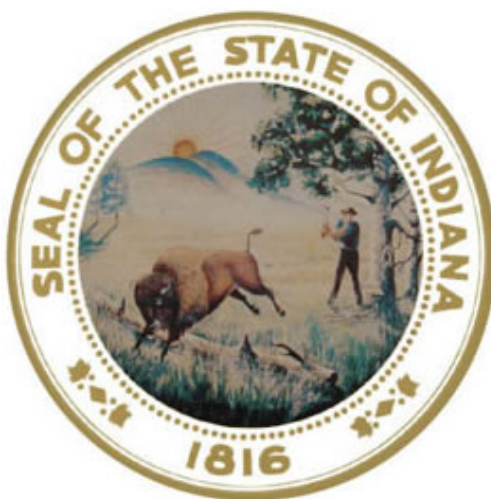


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT
OF

HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION
HUNTINGTON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
09/17/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Edette L. Eckert	02-21-12 to 12-31-15
Superintendent of Schools	Tracey R. Shafer Kenneth R. Kline (Interim) J. Randell Harris	07-01-12 to 12-31-14 01-01-15 to 07-31-15 08-01-15 to 06-30-16
President of the School Board	Kevin E. Patrick Scott R. Hoffman	01-01-12 to 12-31-14 01-01-15 to 12-31-15



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TO: THE OFFICIALS OF THE HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION, HUNTINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the Huntington County Community 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

July 27, 2015

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Lack of Segregation of Duties:** The School Corporation has not separated incompatible activities related to bank reconciliations and recording receipts. Monthly bank reconciliations are completed by the Treasurer. However, there is no review or approval of the final bank reconciliation by another person or other compensating control. Receipts at the School Corporation level are managed entirely by the Treasurer. The Treasurer creates the receipt then prepares and makes the bank deposit. There is no additional comparison of the receipts and deposit by another person or other compensating control. 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)

FINDING 2014-002 - 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 were not detected.

During the audit of the SEFA, we noted the following errors: numerous federal grants were omitted, state grants were included in error and other additional grants were presented with incorrect amounts. Audit adjustments totaling \$1,558,133 and \$1,753,338 for fiscal years ending June 30, 2013, and June 30, 2014, respectively, were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.
- (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."

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - INTERNAL CONTROL OVER TITLE I, PART A CLUSTER

Federal Agency: Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; ARRA - Title I Grants to Local Educational Agencies, Recovery Act

CFDA Numbers: 84.010; 84.389

Federal Award Number and Year (or Other Identifying Number): 12-3625; 13-3625; 14-3625; 2012-14

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 that have a direct and material effect to the programs. This includes the compliance requirements for Allowable Costs/Cost Principles, Cash Management, Period of Availability, Maintenance of Effort, Reporting, and Special Tests and Provisions (Schoolwide Programs, Comparability, Highly Qualified Teachers, Annual Report Card/High School Graduation Rate).

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 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.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-004 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; ARRA - Title I Grants to Local Educational Agencies, Recovery Act

CFDA Numbers: 84.010; 84.389

Federal Award Number and Year (or Other Identifying Number): 12-3625; 13-3625; 14-3625; 2012-14

Pass-Through Entity: Indiana Department of Education

Semiannual certification activity reports were not completed timely. One semiannual certification activity report for the period of August 2013 through December of 2014 and another semiannual certification activity report for the period of January 2014 through June 2014 were completed in May of 2015.

OMB Circular A-87, Attachment B, paragraph 8.h. in part states:

- "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- (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. . . . 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, . . ."

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 ensure that all required semiannual certification reports are submitted on a timely basis in accordance with the Allowable Costs/Cost Principles requirements.

CORRECTIVE ACTION PLAN

FINDING 2014 - 001 - FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Jon Bennett, Edette Eckert

Contact Phone Number: 260-356-8312

Description of Corrective Action Plan: The Assistant Superintendent for Business is currently reviewing bank reconciliation records and signing off on their accuracy. The district financial software is also set up so that if the financial statements reconcile, no approval is needed. If any adjustments are necessary, the Assistant Superintendent for Business is required to approve the adjustment in New World Systems.

Anticipated Completion Date: Immediately

FINDING 2014 - 002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Jon Bennett

Contact Phone Number: 260-356-8312

Description of Corrective Action Plan: The Assistant Superintendent for Business will review the schedule of expenditures of federal awards. If it is a reimbursement grant, the review will be based on receipts, not expenditures.

