

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

EASTERN GREENE SCHOOLS

GREENE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
11/20/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Marilyn Burch	07-01-12 to 06-30-16
Superintendent of Schools	Thomas T. Mungle Arthur T. (Ted) Baechtold, Jr. (Acting) Jerrill Vandeventer (Interim) Arthur T. (Ted) Baechtold, Jr.	07-01-12 to 09-16-13 09-17-13 to 01-12-14 01-13-14 to 03-09-14 03-10-14 to 06-30-17
President of the School Board	Donald James Michael Adams	01-01-12 to 12-31-12 01-01-13 to 12-31-15



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TO: THE OFFICIALS OF THE EASTERN GREENE SCHOOLS, GREENE COUNTY, INDIANA

This report is supplemental to our audit report of the Eastern Greene 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

September 16, 2015

EASTERN GREENE SCHOOLS
FEDERAL FINDINGS

**FINDING 2014-001 - INTERNAL CONTROL OVER THE 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 could remain undetected.

During the audit of the SEFA, we noted the following errors: the Child Nutrition Cluster programs, the School Breakfast Program and the National School Lunch Program, were omitted from the SEFA for fiscal years 2013 and 2014; the other grants had expenditure activity instead of the reimbursed receipt activity. 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)

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.

EASTERN GREENE SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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."

FINDING 2014-002 - CASH MANAGEMENT

Federal Agency: U.S. 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: 2012-2013 and 2013-2014
Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the Cash Management compliance requirements that have a direct and material effect to the programs. 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 programs.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the School Lunch fund monthly cash balances were maintained in compliance with the Cash Management requirements. An oversight or review process has not been established to ensure accurate Cash Management requirements are in place.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with 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 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 requirements listed above.

EASTERN GREENE SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - REPORTING

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program and National School Lunch Program
CFDA Number: 10.553 and 10.555
Federal Award Number and Years: 2012-2013 and 2013-2014
Pass-Through Entity: Indiana Department of Education

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 agreement and the 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 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.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that requests for reimbursement, annual financial report, or required reports were accurately prepared. The monthly reimbursement report is prepared by the Food Service Director (an employee of Chartwells, the food service company) and submitted electronically to the Indiana Department of Education's website. There was no evidence of segregation of duties, such as an oversight or approval process.

The National School Lunch Program Annual Financial Report is prepared by the Food Service Director (an employee of Chartwells, the food service company) and submitted electronically to the Indiana Department of Education's website. There was no evidence of segregation of duties, such as an oversight or approval process. This report did not agree to the financial ledgers maintained by the School Corporation.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with 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."

7 CFR 3016.20(b)(1) and (2) states:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

EASTERN GREENE SCHOOLS
FEDERAL FINDINGS
(Continued)

- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

The failure to establish internal controls has enable noncompliance to go undetected. Noncompliance of 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 and to comply with the Reporting compliance requirements.

FINDING 2014-004 - SPECIAL TESTS AND PROVISIONS - PAID LUNCH EQUITY

Federal Agency: U.S. 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: 2012-2013 and 2013-2014
Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirements that have a direct and material effect to the programs. 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 programs.

Management of the School Corporation was not aware of the Paid Lunch Equity requirement for the School Lunch Program. The School Corporation had not calculated and retained the calculation for paid lunch equity for each fiscal year in the audit period. The prices charged did not meet the approved federal rate. The School Corporation had no procedures in place to increase the paid lunch equity, either by increase paid lunch prices or providing additional nonfederal funds to the school food account, or a combination of the two. The School Corporation had provided nonfederal funds to the school food account to eliminate a negative fund balance.

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."

7 CFR 210.14(e) states in part:

"*Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

- (1) *Calculation procedures.* Each school food authority shall:

EASTERN GREENE SCHOOLS
FEDERAL FINDINGS
(Continued)

- (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.
 - (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (*i.e.*, the reimbursement difference);
 - (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section . . .
- (3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:
- (i) 2 percent; and
 - (ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the FEDERAL REGISTER announcing the national average payment rates, from the prior year.
- (4) *Price Adjustments.*
- (i) *Maximum required price increase.* The maximum annual average price increase required under this paragraph shall not exceed ten cents.
 - (ii) *Rounding of paid lunch prices.* Any school food authority may round the adjusted price of the paid lunches down to the nearest five cents.
 - (iii) *Optional price increases.* A school food authority may increase the average price by more than ten cents . . .
- (6) *Additional considerations.*
- (i) In any given year, if a school food authority with an average price lower than the reimbursement difference is not required by paragraph (e)(4)(ii) of this section to increase its average price for paid lunches, the school food authority shall use the unrounded average price as the basis for calculations to meet paragraph (e)(3) of this section for the next school year."

EASTERN GREENE SCHOOLS
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls has enable noncompliance to go undetected. Noncompliance of 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 and comply with Paid Lunch Equity compliance requirements listed above.

