

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF HOBART

LAKE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
06/19/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dawn Powers	07-01-12 to 06-30-15
Business Manager	Ted Zembala	07-01-12 to 06-30-15
Superintendent of Schools	Dr. Peggy Buffington	07-01-12 to 06-30-15
President of the School Board	Terry Butler Karen Robbins	01-01-10 to 12-31-14 01-01-15 to 12-31-15



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TO: THE OFFICIALS OF THE SCHOOL CITY OF HOBART, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the School City of Hobart (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

May 11, 2015

SCHOOL CITY OF HOBART
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to cash and investments, receipts, payroll disbursements, and preparation of the Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation's financial system allows the user to reissue a receipt number previously issued. The receipt will appear both times in monthly reports generated by the School Corporation, which are used to reconcile the bank.

The Treasurer is responsible for issuing receipts, performing the monthly bank reconciliation, and preparing the Schedule of Expenditures of Federal Awards (SEFA). One employee is responsible for preparing and generating payroll. There is no evidence of an oversight, review, or approval process. 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. An effective internal control 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)

FINDING 2014-002 - INTERNAL CONTROLS OVER SCHOOL BREAKFAST PROGRAM, NATIONAL SCHOOL LUNCH PROGRAM, AND SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

Federal Agency: U.S. 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: FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

SCHOOL CITY OF HOBART
FEDERAL FINDINGS
(Continued)

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, Allowable Costs, Procurement and Suspension and Debarment, and Reporting.

Activities Allowed/Allowable Costs - Payroll Disbursements

The School Corporation did not have proper controls over the payment of payroll. The Director of Food Service approved hours worked by food service employees, but the actual disbursement of payroll charged to the School Lunch fund was not subjected to a review or approval process.

Procurement and Suspension and Debarment

The School Corporation utilized a third party for Food Service bids. The third party administered the bidding process as well as verified that the vendors were not suspended or debarred. The third party made a recommendation to the School Corporation for the winning bids. However, the School Corporation and Board of School Trustees never formally approved or awarded the bids.

Reporting

The School Corporation failed to establish proper segregation of duties as it relates to reporting requirements. Food Service was required to submit monthly claims for reimbursement as well as an annual financial report. Those reports were completed and submitted by the Food Service Director. Evidence of an oversight, review, or approval process was not provided.

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."

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.

SCHOOL CITY OF HOBART
FEDERAL FINDINGS
(Continued)

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 2014-003 - ALLOWABLE COSTS

Federal Agency: U.S. 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: FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

The School Corporation operates a Food Service Program, which is the recipient of federal funding from the School Breakfast Program, National School Lunch Program, and Summer Food Service Program. All transactions related to the Food Service Program are recorded in the School Lunch fund. This includes, but is not limited to, salaries and benefits, food purchases, supplies, and all revenue generated by the Food Service Program.

The School Lunch fund is used for the payment of wages of food service employees. Funds related to food service were also used to pay a percentage of an administrative salary for fiscal years 2012-2013 and 2013-2014. The Administrator did not maintain personnel activity reports to support the distribution of a portion of the salary to the School Lunch fund. The amount of the salary improperly charged to the federal grant was \$20,000 and is considered a questioned cost.

OMB Circular A-87, Attachment B, Section 8, Compensation for personal services, states in part:

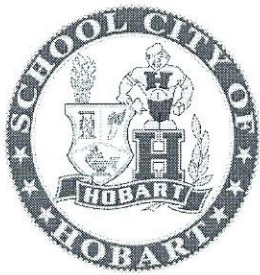
"h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . .

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity . . ."

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 Allowable Costs requirements.



