

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WESTERN SCHOOL CORPORATION

HOWARD COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED

05/12/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pam Carter	07-01-12 to 06-30-16
Superintendent of Schools	Randy McCracken	07-01-12 to 06-30-16
President of the School Board	Linda Singer J. Conrad Maugans	07-01-12 to 12-31-15 01-01-16 to 06-30-16



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TO: THE OFFICIALS OF THE WESTERN SCHOOL CORPORATION, HOWARD COUNTY, INDIANA

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

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

March 9, 2016

WESTERN SCHOOL CORPORATION
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). 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 that total federal expenditures for fiscal years 2013 and 2014 were incorrectly reported with total expenditures being understated by \$1,732,415 in 2013 and overstated by \$2,795,981 in 2014. The expenditures that were not presented in the SEFA for 2013 and overstated in 2014 were primarily due to incorrect amounts being reported for the Special Education Cluster. Additionally, the following deficiencies were noted when verifying the SEFA: (a) commodities required to be reported under the National School Lunch Program, CFDA 10.555, were omitted in the amount of \$72,024 and \$76,495 for fiscal years 2013 and 2014, respectively; (b) total Title I funds provided by the Indiana Department of Education was understated by \$77,887; and, (c) total Improving Teacher Quality funds provided by the Indiana Department of Education were understated by \$17,135.

The deficiencies discussed above constitute material weaknesses. The errors and omissions on the SEFA were partially caused by a lack of sufficient internal controls over the preparation of the SEFA and due to insufficient familiarity with some of the required elements of the SEFA. 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.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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:

WESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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.
- (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 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education

Federal Program: Special Education - Grants to States

CFDA Number: 84.027

Federal Award Number and Year (or Other Identifying Number): 14211-035-PN01, 14212-035-PN01,
14213-035-PN01, 14214-035-PN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to its grant agreements and the Allowable Costs/Cost Principles compliance requirements. The School Corporation is a member of the Kokomo Area Special Education Cooperative (Co-op) and provides oversight of the Co-op through the School Corporation Superintendent, who serves as a member of the Co-op Board. The Co-op has not established an effective internal control system in relation to Allowable Costs/Cost Principles.

The failure to establish an effective internal control system resulted in the School Corporation being in noncompliance with Allowable Costs/Cost Principles compliance requirements related to its Special Education Grants. Semi-Annual Certifications for fiscal year 2014 could not be located by the Co-op, and therefore were not presented for audit. For those employees that were paid from Special Education funds, the Co-op should have included their names on Semi-Annual Certification Activity Reports, and retained the reports.

WESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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-87, Attachment B, paragraph 8.h.(3) states:

"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 semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee."

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 with 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.

SCHOOL BOARD
J. CONRAD MAUGANS - PRESIDENT
MICHAEL J. KOLOSZAR - VICE PRESIDENT
DONNA J. SHEPHERD - SECRETARY
LINDA S. SINGER - MEMBER
DONALD L. WELLS - MEMBER
HARRY L. KENWORTHY - MEMBER
SCOTT E. GASKINS - MEMBER



RANDY McCracken - SUPERINTENDENT
HEATHER HENDRICH - ASSISTANT SUPERINTENDENT
PAM CARTER - DIRECTOR OF FINANCE
CRAIG SHEARER - DIRECTOR OF TECHNOLOGY
LISSA STRANAHAN - DIRECTOR OF EXCEPTIONAL LEARNERS & TESTING

CORRECTIVE ACTION PLAN

FEDERAL FINDING – 2014-001 PREPARATON OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.

Contact Person responsible for Corrective Action: Pam Carter, Director of Finance
Contact phone number: (765) 883-1453

Description of Corrective Action Plan:

Due to a lack of understanding of all data that is required to be documented and reported to the SEFA, and the fact that SEFA is relatively new as a requirement for us to complete, procedures are now in place to report the correct expenditures. We are now aware that commodities are also to be reported under the National School Lunch Program and that will be correctly reported on the next SEFA.

Anticipated Completion Date: Immediate

FINDING 2014 – 002 ALLOWABLE COSTS/COST PRINCIPLES

Contact Person responsible for Corrective Action: Suzie Reagle, Director of Special Education, KASEC
Contact phone number: (765) 883-1487

This finding is reflective of an audit of the 2013-14 school year. All required time and effort documentation is currently maintained in accordance with federal requirements. Controls were in place for the 2014-15 school year and remain in place. This maintenance of documentation will be continued as required.

Anticipated completion date: Immediate

WESTERN SCHOOL CORPORATION

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WESTERN SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the cash balances to the bank account balances were performed; however, reconciliations contained unidentified variances. The ledger balances exceeded the reconciled bank balances by \$1,891.41 and \$1,942.24 at June 30, 2013, and June 30, 2014, respectively.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

OVERDRAWN CASH BALANCE

The financial statement presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the Textbook Rental fund, a nonreimbursement-type fund, which had an overdrawn cash balance at June 30, 2013, of \$116,338.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Public School Corporations, Chapter 9)

ACCOUNTING FOR PREPAID LUNCH RECEIPTS

Prepaid lunch receipts were not placed in Fund 8400 Prepaid Lunch, a clearing account, but were instead accounted for in the School Lunch fund. The entire amount of prepaid lunch receipts were recognized in the School Lunch fund at the time of receipt as revenue and not as applied from the clearing account as students consumed their individual account balances. As a result, the subsidiary records of prepaid lunch fund balances by student could not be reconciled to an overall balance on a routine basis by officials as required.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (The School Bulletin and Uniform Compliance Guidelines, September 2008)

WESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Pam Carter, Treasurer; Randy McCracken, Superintendent of Schools; and J. Conrad Maugans, President of the School Board.