

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BROWN COUNTY SCHOOLS

BROWN COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
01/28/2016

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|------------------------------------|--|
| Treasurer | Carol S. Owens | 07-01-12 to 06-30-16 |
| Superintendent of Schools | David Shaffer | 07-01-12 to 06-30-16 |
| President of the School Board | Judy Hardwick Carolyn V. Bowden | 01-01-12 to 12-31-12 01-01-13 to 12-31-15 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE BROWN COUNTY SCHOOLS, BROWN COUNTY, INDIANA

This report is supplemental to our audit report of the Brown County 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

November 19, 2015

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS

FINDING 2014-001 - 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). Information for the SEFA was not reviewed for accuracy to see that all grants were included. 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 May school lunch reimbursement was omitted; transfer of loans to correct negative balances were improperly included in disbursement totals; correction of a deposit in wrong funds was not reflected in SEFA; Education Jobs Fund grant and Blocks Grants for Prevention and Treatment of Substance Abuse were omitted. 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.

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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."

FINDING 2014-002 - FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies 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 cash. The Treasurer prepares the bank reconciliation. The reconciliation is not reviewed by another individual after it has been completed. 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. Self-Insurance Funds: The Financial Statement did not contain the financial activity of the Self-Funded Employee Benefits and Employee Flex Funds. This activity was material to the financial statement. Audit adjustments were proposed, accepted by the School Corporation and made to the financial statement 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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - ALLOWABLE COST/COST PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Program: Special Education_Grants to States and Special Education_Preschool Grants

CFDA Number: 84.027 and 84.173

Federal Award Number and Year (or Other Identifying Number): 2011-2012, 2012-2013 and 2013-2014

Pass-Through Entity: Indiana Department of Education

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles 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 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 semiannual certifications and time and effort records are in compliance with program requirements. The Special Education Director failed to maintain time and effort records on some part-time employees and semiannual certifications on some full-time employees paid from the Special Education grant for the audit period.

OMB circular A 87, Attachment B, item 8(h), states in part:

- "(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 in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

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 enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles. We also recommended that the School Corporation maintain time and effort records and semiannual certifications for all applicable employees.

FINDING 2014-004 - CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Special Education_Grants to States and Special Education_Preschool Grants
CFDA Number: 84.027 and 84.173
Federal Award Number and Year (or Other Identifying Number): 2012-2013
Pass-Through Entity: Indiana Department of Education

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and 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 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 Treasurer generates a report entitled "Financial Report - Appropriation" for each grant award. This report was used to complete the Reimbursement Voucher. The Reimbursement Voucher was submitted to the Indiana Department of Education without being verified or reviewed by another person or another control in place to ensure its accuracy. There is no segregation of duties such as an oversight, review, or approval process.

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.

During our testing, one instance was discovered in which the reimbursement voucher reported grant expenditures before they were paid.

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."

34 CFR 80.21(d) states:

"Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and sub grantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or sub grantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or sub grantee will be based on the grantee's or sub grantee's actual rate of disbursement."

The failure to establish internal controls enabled 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 over Cash Management requirements. We also recommended that expenditures are made prior to the request for reimbursement.

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-005 - MATCHING, LEVEL OF EFFORT, AND EARMARKING

Federal Agency: U.S. Department of Education
Federal Program: Special Education_Grants to States and Special Education_Preschool Grants
CFDA Number: 84.027 and 84.173
Federal Award Number and Year (or Other Identifying Number): 2011-2012, 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 following compliance requirements: Matching, Level of Effort, and Earmarking.

As part of the grant application, the School Corporation is required to provide financial information for the Level of Effort requirement. Information was provided and the School Corporation met the Level of Effort requirement. The School Corporation did not retain supporting documentation for the information entered on the grant application to meet the Level of Effort requirement. Financial data carried from the prior year for the current application did not agree. There was no support provided to document why it did not agree.

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.

34 CFR section 300.203 states:

"(a) *General.* Except as provided in §§ 300.204 and 300.205, funds provided to an LEA under Part B of the Act must not be used to reduce the level of expenditures or the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.

