

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
RANDOLPH EASTERN SCHOOL CORPORATION  
RANDOLPH COUNTY, INDIANA  
July 1, 2013 to June 30, 2015



**FILED**  
08/12/2016



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Brenda R. Peacock	01-01-13 to 12-31-16
Superintendent of Schools	Cathy A. Stephen (Interim) Lisa K. Smith	07-01-13 to 07-14-13 07-15-13 to 12-31-16
President of the School Board	Kurt L. Prescott Selina Miller	07-01-13 to 12-31-13 01-01-14 to 12-31-16



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE RANDOLPH EASTERN SCHOOL  
CORPORATION, RANDOLPH COUNTY, INDIANA

This report is supplemental to our audit report of the Randolph Eastern School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2015. 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

June 6, 2016

RANDOLPH EASTERN SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2015-001 - INTERNAL CONTROLS RELATED TO THE PREPARATION  
OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

There was a deficiency in the internal control system of the School Corporation related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the SEFA. The School Corporation Treasurer prepared the SEFA and the Superintendent of Schools reviewed the SEFA; however, the SEFA was still incorrect.

Expenditures of the Greater Randolph Inter-local Co-Operative made on behalf of the School Corporation's students were not reported in the Special Education Cluster (IDEA) in the amount of \$25,361 for the 2013-2014 school year and \$37,416 for the 2014-2015 school year. These omissions resulted in total federal expenditures being incorrectly reported.

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.

RANDOLPH EASTERN SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (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 2015-002 - INTERNAL CONTROLS RELATED TO RECEIPTS***

There were 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 had not separated incompatible activities related to receipts. The School Corporation Treasurer issued receipts, made deposits, and posted to the records without an oversight, review, or approval process. The failure to establish these controls could have enabled misstatements or irregularities to remain undetected.
2. Monitoring of Controls: An evaluation of the School Corporation's system of internal control had not been conducted. The failure to monitor the internal control system placed 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, misstatements in a timely manner. Additionally, the School Corporation had no process to identify or communicate corrective actions to improve controls.

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)

RANDOLPH EASTERN SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2015-003 - ACTIVITIES ALLOWED OR UNALLOWED,  
CASH MANAGEMENT, AND REPORTING***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): FY 12-13, FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Cash Management, and Reporting.

*Activities Allowed or Unallowed*

The Deputy Treasurer reviewed the Distribution Detail of all employees paid with Title I funds for each payroll period to ensure that only appropriate employees were paid from Title I funds; however, there was no documentation of the review process.

*Cash Management*

For FY 13-14 the Treasurer signed the Monthly Reimbursement Forms, but there were no controls to ensure the accuracy of the forms. During FY 14-15 a control was established wherein the Treasurer signed and the Title I Director reviewed the Monthly Reimbursement Forms.

*Reporting*

The control put in place by the School Corporation required documentation as to who prepared the report and who reviewed the Final Expenditure Report prior to submission; however, there was no documentation of these controls to verify who filed the report online and who reviewed the report prior to submitting.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

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

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the School Corporation.



RANDOLPH EASTERN SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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

***FINDING 2014-004 - ALLOWABLE COSTS/COST PRINCIPLES***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): FY 12-13, FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirement: Allowable Costs/Cost Principles.

For those employees that were paid partially from Title I funds, the School Corporation did not include their names and hours worked on Personnel Activity Reports.

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) states in part:

". . . (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 . . . Such documentary support will be required where employees work on:

(a) more than one Federal award,

(b) A Federal award and a non-Federal award, . . ."

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. . . ."

RANDOLPH EASTERN SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirement could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation prepare and maintain Personnel Activity Reports for all employees paid from Title I funds.

***FINDING 2015-005 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

Federal Agency: Department of Education

Federal Programs: Special Education\_Grants to States, Special Education\_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14212-066-PN01, 14213-066-PN01,  
14214-066-PN01, 14215-066-PN01,  
99914-066-PN01, 45713-066-PN01,  
45714-066-PN01, 45715-066-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation is a member of the Greater Randolph Inter-local Cooperative (GRIC). The School Corporation provides oversight of GRIC through the School Corporation Superintendent who serves as a member of the GRIC Board. However, GRIC had not established an effective internal control system in relation to the Procurement and Suspension and Debarment compliance requirement. When an entity enters into a covered transaction, the lower-tiered entity must not be suspended, debarred, or otherwise excluded from participation in the covered transaction.

The vendors selected to provide services to GRIC were not checked to the Excluded Party List System that is maintained by the General Services Administration, nor were they required to certify that they were not suspended or debarred from doing work paid for by federal funds, or was a clause or condition added to the covered transaction. A review of the vendors revealed that none of the vendors used were suspended or debarred.