SCHOOL CITY OF HOBART

32 East 7TH Street, Hobart, IN 46342
Phone: 219-942-8885 Fax: 219-942-0081
<http://www.hobart.k12.in.us>

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ADMINISTRATION

Dr. Peggy Buffington, Ph.D.
Superintendent

Ted Zembala
Business Manager

Jonathan Mock
Director of Human Resources
& Compliance

Deborah Matthys
Director of Curriculum &
Instruction

Sara Gutierrez
Director of Early Learning &
Education

Russell Mellon
Director of Information
Technology Services

Christopher King
Director of Technology

Felix Perry
Director of Support Services

Vicky Johnson
Transportation Coordinator

Nancy Smith
Food Service Director

Larry Juzwicki
Director of School Safety

Regina Guarnero
Coordinator of Student Health
Services

Peter Goerges
School Legal Counsel

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William Longer
Board Attorney

CORRECTIVE ACTION PLAN

FINDING 2014-001 Internal Controls over Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Dawn Powers, Treasurer
Contact Phone Number: 219-945-0250

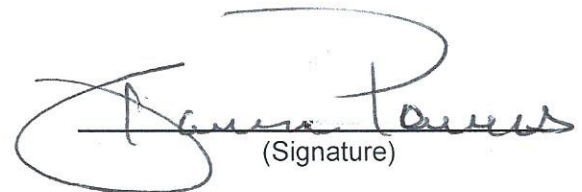
Description of Corrective Action Plan:

The School City of Hobart has created an oversight process for receipting by documenting the creation of deposits. All deposits are currently being initialed by the Accounts Payable Clerk as the creator therefore documenting the separation of duty.

We will establish oversight in both payroll processing and bank reconciliation by creating a procedure where by upon completion both the final payroll and bank reconciliation reports will be reviewed by a second individual.

To show oversight in the creation of the Schedule of Expenditures of Federal Awards (SEFA) the Business Manager will review a summary of the documents used to create the report.

Anticipated Completion Date: Immediately

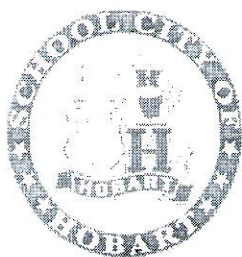

(Signature)

Treasurer

(Title)

5/11/15

(Date)



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Board Attorney

CORRECTIVE ACTION PLAN

FINDING 2014-002 Internal Controls over School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children

Description of Corrective Action Plan:

To establish effective internal controls we will begin reviewing payroll history reports. These reports will be approved by the Director of Food Services.

Anticipated Completion Date: Immediately

To comply with proper bid procedures we will present to the School Board of Trustees all recommended third party bids and verified vendor lists for their approval.

Anticipated Completion Date: Prior to July 1, 2015

To establish internal control for reporting requirements, monthly reimbursement claim responsibilities will be shared between the Director of Food Services and the Administrative Assistant to ensure proper management of Federal Funds

Anticipated Completion Date: Immediately

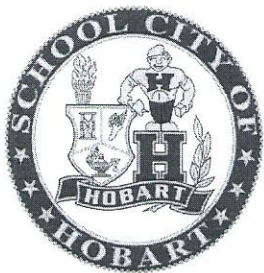
Contact Person Responsible for Corrective Action: Nancy Smith, Director of Food Services

Contact Phone Number: 219-942-1388


(Signature)


(Title)


(Date)



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Board Attorney

CORRECTIVE ACTION PLAN

FINDING 2014-003 Allowable Costs

Description of Corrective Action Plan:

We have complied with Allowable Cost Requirements by correcting the distribution of all employees to insure that they directly relate to the Food Service Program.

Anticipated Completion Date: Immediately

Contact Person Responsible for Corrective Action: Nancy Smith, Director of Food Services

Contact Phone Number: 219-942-1388

Nancy Smith
(Signature)

Director of Food Services
(Title)

May 11, 2015
(Date)

SCHOOL CITY OF HOBART AUDIT RESULTS AND COMMENTS

TEXTBOOK RENTAL FEES

The book rental fees were generated from a spreadsheet and included consumable costs in the calculation. Upon recalculation of the textbook rental rate, it was discovered that the School Corporation charged more than allowable per statute for several of the books that were tested.

The School Corporation's Extra-Curricular Account Treasurers collected educational fees as part of the students' textbook rental fees and remitted these educational fees to the School Corporation Treasurer for posting to the General fund. Written guidance from the School Corporation's attorney was not provided that determined whether or not the fees violate the Indiana Constitution.