(b) *Standard.*

(1) Except as provided in paragraph (b)(2) of this section, the SEA must determine that an LEA complies with paragraph (a) of this section for purposes of establishing the LEA's eligibility for an award for a fiscal year if the LEA budgets, for the education of children with disabilities, at least the same total or per capita amount from either of the following sources as the LEA spent for that purpose from the same source for the most recent prior year for which information is available:

(i) Local funds only.

(ii) The combination of State and local funds.

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (2) An LEA that relies on paragraph (b)(1)(I) of this section for any fiscal year must ensure that the amount of local funds it budgets for the education of children with disabilities in that year is at least the same, either in total or per capita, as the amount it spent for that purpose in the most recent fiscal year for which information is available and the standard in paragraph (b)(1)(I) of this section was used to establish its compliance with this section.
- (3) The SEA may not consider any expenditures made from funds provided by the Federal Government for which the SEA is required to account to the Federal Government or for which the LEA is required to account to the Federal Government directly or through the SEA in determining an LEA's compliance with the requirement in paragraph (a) of this section."

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 enabled 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 and comply with the grant agreement and compliance requirements listed above.

FINDING 2014-006 - NATIONAL SCHOOL LUNCH PROGRAM AND SCHOOL BREAKFAST PROGRAM ALLOWABLE COST/COST PRINCIPLES

Federal Agency: U.S. Department of Agriculture

Federal Program: National School Lunch Program and School Breakfast Program

CFDA Number: 10.553 and 10.555

Federal Award Number and Year (or Other Identifying Number): 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 Allowable Costs/Cost Principles 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 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 semiannual certifications and time and effort records are in compliance with program requirements. The Food Service Director failed to maintain semiannual certifications and time and effort records on all full and part-time employees paid from the School Lunch Fund for the audit period.

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

OMB circular A 87, Attachment B, item 8(h), states in part:

- "(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 in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

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 enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles. We also recommended that the School Corporation maintain time and effort records and semiannual certifications for all applicable employees.

FINDING 2014-007 - CASH MANAGEMENT, ELIGIBILITY, AND REPORTING

Federal Agency: U.S. Department of Agriculture

Federal Program: National School Lunch Program and School Breakfast Program

CFDA Number: 10.553 and 10.555

Federal Award Number and Year (or Other Identifying Number): 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 Cash Management, Eligibility, and Reporting 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 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.

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cash Management

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the School Lunch funds monthly cash balance was 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.

Eligibility

The Food Service Director performed the review and approval/disapproval of the free and reduced lunch applications using the food service software. The Food Service Director would then note on the back of the application the status of the determination and sign it. There was no evidence presented for audit that the Food Service Director's determination was reviewed for accuracy.

Reporting

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

The National School Lunch Program (NSLP) or annual financial report is prepared by the Food Service Director and submitted electronically to the Indiana Department of Education's website. This report is not verified for accuracy by anyone prior to submission.

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.

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-008 - PROCUREMENT AND SUSPENSION AND DEBARMENT

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 (or Other Identifying Number): 2012-2013 and 2013-2014
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 Procurement and Suspension and Debarment compliance requirements.

The School Corporation is one of nine school corporations that comprise the Southern Indiana Commodity Cooperative (Cooperative). These nine school corporations entered into an intermodal agreement to create cost and administrative savings related to the Child Nutrition Cluster programs. The Cooperative administers the procurement process; however, the individual member school corporations purchase their own food and related supplies. The Franklin Community School's Food Service Director is the coordinator of the Cooperative.

The Cooperative had not designed or implemented adequate policies and procedures to verify compliance with Procurement and Suspension and Debarment requirements related to vendors selected for procured products and covered transactions. Contracts were not prepared for awarded bids. Neither the Cooperative nor the individual school corporations had procedures in place to ensure compliance with Suspension and Debarment regulations before the individual school corporations entered into covered transactions. In addition, the School Corporation also had covered transactions with vendors other than those that were involved in the bidding process with the Cooperative itself. The School Corporation did not verify if those vendors were suspended or debarred.

