

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH GIBSON SCHOOL CORPORATION

GIBSON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
08/20/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Marlene S. Fisher (Deceased) Nancy Leukhardt (Interim) Jerica Davis	07-01-12 to 03-05-13 03-06-13 to 04-29-13 04-30-13 to 06-30-15
Superintendent of Schools	Dr. Brian L. Harmon	07-01-12 to 06-30-15
President of the School Board	H. Mark Lunghuhn	07-01-12 to 06-30-15



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

This report is supplemental to our audit report of the North 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, incorporated within this report, were not verified for accuracy.

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

June 24, 2015

NORTH GIBSON SCHOOL CORPORATION
FEDERAL FINDING

FINDING 2014-001 - PROCUREMENT AND SUSPENSION AND DEBARMENT

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): FY 12/13 and FY 13/14

Pass-Through Entity: IN 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 Procurement and Suspension and Debarment compliance requirement.

No contracts were signed by the School Corporation with successful bidders for milk, juice, and bread purchased by the food service department. Bids were solicited and awarded to the lowest and most responsive bidders at a public meeting. The School Corporation was charged and paid the agreed upon prices, but no actual contract was signed by the School Board and the vendors. Also, the food service employees were not aware of the requirement to verify that successful bidders were not suspended and debarred.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with 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."

NORTH GIBSON SCHOOL CORPORATION
FEDERAL FINDING
(Continued)

2 CFR 180.300 states:

"What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

7 CFR 3016.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with 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 compliance requirement listed above.



NORTH GIBSON SCHOOL CORPORATION

Office of the Superintendent

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CORRECTIVE ACTION PLAN

FINDING 2014 – 001

Contact Person Responsible for Corrective Action: Jerica Davis
Contact Phone Number: 812-385-4851

Description of Corrective Action Plan:

North Gibson will enter into contracts each year with the successful bidders for milk, juice and bread purchased by the Food Service Department. Prior to entering such contracts, North Gibson will verify that successful bidders are not on the suspended and debarred list before a contract is awarded.

Anticipated Completion Date:

The corrective action described above will be effective with bids awarded in 2015 for the 2015/2016 school year.



(Signature)

Jerica Davis, Treasurer/HR Manager

April 30, 2015

Superintendent
Dr. Brian Harmon

Assistant to the Superintendent
Mr. Eric Goggins

Treasurer/HR Manager
Mrs. Jerica Davis

Deputy Treas./Adm. Asst.
Mrs. Nancy Leukhardt

Payroll/Transportation
Mrs. Tina Burton

Administrative Secretary
Tammy Rumpel

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
Rainy Day	2012	\$ 693,566
Rainy Day	2013	129,324

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement entered into on September 29, 2014, contained the following item prohibited by Indiana Code 20-29-6-4.5(b):

1. Article IV Section 1 entitled "Leaves of Absence" states in part: "Leaves of absence may be granted without pay . . . for the following reasons: . . ."

Indiana Code 20-29-6-4.5 states in part:

"(a) For a contract entered into after June 30, 2011, a school employer may not bargain collectively with the exclusive representative on the following: . . .

- (5) Any subject not expressly listed in section 4 of this chapter. . . ."

During the audit period, Indiana Code 20-29-6-4 stated:

"(a) A school employer shall bargain collectively with the exclusive representative on the following:

- (1) Salary.
- (2) Wages.
- (3) Salary and wage related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off as permitted to be bargained under IC 20-28-9-11.

(b) Salary and wages include the amounts of pay increases available to employees under the salary scale adopted under IC 20-28-9-1.5, but do not include the teacher evaluation procedures and criteria, or any components of the teacher evaluation plan, rubric, or tool."

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARDS

The School Corporation was using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PREPAID FOOD ACCOUNT

The School Corporation accounts for the prepaid food activity within the School Lunch fund. A separate clearing account for the prepaid food account activity has not been established as prescribed.

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Vol. 183)

CURRICULAR MATERIALS RENTAL CHARGES

The method used to calculate the annual curricular material rental charges resulted in a charge that exceeded the maximum rate of 25 percent per year. The charge for consumables was in excess of the actual cost of the item paid by the School Corporation.

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."

NORTH GIBSON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on June 24, 2015, with Jerica Davis, Treasurer; Dr. Brian L. Harmon, Superintendent of Schools; Travis Wilcox, Vice President of the School Board; and Eric Goggins, Assistant to the Superintendent of Schools.