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 have 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, related to the grant agreement and compliance requirement listed above.

RANDOLPH EASTERN SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2015-006 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): FY 12-13, FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

There were no controls in place to ensure that the School Corporation's three consultants were not suspended or debarred. The three consultants were contracted for small group and one on one instruction with targeted students. The consultants were paid \$65,800 in FY 13-14 and \$69,100 in FY 14-15. A review of the vendors revealed that none of the vendors used were suspended or debarred.

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. . . ."

2 CFR 180.300 states:

"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 SAM Exclusions; 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 could have enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirement 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 requirement listed above.

SELINA MILLER, PRESIDENT  
WENDY SMITH, VICE PRESIDENT

GREGORY S. WHITESEL, SECRETARY  
KIM DAVISON, MEMBER  
JAMIE KERNS, MEMBER



## RANDOLPH EASTERN SCHOOL CORPORATION

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PHONE 765/964-4994 FAX 765/964-6590

LISA K. SMITH, SUPERINTENDENT

BRENDA PEACOCK, TREASURER  
LINDA WOOD, SECRETARY

### CORRECTIVE ACTION PLAN

#### ***FINDING 2015 - 001***

Contact Person Responsible for Corrective Action: Lisa Smith  
Contact Phone Number: 765-964-4994

We concur with the finding.

Description of Corrective Action Plan: Randolph Eastern School Corporation (RESC) understands the need and benefit of strong internal controls. The Greater Randolph Interlocal Cooperative (GRIC) Treasurer will submit a record of the expenditures GRIC makes on behalf of RESC students. This record of expenditures will be included in the Special Education Cluster of the Schedule of Expenditures of Federal Awards (SEFA) prepared by the RESC Treasurer. The SEFA will be submitted as required and records will be maintained that verify this submission.

Anticipated Completion Date: Immediately

#### ***FINDING 2015 - 002***

Contact Person Responsible for Corrective Action: Lisa Smith  
Contact Phone Number: 765-964-4994

We concur with the finding.

Description of Corrective Action Plan: The Corporation understands the need and benefit of strong internal controls. When receipting money, the Deputy Treasurer will accept the money and the Treasurer will prepare the deposit slips. The Deputy Treasurer will review, approve, and take the money to the bank for deposit. The Treasurer will enter receipts into the accounting system and reconcile the bank account balance with the accounting system.

Anticipated Completion Date: Immediately

#### ***FINDING 2015 - 003***

Contact Person Responsible for Corrective Action: Lisa Smith  
Contact Phone Number: 765-964-4994

We concur with the finding.

**“EXCELLENCE IN EDUCATION”**

Description of Corrective Action Plan: The Corporation understands the need and benefit of strong internal controls. For the compliance requirements of Activities Allowed or Unallowed and Allowable Costs/Cost Principles, the Deputy Treasurer completes a Distribution Detail of all employees paid with Title I funds for each payroll period to ensure that only appropriate employees are paid from Title I funds. The Deputy Treasurer will provide the Distribution Detail to the Title I Director who will sign to verify accuracy. This document will be kept on file in the corporation office. Time and Effort Logs will be completed for all Title I teachers and Title I part-time teachers. These logs will be reviewed by the Title I Director and signed to verify accuracy.

For the compliance requirements for Cash Management, the Treasurer will continue to review and sign the monthly Requests for Reimbursement. The Title I Director will review and sign the monthly requests to verify accuracy. This document will be kept on file in the corporation office.

Internal controls are being added to address the requirements of Reporting. The Treasurer will complete the Final Annual Expenditure Report. The Title I Director will be given the Final Annual Expenditure Report to review. Once reviewed, the Director will sign the report to verify its accuracy. The Treasurer will maintain a signed copy on file in the corporation office. The Annual Expenditure Report Final will be filed online. When the Treasurer receives the email indicating confirmation of submission, she will print a copy and keep on file.

Anticipated Completion Date: Immediately

***FINDING 2014-004***

Contact Person Responsible for Corrective Action: Lisa Smith  
Contact Phone Number: 765-964-4994

We concur with the finding.

Description of Corrective Action Plan: The Corporation understands the need and benefit of strong internal controls. Time and Effort Logs will be completed for all Title I teachers and Title I part-time teachers. These logs will be reviewed by the Title I Director and signed to verify accuracy.

***FINDING 2015 – 005***

Contact Person Responsible for Corrective Action: Lisa Smith  
Contact Phone Number: 765-964-4994

We concur with the finding.

