

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

COWAN COMMUNITY SCHOOL CORPORATION

DELAWARE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
10/01/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Janet L. McIntosh	07-01-12 to 06-30-16
Superintendent of Schools	Dennis G. Chambers	07-01-12 to 06-30-16
President of the School Board	Michael Downham Alan Wright Michael VanHorn Michael Downham	07-01-11 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



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TO: THE OFFICIALS OF THE COWAN COMMUNITY SCHOOL
CORPORATION, DELAWARE COUNTY, INDIANA

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

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

August 12, 2015

COWAN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - SEGREGATION OF DUTIES AND PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to receipting. The Treasurer is completing all areas related to receipting of corporation funds. There is no control in place to ensure all funds are properly receipted. 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. Preparation of the SEFA: 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 prepared the SEFA; however, there was no monitoring, review, or approval process before this schedule was submitted to verify 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.

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 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, AND REPORTING

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program, School Breakfast Program

CFDA Number: 10.555, 10.553

Federal Award Number and Year (or Other Identifying Number): 1900 for FY12-13 and FY13-14

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 Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting. The failure to establish an effective internal control system places the school 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.

COWAN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Internal controls over payroll were not adequate. The Treasurer is the sole person who handles all functions of payroll. There is no control over the payroll to determine if the individuals paid from the Child Nutrition programs are allowable. With no review of or other control over the individual payroll postings, unallowable payroll costs could be posted as an expense and go undetected.

Reporting

There is no control over the Annual Report to ensure its accuracy. The Deputy Treasurer is the sole person who prepares and submits the annual financial report to the Indiana Department of Education.

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.

FINDING 2014-003 - CASH MANAGEMENT

Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program, School Breakfast Program
CFDA Number: 10.555, 10.553
Federal Award Number and Year (or Other Identifying Number): 1900 for 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 related to the grant agreement and the Cash Management compliance requirements that have a direct and material effect on the programs. There were no procedures established to ensure that the School Lunch fund cash balances were maintained in compliance with the Cash Management requirements. The failure to establish an effective internal control system allowed noncompliance with the requirements.

COWAN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation Food Service Department maintains a cash balance in excess of federal regulations. The average 3 month expenditures of the School Corporation for the School Lunch program for fiscal years 2013 and 2014 were \$109,426 and \$130,812, respectively. The month-end cash balances for the 24-month audit period ranged from \$208,768 to \$271,804. This compliance requirement was not monitored by the School Lunch Director or by any other employee of the School Corporation.

7 CFR Section 210.14(a) states in part: "School food authorities shall maintain a nonprofit school food service. . . ."

7 CFR Section 210.14(b) states:

"Net cash resources. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR Section 210.2 defines net cash resources as:

"Net cash resources means all monies, as determined in accordance with the State agency's established accounting system, that are available to or have accrued to a school food authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities."

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 cash balance maintained by the School Corporation resulted in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resource. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal funding.

We recommended that School Corporation officials implement procedures that would limit net cash resources to 3 months' average expenditures and to establish internal controls to ensure that its school food service program is operated as a nonprofit service.

FINDING 2014-004 - PROGRAM INCOME

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program

CFDA Number: 10.555

Federal Award Number and Year (or Other Identifying Number): 1900 for FY 12-13 and FY 13-14

Pass-Through Entity: Indiana Department of Education

COWAN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Program Income compliance requirements that have a direct and material effect on the programs. The procedures established to ensure that the School Lunch fund program income was properly determined and posted were not adequate to allow the School Corporation to be in compliance with the Program Income requirements. The failure to establish an effective internal control system allowed noncompliance with the requirements.

The School Corporation Food Service Department did not properly assess income received in the School Lunch program. For the first 4 days of the 2012-2013 school year students were charged at the 2011-2012 lunch price. Also, at the High School, students who were over their credited limit still received school lunches, but were not properly assessed for these lunches. The School Corporation did not properly record program income. Cash was withheld from daily collections to pay student workers in the cafeteria.

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.

7 CFR 3016.25(a) states:

"General. Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them. "

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."

Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommend that the School Corporation's management establish controls, including segregation of duties, related to their grant agreements and compliance requirements as listed above.

