated individual deposited the daily collections and sent the bank deposit slips to the School Corporation for receipt into the ledger. All processes in the reconciliation and deposit were handled by the designated official; therefore, no verification was performed to determine the amount deposited agreed with the Daily Collection Report. 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.

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)

HAMILTON HEIGHTS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-003 - INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS  
THAT HAVE A DIRECT AND MATERIAL EFFECT TO CHILD NUTRITION CLUSTER***

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program and National School Lunch Program

CFDA Number: 10.553 and 10.555

Federal Award Number and Year (or Other Identifying Number): FY13 - 71813 and FY14 - 71813

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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Program Income, Reporting, and Special Tests and Provisions. Various individuals were solely responsible for performing activities related to the Child Nutrition Cluster's compliance requirements without proper oversight, reviews, or approvals.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles internal controls for payroll were not adequate. After a payroll computer program change beginning January 2013, no one reviewed the individuals paid from by the Food Service Fund. Without a review of the individual payroll postings, nonallowable payroll costs could be posted as an expense and go undetected.

The Food Service Director (FSD) performed many of the procedures related to the compliance requirements of the grant. The FSD completed the initial eligibility determination of the Free and Reduced Applications submitted by students, resulting in determining whether students qualified for the program (Eligibility). The FSD was the sole person preparing and submitting the Verification Summary and the monthly Reimbursement Requests (Reporting). Paid Lunch Equity (Special Test and Provision) was completed by the FSD. Similarly in 2013, the FSD was the only reviewer for the Verification of Free and Reduced applications (Special Test and Provision).

The School Corporation Treasurer was responsible for many of the financial aspects of the programs. The School Corporation Treasurer calculated indirect costs (Allowable Costs), determined the amount of cash allowed on hand in the Food Service Fund (Cash Management), and was sole person receipting into the Food Service Fund (Special Test and Provision). The Annual Financial Report (Reporting) was prepared and submitted by the School Corporation Treasurer at the end of each year.

The Extra-Curricular Treasurer was the sole person reviewing cash collections (Program Income) before depositing funds in the bank.

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.



HAMILTON HEIGHTS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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 that have a direct and material effect on the programs.

***FINDING 2014-004 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS  
THAT HAVE A DIRECT AND MATERIAL EFFECT TO TITLE I, PART A CLUSTER***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): FY 11-12, 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: Activities Allowable or Unallowable, Allowable Costs/Cost Principles, Cash Management, Matching, Level of Effort, Earmarking, Period of Availability, 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 the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles,  
Cash Management, Period of Availability, and Reporting*

These compliance requirements were performed by the School Corporation Treasurer. There was no documented review of the activities performed.

*Matching, Level of Effort, Earmarking, Special Test and Provisions -  
Highly Qualified Teachers and Paraprofessionals*

These compliance requirements were performed by the Title I Director. There was no documented review of the earmarking reports, private schools in the area, or new hires. Without review, material noncompliance in these compliance requirements may occur or be undetected.

*Special Tests and Provisions - Annual Report Card/High School Graduation Rate*

This compliance requirement was prepared by the School Registrar. There was no documented review of the Real-Time Reports prior to submission.

HAMILTON HEIGHTS 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 of the grant agreement or the compliance requirements that have a direct and material effect to the program 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 the compliance requirements that have a direct and material effect to the program.

## CORRECTIVE ACTION PLAN

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

Contact Person Responsible for Corrective Action: Kristin McCarty  
Contact Phone Number: (317) 984-3538 ext. 5011

#### Description of Corrective Action Plan:

This finding included internal control review procedures and audit adjustments proposed and made to the SEFA by the State Board of Accounts auditors.

The Schedule of Expenditures of Federal Awards (SEFA) was a new report that schools were required to complete per IC 5-11-1-4. At the time of completing the report, it was not clear what this report was to be used for and thus, was completed to the best of our knowledge at the time. The State Board of Accounts auditors, during the review of the SEFA, explained the report in detail and helped in understanding what to report, where to report, and where to obtain information regarding CFDA numbers and pass-through information.

With a better understanding of this reporting requirement, the report will be completed annually, if possible, with internal review and approval documented prior to submission.

Anticipated Completion Date: February 26, 2015

Kristin McCarty  
(Signature)  
Business Manager  
(Title)  
3/4/2015  
(Date)



## CORRECTIVE ACTION PLAN

### FINDING 2014 – 002 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Kristin McCarty

Contact Phone Number: (317) 984-3538 ext. 5011

#### Description of Corrective Action Plan:

This finding consists of two internal control issues both of which have been reviewed and corrected.

1. EFT transactions: the school corporation receives funds from the state through EFT transactions for monthly basic grant, state grant, and federal grant reimbursement requests. The Corporation Treasurer receives an email twice per month from DOE listing the payments to be received through an EFT transaction. The state also mails a remittance advice form to the corporation, which is then verified against the DOE 54 report and reimbursement requests submitted.

The Business Manager now reviews the remittance advice forms for all EFT transactions and verifies amount to reimbursement request forms included in payment.