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."

BROWN COUNTY SCHOOLS
FEDERAL FINDINGS
(Continued)

7 CFR 3016.36(b)(1) states: "Grantees and sub grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

2 CRF 180.300 states:

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

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

You do this by:

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

The failure to establish internal controls enabled 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, and comply with the Procurement and Suspension and Debarment requirements of the programs.



BROWN COUNTY SCHOOLS

"Brown County Schools prepares students to achieve success through quality instruction."

CORRECTIVE ACTION PLAN

Audit Period 7/1/2012-6/30/2014

Finding 2014-001

Carol S. Owens, Treasurer
Brown County Schools
812-988-6601 Ext. 1131
sowens@brownco.k12.in.us

Brown County Schools has reviewed the Schedule of Expenditures of Federal Awards (SEFA) findings related to the audit for the years July 1, 2012 through June 30, 2014 and we offer the following corrective action plan. Please note this was the first time the State and or SBOA required schools to do this online by ourselves with no directions provided. Previously the SBOA prepared this information for the schools.

Federal regulations came down to the State Board of Accounts requiring schools to supply this information in the NEW Gateway online system for the State. Going forward we will comply with all Federal Grant regulations.

- A. All Federal Grants will be included in the SEFA. In order to accomplish this the Treasurer will:
 - a. Review the previous year's SEFA report and SBOA Annual Financial Report for Federal Grants listed
 - b. Review the previous periods Audit Report of Federal Grants
 - c. Prepare a Fund report and histories for the time period of the audit cycle of all federal grant fund numbers.
 - d. Compare all three reports to be sure all Federal Grants are reported.
- B. Each month, before closing the month, the Treasurer will review the Fund Report for accuracy of receipting of Federal Grant reimbursements. She will then compare this to the bi-weekly notification from the State Auditor of ACH deposits.

Anticipated Completion Date: 11/30/2015

Name

Treasurer

Title

October 28, 2015

Date

357 E. Main Street ▪ P.O. Box 38 ▪ Nashville, IN 47448
(P) 812.988.6601 ▪ (F) 812.988.5403

www.brownco.k12.in.us

Administration: Superintendent David Shaffer, Asst. Superintendent Dr. Dennis Goldberg
Treasurer Susie Owens

Board of School Trustees: President Carol Bowden, Vice President
Judy Hardwick, Secretary Stephanie Kritzer Members: Steve Miller, Jr., Tom Jackson



BROWN COUNTY SCHOOLS

"Brown County Schools prepares students to achieve success through quality instruction."

Finding 2014-002

Carol S. Owens, Treasurer
Brown County Schools
812-988-6601 Ext. 1131
sowens@brownco.k12.in.us

Brown County Schools has reviewed the Federal Financial Statement Findings related to the audit for the years July 1, 2012- June 30, 2014 and we offer the following corrective action plan with regard to the Internal Controls over Financial Transactions and Reporting.

- A. Segregation of Duties -The Bank Reconciliation statement will be reviewed monthly by either the Asst. Superintendent or the Superintendent for accuracy. Signatures will be placed on the final reconciliation report for each month, confirming their review for accuracy.
- B. Self-Insurance Funds – Brown County Schools will begin including the Flex Fund and Health Trust Fund revenue, expenses, and ending balances each month in the schools Financial Fund Report. We will do this each month using journal entries. I have contacted our software provider and Dunn and Associates our third party administrator for the Brown County Schools Health Trust Plan and they will adjust their reports to provide the requested information to comply with the SBOA Findings. We will implement on the first of November 2016 first Fund Report.

Anticipated Completion Date: 11/30/2015

Carol S Owens
Name

Treasurer
Title

October 28, 2015
Date

357 E. Main Street ▪ P.O. Box 38 ▪ Nashville, IN 47448
(P) 812.988.6601 ▪ (F) 812.988.5403

www.brownco.k12.in.us

**Administration: Superintendent David Shaffer, Asst. Superintendent Dr. Dennis Goldberg
Treasurer Susie Owens**

**Board of School Trustees: President Carol Bowden, Vice President
Judy Hardwick, Secretary Stephanie Kritzer Members: Steve Miller, Jr., Tom Jackson**



BROWN COUNTY SCHOOLS

"Brown County Schools prepares students to achieve success through quality instruction."