COWAN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-005 - INTERNAL CONTROL OVER ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES, AND PERIOD OF AVAILABILITY

Federal Agency: Department of Education

Federal Program: Special Education Grants to States

CFDA Number: 84.027

Federal Award Number and Year (or Other Identifying Number): 14211-010-PN01, 14213-010-PN01,
14214-010-PN01

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, and Period of Availability. 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

Internal controls over payroll were not adequate. The Treasurer is the sole person who handles all functions of payroll. There is no control over the payroll to determine if the individuals paid from the grant are allowable. With no review of or other control over the individual payroll postings, unallowable payroll costs could be posted as an expense and go undetected.

Period of Availability

There were no controls in place during the audit period to ensure that grant funds were not being spent after the period of availability had passed.

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 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.



Cowan Community School Corporation

Dennis G. Chambers - Superintendent

August 11, 2015

CORRECTIVE ACTION PLAN:

FINDING 2014-001 SEGREGATION OF DUTIES AND PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. **Lack of Segregation of Duties:** The corporation treasurer and deputy treasurer take turns going to the bank two to three days each week. Receipts and deposit tickets will be signed and dated by the treasurer/deputy treasurer when they take the deposits to the bank and also printed the receipt and put together the deposit ticket for that day.
2. **Preparation of the SEFA:** The treasurer prepares the SEFA report. The SEFA report will be reviewed and submitted to the Superintendent with supporting documentation. The superintendent will also initial the report to indicate that he has reviewed the report and that now it is ready for submission.

FINDING 2014-002 ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES AND REPORTING

1. **Internal Control for Payroll:** The treasurer prepares the payroll. Time cards have been marked to indicate the federal fund that is to be used for the payroll expense. The deputy treasurer puts the hours on the computer for these time cards and puts them into the appropriate federal fund. The superintendent will also look over and initial the distribution report of each payroll to indicate employees have been paid from the appropriate federal funds.
2. **Reporting Compliance for Annual Report:** The deputy treasurer prepares and submits the annual report for school lunch. This report, along with supporting documentation, will be reviewed and signed by the corporation treasurer before submitting this report.



Cowan Community School Corporation

Dennis G. Chambers - Superintendent

FINDING 2014-003 CASH MANAGEMENT

1. **Excessive Cash Balance for School Lunch:** In order to maintain the compliance of the cash balance for school lunch, the following options paid by school lunch will be used: pay for ½ of the trash removal invoice each month, two hours per day will be added to hours for cafeteria employees to clean and prepare the cafeteria for meals the next day, indirect cost rates may be applied, money may be contributed to ECA Student Activities and money will be used for future updates to equipment and for future repairs. The deputy treasurer, cafeteria managers and superintendent will monitor the cash balance each month in order to keep the cash balance closer to compliance.

FINDING 2014-004 PROGRAM INCOME

1. **Food Service Department Did Not Assess Income Received Properly:** The deputy treasurer is checking and signing each daily receipt printed from each building's cafeteria computer system to compare the number of meals served against the amount of money charged for each tray. The cafeteria cashier at each building will not allow a student to receive a meal without going through the cafeteria computer system. Student pay will be paid with a vendor check on each voucher listing approved by the School Board.

FINDING 2014-005 INTERNAL CONTROL OVER ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COSTS/COST PRINCIPLES AND PERIOD OF AVAILABILITY

1. **Period of Availability:** On the corporation's computer accounting system, project dates will be put in for each federal fund to indicate the period of time that disbursements could be made from this particular fund. Also, the superintendent will receive a payroll distribution report for each payroll to review and sign that each employees' payroll posting is coming from the appropriate federal fund.

COWAN COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

RECONCILEMENT OF THE PREPAID FOOD ACCOUNT

The School Corporation maintains a Prepaid Lunch fund. The subsidiary records, which maintain a balance by student, were not reconciled to the cash balance of the Prepaid Lunch fund at the end of each month. As a result, errors went undetected leaving a difference of \$3,538 between the subsidiary records and the Prepaid Lunch fund at June 30, 2014.

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 Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (The School Administrator, September 2008)

CURRICULAR MATERIALS RENTAL CHARGES

We were unable to determine if the curricular materials rental charges were figured correctly as purchase date and purchase cost of textbooks was not retained for audit for all books used during the audit period.

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

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

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

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

COWAN COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on August 12, 2015, with Janet L. McIntosh, Treasurer; Dennis G. Chambers, Superintendent of Schools; and Michael Downham, President of the School Board.