

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHERIDAN COMMUNITY SCHOOLS

HAMILTON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
04/21/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robin Popejoy	07-01-12 to 06-30-16
Superintendent of Schools	Dr. Derek Arrowood Dr. David Mundy	07-01-12 to 12-31-13 01-01-14 to 06-30-16
President of the School Board	Alan Lyon Todd Roberts Todd Burtron Jim Hopkins	07-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SHERIDAN COMMUNITY SCHOOLS, HAMILTON COUNTY, INDIANA

This report is supplemental to our audit report of the Sheridan Community Schools (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://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

January 26, 2016

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Financial Statement. Specifically, the following deficiencies were noted and determined to be material weaknesses:

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to cash and investment balances, receipts, disbursements, payroll, and related liabilities. The Director of Business prepares the bank reconciliation, posts and deposits receipts, and posts checks without any oversight, review, or approval process. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. Monitoring of Controls: The School Board has not conducted an evaluation of the School Corporation's system of internal control. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation did not have procedures in place to ensure the compiled information was reviewed prior to submission. 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. Specifically, the following deficiencies were noted and determined cumulatively to result in a material weakness.

During the audit of the SEFA, we noted the following errors:

- The School Breakfast Program (CFDA #10.553) expenditures were included as part of the expenditures of the National School Lunch Program (CFDA #10.555).
- The following grants were omitted from the original schedule: English Language Acquisition State Grants, Improving Teacher Quality State Grants, Education Jobs Fund, and Learn and Serve America\_School and Community Based Programs.

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- Incorrect grant names were listed for the following grants: Title I Grants to Local Educational Agencies and Special Education\_Grants to States.

We believe the errors discussed above constitute a material weakness which was partially caused by a lack of sufficient internal controls over the preparation of the SEFA. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

"The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (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 2014-003 - PROGRAM INCOME AND REPORTING***

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY-2013, FY-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 following compliance requirements: Program Income and Reporting. Specifically, the following deficiencies were noted and determined to be material weaknesses:

Program income is generated from the sales of food service items. The School Lunch Director collects the monies from the Cafeteria Managers and deposits the funds to the Corporation's checking account. There is no oversight of the School Lunch Director's reconciliation of monies charged per the Food Service system to the amounts deposited.

The monthly Sponsor Claim for Reimbursement and Claim for Reimbursement were prepared and submitted without documentation of any oversight of the reports.

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.

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."



SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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.

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# Sheridan Community Schools

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*Home of the Sheridan Blackhawks*

*24795 N Hinesley Road • Sheridan, Indiana 46069 • 317-758-4172*

*Dr. Dave Mundy, Superintendent*

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## **CORRECTIVE ACTION PLAN**

### ***FINDING 2014-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

Sheridan Community Schools will review their process and attempt to institute procedures that would involve, at least on a sample basis, reviews of the duties being performed by the Treasurer, including, but not limited to the preparation of the financial statements. Sheridan Community Schools will also monitor the system of internal control in the future to determine the effectiveness and efficiency of the systems in place.

Sheridan Community Schools is a very small governmental unit and management has determined that the cost associated with employing additional staff necessary to properly segregate the duties would outweigh the benefits of additional internal control structure. The School Corporation acknowledges and assumes the risk inherent with the current design of the School Corporation Treasurer.

### ***FINDING 2014-002 – INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

Sheridan Community Schools will review their process and take the necessary steps to implement adequate internal controls over the preparation of Schedule of Expenditures of Federal Awards. This is to certify the accuracy of reporting these federal awards in the future.

***FINDING 2014-003 - PROGRAM INCOME AND REPORTING***

Federal Agency: U.S. Department of Agriculture

Federal Program: Child Nutrition Cluster

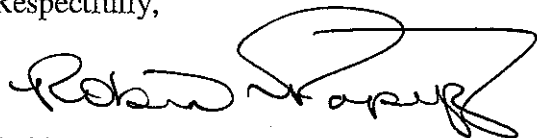
CFDA Number: 10.555

Federal Award Number and Year (or Other Identifying Number): FY-2013 and FY-2014

Pass-Through Entity: Indiana Department of Education

Sheridan Community Schools will establish effective internal control system that was stated in findings 2014-003 related to compliance requirement.

Respectfully,

A handwritten signature in black ink, appearing to read "Robin Popejoy". The signature is stylized with a large, looping initial "R" and a long, sweeping underline.

Robin Popejoy  
Director of Business  
317-758-4172

SHERIDAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

**CREDIT CARDS**

The School Corporation used credit cards to purchase various items on a regular basis. The School Board authorized the use of credit cards and directed the Superintendent to develop administrative guidelines that specify those authorized to use School Corporation credit cards, the types of expenses which they can be used for, and the proper supervision regarding their use. The School Board's credit card policy was not passed by resolution with all the required elements specified in the paragraph below. Credit cards were in the custody of and used by a number of School Corporation employees to make an extensive amount of purchases each month. As of June 2014, there were 17 employees with School Corporation credit cards. During the audit period, credit card purchases increased from \$7,546 in FY 12/13 to \$230,236 in FY13/14. During our review of the credit card expenditures, 1.54 percent of the credit card expenditures tested were not supported by sufficient documentation. Examples of those charges included restaurant meals and supplies without a detail invoice.

A similar comment appeared in the prior Report B41977.

The Indiana State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SHERIDAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Supporting documentation such as receipts, cancelled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***CAPITAL ASSETS***

The School Corporation did not take inventory of or maintain a record of capital assets owned.

A similar comment appeared in the prior four Reports, most recently B41977.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

***APPROPRIATIONS***

The records presented for audit indicated the Referendum Tax Levy fund expenditures for 2012, were in excess of budgeted appropriations by \$24,362.

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."

***PREPAID MEAL ACCOUNTS***

No written policy was presented for audit for writing off bad debts, uncollectible accounts receivable, or other adjustments related to Prepaid Meal Accounts.

The School Corporation did not maintain a control account for the Prepaid Meal Accounts. Currently, collections are posted to the School Lunch fund in the local sources classification. As a result, no reconciliation can be made to ensure the Prepaid Meal Account is being properly maintained.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Vol. 183)

SHERIDAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SHERIDAN COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on January 26, 2016, with Robin Popejoy, Treasurer; and Jim Hopkins, President of the School Board.