Findings 2014-003

Carol S. Owens, Treasurer
Brown County Schools
812-988-6601 Ext. 1131
sowens@brownco.k12.in.us

Brown County Schools has reviewed the Federal Findings related to the audit for the years July 1, 2012 – June 30, 2014 and we offer the following corrective action plan for the Special Education Preschool Allowable Cost/Cost Principles Finding.

1. The Director of Student Services will be attentive to the Time and Effort requirements for all Federal Grants, and will make certain they are filed appropriately and in an organized file record. Please note, only one was missing out of the eight individuals he must prepare these for.
2. The Time and Effort calculations document will be shared with the Treasurer, for her Federal Grant files as well.
3. The Director of Student Services will present their work to the Treasurer; the Treasurer will either accept or reject the work.

Anticipated Completion Date: 11/30/2015

Carol S. Owens

Name

Treasurer

Title

October 28, 2015

Date

357 E. Main Street ▪ P.O. Box 38 ▪ Nashville, IN 47448
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Findings 2014-004
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Brown County Schools has reviewed the Federal Findings related to the audit for the year July 1, 2012 – June 30, 2014 and we offer the following corrective action plan for the Special Education Preschool Cash Management Finding.

Copies of all Federal Grant reimbursement forms will be given to the Payroll Coordinator as prepared, who writes the receipts for the corporation. Each reimbursement form will list the Fund account number for receipting purposes.

ACH documentation which is emailed to the Treasurer bi-weekly will be reviewed to correspond to the reimbursement form previously submitted. Fund account numbers will be listed on the ACH and shared with Payroll Coordinator. The Payroll Coordinator will then receipt as each Federal reimbursement is received reviewing each ACH to the receipt before posting.

The Treasurer will review all federal fund deposits and expenditures before the end of the month, to verify all receipts and expenditures are posted correctly.

Anticipated Completion Date: 11/30/2015

Carol S. Owens

Name

Treasurer

Title

10/29/2015

Date

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Findings 2014-005

Carol S. Owens, Treasurer
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Brown County Schools has reviewed the Federal Findings related to the audit for the year July 1, 2012 - June 30, 2014 and we offer the following corrective action plan for the Special Education Preschool Matching, Level of Effort and Earmarking Finding.

1. Director of Student Services (DSS) will gather pertinent allocation and fund amount information from Superintendent, Asst. Superintendent, Title I Director, and Treasurer and prepare the Maintenance of Effort document. The documentation will then be electronically saved in a file on his computer, as well as a file folder marked for the proposed upcoming year. Retention of all support documentation for the grant will be kept in the appropriate file. A paper copy will be kept in his file.
2. The DSS will contact the State Agency to determine the next year's allocation and fund amount information for each of the Federal grants.
3. Preparation will begin by the Treasurer on the proposed budget lines for the coming year. DSS will notify the Treasurer which teachers will be in the upcoming grant.
4. Maintenance of Effort documentation will be prepared by the DSS based on the identified information to populate the MOE calculator.
5. The Treasurer will ask the DSS to review the proposed allocations before placing in grant application.
6. The DSS will review the proposal and revise as necessary. After final review and DSS authorization the budget information will be placed in the appropriate Federal grant application for the next year.
7. The DSS will complete the application and submit to State Agency.
8. Reimbursement claims for grants will be prepared by Treasurer and reviewed by either one of the central office Administrators: Director of Student Services; Title I Director; Asst. Superintendent; Director of Technology, and or Superintendent. The Treasurer will submit reimbursement forms to State, after review and/or revisions are made.
9. Copies of Reimbursement forms will be given to Payroll Coordinator (PC) who will keep it in her files, awaiting ACH email from Treasurer.
10. The Treasurer will give the ACH email (marked by Treasurer with appropriate Fund number) to PC who will then review the ACH revenue deposited with the submitted reimbursement forms for accuracy. Being sure to receipt to appropriate account lines.
11. Before closing the end of the month, the Treasurer will review the distributions and reimbursements in each Federal Grant for accuracy.