Description of Corrective Action Plan: The Corporation acknowledges the need and benefit of strong internal controls. It is necessary for the Greater Randolph Interlocal Cooperative (GRIC) to determine if a lower-tiered entity (with whom GRIC is entering into a covered transaction) has been suspended, debarred or otherwise excluded from participation in the covered transaction. Effective internal controls related to the Procurement, Suspension, and Debarment compliance requirement have been established. Entities selected by GRIC to provide services will be researched through the Excluded Party List System maintained by the General Services Administration to determine if the entity has been suspended, debarred or otherwise excluded from participation. For all vendors for which “no record is found”, the GRIC Treasurer will print a record to verify this finding. These records will be maintained by GRIC.

Anticipated Completion Date: Immediately

***FINDING 2015 - 006***

Contact Person Responsible for Corrective Action: Lisa Smith  
Contact Phone Number: 765-964-4994

We concur with the finding.

Description of Corrective Action Plan: Effective internal controls related to the Procurement, Suspension, and Debarment compliance requirement have been established. The Treasurer will continue to check the Excluded Party List System maintained by the General Services Administration to determine if the entity has been suspended, debarred or otherwise excluded from participation. For all vendors for which "no record is found", the Treasurer will print a record to verify this finding. These records will be kept on file in the corporation office.

Anticipated Completion Date: Immediately

Lisa Smith  
Signature

Superintendent  
Title

June 6, 2016  
Date

RANDOLPH EASTERN SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

***INVESTMENTS NOT AUTHORIZED BY STATUTE***

The School Corporation invested in a wind turbine in 2009. The wind turbine is owned by PSI Energy Production Services (PSI). The School Corporation had an agreement with PSI, stating that PSI will take the electricity produced by the wind turbine and sell it on the open market. The agreement also stated that if the revenue from the sale of electricity did not enable PSI to pay the loan payment, the School Corporation will pay the shortfall up to \$77,000 twice per year. In the event that the revenues from the sale of electricity exceed the operating expenses of PSI, then the School Corporation would receive payment for its investment. The School Corporation did not receive any of its energy needs from the wind turbine. PSI invoiced the School Corporation requesting payment in the amount of \$1,600,000, which is approximately the initial capital cost of the wind turbine. PSI has also recently invoiced the School Corporation for \$770,000 for five years of "access fee" payments for the five year period since the wind turbine has been intermittently operational.

Indiana Code 5-13-9-2.5 states in part:

"(a) An officer designated in section 1 of this chapter may invest or reinvest funds that are held by the officer and available for investment in investments commonly known as money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940, as amended (15 U.S.C. 80a et seq.). . . .

(c) The portfolio of an investment company or investment trust described in subsection (a) must be limited to the following:

- (1) Direct obligations of the United States.
- (2) Obligations issued by any of the following:
  - (A) A federal agency.

RANDOLPH EASTERN SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (B) A federal instrumentality.
- (C) A federal government sponsored enterprise.
- (3) Repurchase agreements fully collateralized by obligations described in subdivision (1) or (2)."

Investments should only be made in accordance with statute. Expenses related to any unauthorized investments may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 14)

***ACCOUNTING FOR PREPAID FOOD ACCOUNTS***

Prepaid food receipts were not placed in Fund 8400 Prepaid Food, a clearing account, but were instead accounted for in the School Lunch Fund, Fund 800. The entire amount of prepaid food receipts was recognized in the School Lunch Fund, Fund 800, at the time of receipt as revenue, and not as applied from the clearing account as students withdrew lunch funds from their individual account balances.

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 transfers 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)



SELINA MILLER, PRESIDENT  
WENDY SMITH, VICE PRESIDENT

GREGORY S. WHITESEL, SECRETARY  
KIM DAVISON, MEMBER  
JAMIE KERNS, MEMBER



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BRENDA PEACOCK, TREASURER  
LINDA WOOD, SECRETARY

June 6, 2016

### PREPAID FOOD ACCOUNTS

The Corporation has established a Clearing Account #8400 to account for prepaid food. The Cafeteria Manager will send a monthly report to the Treasurer that shows receipts for actual meals served. The collections for the prepaid account will be receipted to represent transfers in and out of the clearing account and to show accounting for the appropriate receipt of revenue classifications. Transfers will be made at the end of each month to appropriately classify meals when charged by students. These records will be reconciled to the cash balance at the end of the month.

Lisa K Smith  
Signature

Superintendent  
Title

6-6-16  
Date

RANDOLPH EASTERN SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on June 6, 2016, with Brenda R. Peacock, Treasurer; Lisa K. Smith, Superintendent of Schools; and Selina Miller, President of the School Board.