Anticipated Completion Date: July 2016

FINDING 2014-003 - INTERNAL CONTROL OVER TITLE I, PART A CLUSTER

Contact Person Responsible for Corrective Action: Trace Hinsely, Chuck Grable

Contact Phone Number: 260-356-8312

Description of Corrective Action Plan: The Director of Special Programs will submit grant files to the Assistant Superintendent for Instruction to review grant agreements to check for compliance with all grant requirements.

Anticipated Completion Date: August 2015



<i>Interim Superintendent</i>	Kenneth R. Kline
<i>Assistant Superintendent for Business/Classified Staff</i>	Jon O. Bennett
<i>Assistant Superintendent for Instruction</i>	Charles R. Grable

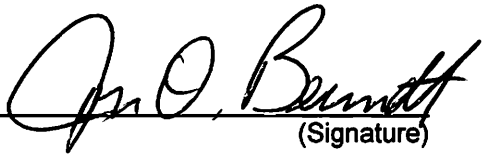
FINDING 2014-004 - ALLOWABLE COSTS/COST PRINCIPLES

Contact Person Responsible for Corrective Action: Trace Hinsely

Contact Phone Number: 260-356-8312

Description of Corrective Action Plan: The Title I Director will file semi-annual certification reports every six months (January-June and July – December). Employees working on multiple cost objectives will complete time and effort logs monthly coinciding with at least one pay period.

Anticipated Completion Date: December 2015


(Signature)

Assistant Superintendent for Business
(Title)

July 24, 2015
(Date)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PUBLIC MEETING PRIOR TO SIGNING SUPERINTENDENT CONTRACT

Huntington County Community School Corporation did not hold a public meeting seven or more days prior to signing the Superintendent of Schools contract on December 2, 2013, for the term July 1, 2013 to June 30, 2015.

Indiana Code 20-26-5-4.3 states in part:

"(a) At least seven (7) days before a contract for employment is entered into by a governing body and a school superintendent, the governing body shall hold a public meeting on the proposed contract at which public comment is heard. The governing body is not required to disclose the identity of the candidate for superintendent at the public meeting.

(b) Notice of the meeting on the proposed contract shall be given in accordance with IC 5-3-1 and posted on the school corporation's Internet web site.

(c) The notice provided in subsection (b) must:

- (1) state that on a given day, time, and place the governing body will meet to discuss and hear objections to and support for the proposed contract; and
- (2) set forth the details of the proposed contract, including the actual monetary value of the contract, benefits, and any additional forms of compensation for each year of the contract. . . ."

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures reported to the Department of Education (DOE) were incorrect for the school years ending June 30, 2013 and 2014.

The difference between the count reported to the DOE and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported to DOE</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2012-2013	Kindergarten 1 through 12	5,366.39	5,365.39	1

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)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

COLLECTIVE BARGAINING AGREEMENT POSTING DATE

The School Corporation did not post the collective bargaining agreement on the School Corporation's website in a timely manner. The agreement was signed on September 23, 2014, and was posted to the website on November 13, 2014.

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."

COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement, executed on September 23, 2014, for the term July 1, 2014 to June 30, 2015, contained the following items prohibited by Indiana Code 20-29-6-4.5(b):

1. Article V entitled "Leave of Absence," sections 8, 13, and 14 discuss "hours" and sections 15 and 16 discuss "Unpaid Leave."
2. Article VII entitled "Compensation and Expenses," sections 5 and 6 discuss "reimbursements" that do not function as compensation.
3. Appendix A, section 1 discusses "evaluations."

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. . . ."

Indiana Code 20-29-6-4 states:

"(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."

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

PREPAID FOOD CLEARING 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.

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 the 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, Page 3, September 2008)

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit report included the following funds with overdrawn cash balances at June 30, 2013 and 2014:

Fund	Amount Overdrawn 06-30-13	Amount Overdrawn 06-30-14
Debt Service	\$ -	\$ 24,867
Retirement/Severance Bond Debt Service	-	41,190
Educational License Plates	32,603	-
True Life Choices	277	277
AED Rebate	1,086	3,794
Phil Rich Scholarship Fund	7	7

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)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on July 27, 2015, with Kenneth R. Kline, Interim Superintendent of Schools; Jon O. Bennett, Assistant Superintendent for Business; Edette L. Eckert, Treasurer; and Scott R. Hoffman, President of the School Board.