Eastern Greene Schools Central Office

1471 N. State Road 43 Bloomfield, IN 47424

Mr. Ted Baechtold, Superintendent

Mrs. Marilyn Burch, Corporation Treasurer

Mrs. Barb Cave, Payroll Administrative Assistant

Mrs. Cathy Sutherlin, H.R./Administrative Assistant

Main Office Phone (812) 825-5722 Fax (812)825-9413



Corrective Action Plan

July 6, 2015

Finding 2014-001

Contact Person Responsible for Corrective Action: Ted Baechtold / Marilyn Burch

Contact Phone Number: 812-825-5722

Description of Corrective Action Plan:

The corporation treasurer has received clarifying instructions on how to more accurately complete the SEFA Report. As suggested during the audit, corrections were recommended, accepted, and made on the 2013/2014 Gateway Report, so that report is now accurate and complete. The SEFA Report should be prepared more accurately in the future.

Anticipated Completion Date: Effectively immediately, July 6, 2015

Arthur T. (Ted) Baechtold, Jr

Superintendent

July 6, 2015

Marilyn Burch

Corporation Treasurer

July 6, 2015

Eastern Greene Schools Central Office

1471 N. State Road 43 Bloomfield, IN 47424

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Corrective Action Plan

July 6, 2015

Finding 2014-002

Contact Person Responsible for Corrective Action: Ted Baechtold / Marilyn Burch

Contact Phone Number: 812-825-5722

Description of Corrective Action Plan:

The corporation treasurer has received clarifying instructions on how to resolve this concern. As suggested during the audit, we will run Fund #800 monthly and compare this report to the cafeteria's Nutri-Kids Report. These reports will be compared, initialed, and filed for audit.

Anticipated Completion Date: Effectively immediately, July 6, 2015

Arthur T. (Ted) Baechtold, Jr
Superintendent
July 6, 2015

Marilyn Burch
Corporation Treasurer
July 6, 2015

Eastern Greene Schools Central Office

1471 N. State Road 43 Bloomfield, IN 47424

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Corrective Action Plan

July 6, 2015

Finding 2014-003

Contact Person Responsible for Corrective Action: Ted Baechtold / Marilyn Burch

Contact Phone Number: 812-825-5722

Description of Corrective Action Plan:

The corporation treasurer will review and initial requests for reimbursement prior to Chartwells submitting the reports to resolve this concern. Additionally, we will review and initial the annual financial report and supply account balances to Chartwells from our corporation Form 9. These actions should provide oversight and accurate fund records that will be kept on file for audit.

Anticipated Completion Date: Effectively immediately, July 6, 2015

A handwritten signature in black ink, appearing to read "Arthur T. Baechtold, Jr.", written over a horizontal line.

Arthur T. (Ted) Baechtold, Jr
Superintendent
July 6, 2015

A handwritten signature in black ink, appearing to read "Marilyn Burch", written over a horizontal line.

Marilyn Burch
Corporation Treasurer
July 6, 2015

Eastern Greene Schools Central Office

1471 N. State Road 43 Bloomfield, IN 47424

Mr. Ted Baechtold, Superintendent

Mrs. Marilyn Burch, Corporation Treasurer

Mrs. Barb Cave, Payroll Administrative Assistant

Mrs. Cathy Sutherlin, H.R./Administrative Assistant

Main Office Phone (812) 825-5722 Fax (812)825-9413



Corrective Action Plan

July 6, 2015

Finding 2014-004

Contact Person Responsible for Corrective Action: Ted Baechtold / Marilyn Burch

Contact Phone Number: 812-825-5722

Description of Corrective Action Plan:

The corporation will use the Paid Lunch Equity Calculator to arrive at school meal costs/prices. We will also seek Board approval to supplement the cafeteria fund with non-federal funds to cover any shortages. We will look to establish a Board policy to address this issue.

Anticipated Completion Date: Effectively immediately, July 6, 2015

Arthur T. (Ted) Baechtold, Jr
Superintendent
July 6, 2015

Marilyn Burch
Corporation Treasurer
July 6, 2015

EASTERN GREENE SCHOOLS
AUDIT RESULTS AND COMMENTS

CONTRACTS

Payments were made to teachers for 2012-2013 and 2013-2014 per their approved contract. A contract was written for these services and was signed by the teacher but was not signed by the School Board or Superintendent of Schools. A collective bargaining agreement was signed by the School Board.

Indiana Coe 20-28-6-2(a) states in part:

"A contract entered into by a teacher and a school corporation must:

1. be in writing;
2. be signed by both parties; and . . ."

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

School Officials did not present sufficient detailed student records for the 2012-2013 school year to support the Average Daily Membership claimed by the School Corporation. We were unable to determine if the number of students claimed was accurate.

During the audit period, Indiana Code 5-15-6-3(f) stated in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF CERTIFICATION

The designated building level personnel did not provide written certification for the 2012-2013 school year, that the detailed student records maintained to support the Average Daily Membership claimed was accurate.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

EASTERN GREENE SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on July 8, 2015, and September 16, 2015, with Arthur T. (Ted) Baechtold, Jr., Superintendent of Schools; Marilyn Burch, Treasurer; and Donald L. Roberts, Secretary of the School Board.