

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CONCORD COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
09/24/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Constance J. Crum	07-01-12 to 12-31-15
Superintendent of Schools	Wayne R. Stubbs	07-01-12 to 06-30-15
President of the School Board	Randall Myers	07-01-12 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CONCORD COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Concord Community Schools (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

June 15, 2015

CONCORD COMMUNITY SCHOOLS
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. We believe the following deficiencies constitute material weaknesses:

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 receipts and payroll disbursements. One person is solely responsible for all aspects of the receipt process of the Self Insurance fund and entering pay rates into the payroll software system. 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:** Control activities should be monitored at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. An evaluation of the School Corporation's system of internal control has not been conducted related to their financial software program. The program includes a control to ensure that the date a transaction is posted agrees to the date the transaction is written. This control has not been enabled and allows an authorized user to back-date receipts and disbursements. 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 require the School Corporation to monitor and assess the quality of the system of internal control.
3. **Payroll Disbursement Process:** Internal controls over the payroll disbursement process were insufficient. Biweekly payroll disbursements are prepared without a payroll voucher or payroll docket. There is no evidence of an oversight, review, or approval process.

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 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 Treasurer prepares the SEFA without an oversight, review, or approval process or another compensating control to ensure its accuracy. 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.

CONCORD COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Immaterial 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)

FINDING 2014-003 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Education

Federal Programs: Title I Grants to Local Educational Agencies; ARRA - Title I Grants to Local Educational Agencies, Recovery Act; Special Education Grants to States; Education Jobs Fund

CFDA Number: 84.010; 84.389; 84.027; 84.410

Federal Award Number and Year (or Other Identifying Number): 12-2270; 13-2270; 14-2270; 10-2270; 14212-016-PN01; 14213-016-PN01; 14214-016-PN01; 99910-TA01; FY 2012-13

Pass-Through Entities: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, such as an oversight or approval process, related to the grant agreements and the Cash Management and Reporting compliance requirements that have a direct and material effect on the programs.

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

The School Corporation has not designed or implemented adequate policies or procedures to ensure that requests for reimbursement or required reports were accurately prepared. One person was responsible for preparing and submitting the requests and reports. There was no evidence of segregation of duties, such as an oversight or approval process, or another compensating control.

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.

CONCORD COMMUNITY SCHOOLS
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 agreements and compliance requirements noted above.

FINDING 2014-004 - ALLOWABLE COSTS

Federal Agency: Department of Education
Federal Program: Special Education - Grants to States
CFDA Number: 84.027
Federal Award Number and Year: 14213-016-PN01; 14214-016-PN01
Pass-Through Entity: Indiana Department of Education

The School Corporation has not designed or implemented adequate policies and procedures to ensure that allowable costs, outside of those that were payroll related, were accurately supported by proper documentation. An individual was employed to provide private schools with services related to the Special Education program. There was no oversight or approval of the hours the individual worked at the different schools. The pay rate was also never approved by the School Board.

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.

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 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.

CONCORD COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-005 - ALLOWABLE COSTS

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): 14-2270
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Allowable Costs compliance requirements of the program. 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. The School Corporation did not establish adequate controls to ensure that all costs involving Title I funds were allowable per the grant agreement and compliance requirements.

In a letter dated April 17, 2015, an internal audit conducted by the Indiana Department of Education (IDOE) on the 2013-2014 and 2014-2015 Title I, Part A grant awards. The IDOE found certain staff positions the School Corporation listed as "Administrative Assistants" in the grant application were working as full-time assistant principals. The School Corporation then applied Title I funds to the salaries of those assistant principals. A similarly situated assistant principal working in a Non-Title I school was paid exclusively with state and local funding. School Corporation administrators cannot be funded directly with Title I funding unless a school can demonstrate that the administrator will perform specific Title I duties outside their normal duties and contracted hours. The IDOE required the School Corporation to return \$197,145.54 to the IDOE for the 2013-2014 grant award and \$112,990.15 to the School Corporation's Title I Funds for the 2014-2015 grant award.

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.

OMB Circular A-87, Attachment A, section C, paragraph 1 states in part:

"Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. . . .
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit."

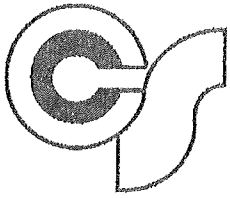
OMB Circular A-133, Subpart C, section .300 states in part:

"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."

CONCORD COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls has enabled material noncompliance to go undetected. Non-compliance 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 to ensure compliance and comply with the Allowable Costs related to the grant agreement and compliance requirements of the program.



Concord Community Schools

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CORRECTIVE ACTION PLAN

FINDING 2014-001 Internal Controls Over Financial Transactions and Reporting

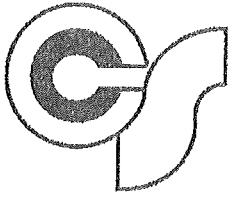
An internal monitoring system shall be established whereby more than one employee oversees payroll, expenditure, and receipt functions. Employees not directly responsible for these functions shall regularly review these areas. A payroll report/voucher shall be submitted to the Board of School Trustees regularly.