Indiana Code 20-26-12-2 states in part:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of curricular materials that have been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

Indiana Code 20-26-4-1(d) 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)

ANNUAL FINANCIAL REPORT

The 2014 Gateway Annual Financial Report did not accurately report the capital assets for the School Corporation. The amounts reported were based on the "Insurable Values" of the assets and not on the "Original or Historical Cost" of the asset, which are both provided to the School Corporation by the contracted outside vendor. The report prepared by the outside vendor did not include land values for property owned by the School Corporation. In addition, the School Corporation reported the capital assets from the report dated June 30, 2012, even though they had an asset report for the school year ending June 30, 2014. This resulted in the capital asset schedule being overstated by \$78,120,347.

SCHOOL CITY OF HOBART
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

SCHOOL LUNCH LATE REPORTING

The Annual Financial Reports for fiscal years 2012-2013 and 2013-2014 for the School Lunch Program were remitted to the Indiana Department of Education 76 and 65 days late, respectively. A similar comment appeared in the prior audit report.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OFFICIAL BONDS

The Extra-Curricular Treasurer's Surety Bond was insufficient per the Indiana Code. The Extra-Curricular Treasurer's bonds have three year coverage and are renewed every three years. The terms were not set for a one year period and renewed every year as required.

Indiana Code 20-41-1-6 states in part:

"(a) The treasurer shall give a bond in an amount fixed by the superintendent and principal of the school approximating the total amount of the anticipated funds that will come into the possession of the treasurer at any one (1) time during the regular school year. Bonds shall be filed with the trustee or board of school trustees. The surety on the bonds must be a surety company authorized to do business in Indiana. However, the requirement for giving the bond and the requirement to deposit the receipts in a separate bank account, as required in section 9 of this chapter, do not apply to any school for which the funds, as estimated by the principal, will not exceed three hundred dollars (\$300) during a school year."

If either school lunch funds or textbook rental funds are handled through an extra-curricular account, the governing body of the school corporation shall approve the amount of the bond of the treasurer, IC 20-41-2-6. The bond may be either an individual bond for each extra-curricular treasurer or a single blanket position bond for all extra-curricular treasurers, IC 20-41-1-6.

A new bond shall be given at the beginning of each school year. Premium on the official bond is payable from the General Fund of the school corporation. The requirement for giving bond and requirement to deposit receipts in a separate bank account do not apply where the receipts, as estimated by the principal, will not exceed \$300.00 during the school year. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)



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William Longer
Board Attorney

Official Response

For Audit Period July 1, 2012 to June 30, 2014

Date of Exit Conference: May 11, 2015

May 22, 2015

State Board of Accounts

302 W. Washington Street, Room E418

Indianapolis, IN 46204

TEXTBOOK RENTAL FEES

RESPONSE:

Future calculations will be simplified according to the audit recommendation. Student fees will be presented to the school board attorney to provide written guidance concerning whether the fees are appropriate in regards to Constitutional provisions.

ANNUAL REPORT

RESPONSE:

Every two years, the school corporation contracts with an outside vendor to appraise the school corporation's assets. At the conclusion of the appraisal, two reports are produced by the vendor. A report that values the insurable cost of assets and a report that is based on the "Original" or "Historical Cost". In future, the school corporation will use the "Original Cost" for state reporting.

OFFICIAL BONDS

RESPONSE:

The school corporation will review the bonding requirements of extra-curricular treasurers and adjust the surety per Indiana Code. Surety bonds for extra-curricular treasurers will be renewed and reported on an annual basis.


Ted J. Zembala, Business Manager



The School City of Hobart does not discriminate on the basis of race, creed, sex, color, national origin, religion, age, sexual orientation, marital status, genetic information, or disability, including limited English proficiency.

SCHOOL CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2015, with Ted Zembala, Business Manager; Dawn Powers, Treasurer; Dr. Peggy Buffington, Superintendent of Schools; Karen Robbins, President of the School Board; and Nancy Smith, Food Service Director.