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Anticipated Completion Date: 11/30/2015

Carol S Rivers

Name

Treasurer

Title

10.29.2015

Date



BROWN COUNTY SCHOOLS

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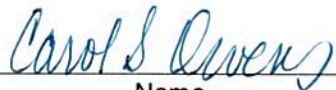
Findings 2014-006

Carol S. Owens, Treasurer
Brown County Schools
812-988-6601 Ext. 1131
sowens@brownco.k12.in.us

Brown County Schools has reviewed the Federal Findings related to the audit for the year July 1, 2012 - June 30, 2014 and we offer the following corrective action plan for the Internal Controls over National School Lunch Program and School Breakfast Program Allowable Cost/Cost Principles

1. Our current Cashflows will be adjusted to ensure we capture the portion of part time custodial staff hourly earnings, and benefits for all food service duties which are paid from the Federal National School Lunch Program and School Breakfast Program. Previously the Cashflows did not break the full time staff and part time staff apart.
2. Each Principal will prepare a Maintenance of Effort document (monthly) which will be a signed statement (Principal and Custodian) who work a portion of their time each day, working in the cafeterias. This must be done twice a year, and sent to Food Service Director for Internal Controls for our part time (food service) custodial staff.
3. The Food Service Director will prepare a Maintenance of Effort document for all Food Service full time staff (semi-annually for full-time) (monthly for part-time) which will be a signed statement (Employee and Director) who works in the cafeterias. This must be done twice a year, and sent to the Treasurer for Internal Controls for all staff.

Anticipated Completion Date: 11/30/2015



Name

Treasurer

Title

October 28, 2015

Date

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BROWN COUNTY SCHOOLS

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Findings 2014-007

Carol S. Owens, Treasurer
Brown County Schools
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sowens@brownco.k12.in.us

Brown County Schools has reviewed the Federal Findings related to the audit for the year July 1, 2012 - June 30, 2014 and we offer the following corrective action plan for the Internal Controls over Cash Management, Eligibility, and Reporting.

1. Cash Management: Cash flows are prepared monthly by the Treasurer, and shared with the Food Service Director and Asst. Superintendent. The Food Service Director reviews these as they come to him. At that time if he has questions he will discuss these with the Treasurer. Afterwards, he will sign off on the cashflows (date and signature) and return them to the Treasurer for her files, keeping a copy for himself. The Asst. Superintendent reviews these too. He might make suggestions to the Food Service director or the Treasurer, depending on the numbers shown for the cash flow.
2. Eligibility: Reviewing of All Free and Reduced Applications will be processed first by the Director of Food Service using MyPaymentsPlus, and then reviewed a second time for accuracy by a second person, either one of the Head Cooks in the Nashville Campus, or someone in the central office. When the document is reviewed the second time, the person reviewing will initial and date the document they reviewed.
3. Reporting: The Director of Food Service will prepare all reimbursements; annual financial report; and required reports to the State or Federal Government. These documents will be reviewed a second time for accuracy by a Head Cook, or someone in the central office before submission electronically. When the document is reviewed the second time the person reviewing will initial and date the document they reviewed.
4. The Corporation Treasurer will monitor these requirements to ensure compliance.

Anticipated Completion Date: 11/30/2015



Name

Treasurer

Title

October 28, 2015

Date

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BROWN COUNTY SCHOOLS

"Brown County Schools prepares students to achieve success through quality instruction."

Findings 2014-008

Carol S. Owens, Treasurer
Brown County Schools
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Brown County Schools has reviewed the Federal Findings related to the audit for the year July 1, 2012 - June 30, 2014 and we offer the following corrective action plan for the National School Lunch Program and School Breakfast program. Brown County Schools will review the procurement, suspension and debarment of all our vendors' services, in collaboration with the Southern Indiana Commodity Cooperative.