2. Textbook fees and school lunch monies: the Corporation Student Receivables Treasurer receives student textbook rental fees and school lunch payments for all schools within the corporation. A summary form is forwarded to the Corporation Treasurer for receipt into the proper corporation funds. The deposit is made to the corporation checking account by the Corporation Student Receivables Treasurer or Corporation ECA Treasurer daily.

The Corporation Treasurer now receives documentation generated from Alio Cash, student fee management software, and Kidserve/One Source, school lunch management software, verifying deposit made to the corporation checking account.

Anticipated Completion Date: February 17, 2015

Kristin McCarty  
(Signature)  
Business Manager  
(Title)  
3/4/2015  
(Date)





## CORRECTIVE ACTION PLAN

### FINDING 2014 – 003 INTERNAL CONTROL OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CHILD NUTRITION CLUSTER

Contact Person Responsible for Corrective Action: Kristin McCarty

Contact Phone Number: (317) 984-3538 ext. 5011

#### Description of Corrective Action Plan:

This finding includes several internal control review procedures that may have taken place but not documented. Most of the items listed below have already been corrected.

1. Food Service Director (FSD) procedures: The FSD initiates and completes many of the processes required for the school nutrition program.
  - a. Free and Reduced applications and Verification – another food service employee has been instructed on reviewing applications and verification documents and will initial and date upon review.
  - b. Reimbursement requests – another food service employee has been instructed on reviewing monthly reimbursement requests and will initial and date upon review. The Corporation Treasurer receives a copy of the reimbursement request to verify the EFT transaction.
  - c. Paid Lunch Equity – the FSD requests review by DOE and will now submit to Business Manager to review and document approval. The paid lunch equity and new prices are then board approved annually.
2. Corporation Treasurer procedures: The Corporation Treasurer initiates and completes many of the process's for the school nutrition program.
  - a. Indirect costs – rates are requested for each fiscal year from DOE. These rate are then applied to allowable expenditures to determine a possible indirect cost transfer. This process was completed in coordination with the Associate Superintendent but no documentation was provided. For future indirect cost transfers this calculation will include documentation of review and approval by Chief Financial Officer.
  - b. Cash allowed on hand – this calculation follows the same procedures as the indirect cost calculation above. Future cash allowed on hand calculations will include documentation of review and approval by Chief Financial Officer.
  - c. Annual financial report – the report was completed and reviewed with the FSD, but such review was not documented. All future reports will be prepared by the Corporation Treasurer and FSD with review and approvals documented.
3. Cash Collections: The corrective action plan for this item has been addressed in finding 2014 – 002. The Corporation Treasurer now receives documentation generated from Kidserve/One Source, school lunch management software, verifying deposit into the corporation checking account by the Corporation Student Receivables or ECA Treasurer.



Anticipated Completion Date: February 17, 2015

Kristin McEnty  
(Signature)

Business Manager  
(Title)

3/4/2015  
(Date)





## CORRECTIVE ACTION PLAN

### FINDING 2014 – 004 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO TITLE I, PART A CLUSTER

Contact Person Responsible for Corrective Action: Kristin McCarty  
Contact Phone Number: (317) 984-3538 ext. 5011

#### Description of Corrective Action Plan:

This finding included several items related to documented review of processes. Although the majority of the items listed were reviewed, documentation of approval and review was not available. All future processes, including review and approval of grant application, reporting, new hire credential verification, and Real Time reporting will be clearly documented.

Anticipated Completion Date: February 26, 2015

Kristin McCarty  
(Signature)  
Business Manager  
(Title)  
3/4/2015  
(Date)



HAMILTON HEIGHTS SCHOOL CORPORATION  
AUDIT RESULT AND COMMENT

***RECEIPT ISSUANCE***

We conducted a test designed to verify that receipts issued were properly recorded to the School Corporation's records at the time the transactions occurred. Money received for 20 percent of the receipts tested were deposited prior to the receipt issuance.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)



March 24, 2015

State Board of Accounts  
302 West Washington Street, Room E 418  
Indianapolis, IN 46204-2765

#### OFFICIAL RESPONSE

The contents of this report were discussed on March 19, 2015 with Laura Reuter, Board President, Derek Arrowood, Superintendent, Peggy Jackson, CFO, Kristin McCarty, Business Manager, Caryn Provence, Treasurer, Ricci Hofherr, SBOA Field Examiner, Matt Roberts, SBOA Field Examiner, and Liz Sternberg, SBOA.

All federal findings with corrective action plan responses are included in the report. Below is the official response to the audit result and comment.

#### Receipt Issuance

Samples of receipts were reviewed for proper recording and timeliness. It was found that some of the deposits occurred prior to the issuance of receipts and recording to the financial system. When money was collected, deposits were made in a timely manner; however, recording to the financial system and issuance of receipts often occurred in weekly or end of month batches. The majority of money received at the corporation office is from mail or EFT transactions and receipts are not requested or provided at the time of receipt. However, all future receipts and recording to the financial system will be done at the time money is deposited to the bank or upon notice of EFT transfer

Kristin McCarty  
Signature

Business Manager  
Title

March 24, 2015  
Date

HAMILTON HEIGHTS SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2015, with Derek Arrowood, Superintendent of Schools; Peggy Jackson, Chief Financial Officer; Caryn Provence, Treasurer; Kristin McCarty, Business Manager; and Laura Reuter, President of the School Board.