Effective Date: July 1, 2015

Constance J. Crum
(Signature)

Treasurer
(Title)

6-15-15
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2014-002 Internal Controls Over The Schedule of Expenditures of Federal Awards

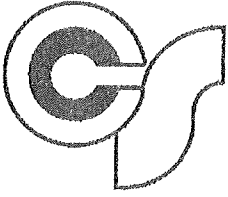
The Schedule of Expenditures of Federal Awards will be reviewed by a second individual after it has been prepared and before it is submitted.

Effective Date: July 1, 2015

Constance J. Crum
(Signature)

Treasurer
(Title)

6-15-15
(Date)



Concord Community Schools

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CORRECTIVE ACTION PLAN

FINDING 2014-003 Cash Management and Reporting
CFDA#: 84.010, 84.389, 84.027, 84.410

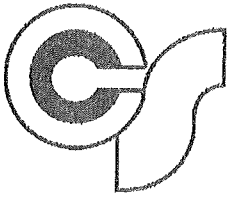
The school corporation currently has oversight procedures in place. The Treasurer prepares requests and reports and either the Business Manager or the Grant Director reviews before the reports are submitted.

Effective Date: Currently in Effect

Constance J. Crum
(Signature)

Treasurer
(Title)

6-15-15
(Date)



Concord Community Schools

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CORRECTIVE ACTION PLAN

FINDING 2014-004 Allowable Costs
Special Education Grants to States, CFDA#84.027

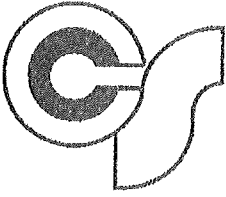
A contract shall be completed and approved by the school board for contracted work related to the federal special education grant and servicing of private schools. The contracted worker shall keep adequate records of work performed.

Effective Date: July 1, 2015

Constance J. Crum
(Signature)

Treasurer
(Title)

6-15-15
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2014-005 Allowable Costs

Title I grants to Local Educational Agencies, CFDA# 84.010

The expenditures in question were approved by the Indiana Department of Education on our original application. The Indiana Department of Education notified Concord Community Schools in the middle of the grant year that they were now disallowing these costs. Concord Community Schools returned the funds. We do not believe that an "internal control system" relates to this finding. This issue is resolved.

Effective Date: N/A

Constance J. Curn
(Signature)

Treasurer
(Title)

6-15-15
(Date)

CONCORD COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement as presented in the Financial Statement and Federal Single Audit Report showed the Print Center fund with an overdrawn cash balance of \$2,267 at June 30, 2014.

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 DIPLOMAS - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates honors diplomas awarded reported to the state was incorrect for the school year ending June 30, 2014. The number of students receiving honors diplomas for the school year 2013-2014 was 109, but the School Corporation reported 108.

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)

PREPAID SCHOOL LUNCH ACCOUNTS

Receipts from students who prepay for food are receipted directly into the School Lunch fund. A separate clearing account for the prepaid food accounting 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)

CONCORD COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

ADVANCE PAYMENTS

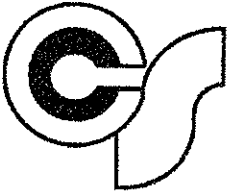
Salaried administrative personnel receive their annual salary in 26 equal installments. For 2012, 2013, and 2014, the final payment on the contract was made on December 21, 2012, December 20, 2013, and December 19, 2014, for services to be rendered through December 31, 2012, 2013, and 2014, respectively.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ECA EDUCATIONAL FEES

The School Corporation charged various educational fees. The School Corporation did not provide explanation for the amounts being charged and did not obtain a written opinion from the School Corporation's attorney to verify that fees were appropriate in regards to Constitutional provisions.

Indiana Code 20-26-4-1 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)



Concord Community Schools

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State Board of Accounts
302 Washington St., Room E418
Indianapolis, IN 46204-2765

Re: Response to Audit Results and Comments

Dear Sir or Madam:

Concord Community Schools wishes to have the following responses included in our 2012-2014 audit:

1. Overdrawn Cash Balances
 - a. Concord Community Schools had one fund overdrawn as of June 30, 2014. This fund is an internal fund to track our Print Center balance. There was an open account receivable for the amount this fund was overdrawn. There are no "routinely overdrawn funds" and this blanket statement should not be included in our audit.
2. Prepaid School Lunch Accounts
 - a. As of July 1, 2015, a separate clearing account will be established to track and balance the pre-paid activity.
3. Advance Payments
 - a. In 2015, pay dates will be moved back.
4. ECA Educational Fees
 - a. All fees have been removed from the elementary textbook rental costs.

Sincerely,

Constance J Crum
Treasurer

Wayne Stubbs
Superintendent

CONCORD COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2015, with Constance J. Crum, Treasurer; Wayne R. Stubbs, Superintendent of Schools; and Randall Myers, President of the School Board.