A corrective plan will be developed **in conjunction** with the other members of the Southern Indiana Commodity Cooperative, and specifically with Franklin Community School's Food Service Director to deal with the Child Nutrition Cluster Programs policies and processes. Afterwards procedures will be developed and implemented insuring compliance for Brown County Schools Food Service Fund.

Anticipated Completion Date: 11/30/2015

Name

Treasurer

Title

October 28, 2015

Date

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BROWN COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

School Officials did not present sufficient detailed student records to support the Average Daily Membership (ADM) claimed by the School Corporation for the counts taken September 2013 and February 2014. We were unable to determine if the number of students claimed was accurate.

The designated building level personnel did not provide written certification that the summary ADM Report to report the Average Daily Membership claimed was accurate.

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

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)

APPROPRIATIONS

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

| <u>Fund</u> | <u>Years</u> | <u>Excess Amount Expended</u> |
|------------------------|--------------|---------------------------------------|
| Debt Service | 2012 | \$ 351,101 |
| School Bus Replacement | 2012 | 34,025 |
| Capital Projects | 2013 | 92,856 |
| Referendum Tax Levy | 2013 | 7,037 |

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

COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreements, entered into on September 6, 2012, and October 9, 2013, contained the following items prohibited by Indiana Code 20-29-6-4.5(b):

1. Article II entitled "Severability" discusses items in contract that may be contrary to law, then those items shall not be valid, but all other provisions shall continue in full force and effect.

BROWN COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

2. Article XI entitled "Miscellaneous" discusses Board providing legal counsel to teachers in event of assault or assault and battery against teachers in school related incidences and shall promptly render all necessary assistance to the teacher in connection with handling the incident by law enforcement and/or judicial authorities, other than providing the attorney of record.

Indiana Code 20-29-6-4.5(a) states in part:

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

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

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

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

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

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

TEXTBOOK RENTAL FEES

The School Corporation was not able to provide a complete schedule of textbook costs for Brown County High School and Brown County Junior High School. Therefore we were unable to determine whether textbook rental fees were being charged according to Indiana Code 20-26-12-2. Additionally, there were no approvals observed in the School Corporation Board minutes for textbook rental charges for the Junior High and High School textbook rental.

During the audit period, Indiana Code 20-26-12-2 stated in part:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to student enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

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

BROWN COUNTY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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

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



BROWN COUNTY SCHOOLS

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Response to Audit Results

7.1.2012 - 6.30.2014

AVERAGE DAILY MEMBERSHIP (ADM) – Lack of Records

Brown County Schools will provide lists of students enrolled at each school with signed statements from Principals for each required ADM count each year, required by state law. These documents will be kept in a file for proof of enrollment and attendance at Brown County Schools for future verification by State Board of Accounts.

APPROPRIATIONS – Expenditures in Excess of budget appropriations 2012 & 2013

Brown County Schools will review appropriations each month to be sure those appropriations are not over expended by the end of the year. If a fund does look to be going over its appropriation additional authority will be requested from DLGF to amend the appropriation to increase funding only as necessary, but with approval from DLGF.

COLLECTIVE BARGAINING AGREEMENT – Prohibitive information contained in CBA

Brown County Schools will contact the Brown County Educator's Association and their UniServe Director, Sandy Steele notifying them of this Audit Finding. It will be reviewed with them, when negotiations begin for the 2016-2017 Collective Bargaining Agreement in 2016.

TEXTBOOK RENTAL FEES – Brown County High School and Brown County Junior High School

Textbook Rental Fees were not approved by The Board of School Trustees in 2012 & 2013 and thus not listed in Board Minutes. The Brown County School Board approved all school Textbook Rental, Consumables and Fees for the 2015-16 school year and will continue this procedure going forward.

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BROWN COUNTY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2015, with Carol S. Owens, Treasurer; David Shaffer, Superintendent of Schools; Dennis Goldberg; Assistant Superintendent of Schools; and Carolyn V. Bowden, President of the School Board.