

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF

SOUTH VERMILLION COMMUNITY  
SCHOOL CORPORATION  
VERMILLION COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
08/24/2016



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cindy Guinn	07-01-12 to 12-31-16
Superintendent of Schools	David Chapman	07-01-12 to 06-30-16
President of the School Board	Bruce W. West Ray Gilfoy John P. Roehm	01-01-12 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

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE SOUTH VERMILLION COMMUNITY  
SCHOOL CORPORATION, VERMILLION COUNTY, INDIANA

This report is supplemental to our audit report of the South Vermillion Community 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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

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 8, 2016

SOUTH VERMILLION COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2014-001 - CASH MANAGEMENT AND REPORTING***

Federal Agency: Department of Education

Federal Programs: Special Education\_Grants to States, Special Education\_Pre-School Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14211-008-PN01, 14212-008-PN01,  
14213-008-PN01, 14214-008-PN01,  
99999-008-PN01, 45711-008-PN01,  
45712-008-PN01, 45713-008-PN01,  
45714-008-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation is a member of Covered Bridge Special Education District (District). The District operates the Special Education program and manages the Special Education grant funds.

Management of the District had not established an effective internal control system which includes segregation of duties, related to the grant agreement and Cash Management and Reporting compliance requirements that have a direct and material effect on the programs.

Requests for reimbursement were prepared and filed by the District Treasurer with no review or approval process prior to the submission of the requests to the pass-through entity for reimbursement. The District has not designed or implemented adequate policies and procedures to ensure that required reports are accurately prepared and that the expenditures submitted for reimbursement were paid prior to the request.

Requests for reimbursement were not based on the actual amounts paid. Year to date expenses paid per the appropriation report less reimbursements already received was used by the District Treasurer to request reimbursement.

The failure to establish an effective internal control system placed the District 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. . . ."

SOUTH VERMILLION COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

34 CFR 80.21 states in part:

" . . . (b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205. . . .

(d) *Reimbursement.* Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met . . . "

31 CFR 205.12(b) states in part:

" . . . (5) Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

34 CFR 80.20(b) states in part:

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

- (1) *Financial Reporting.* Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

The failure to establish internal controls would 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 develop and implement procedures to establish controls to monitor the District.

***FINDING 2014-002 - SPECIAL TESTS AND PROVISIONS - VERIFICATION  
OF FREE AND REDUCED PRICE APPLICATIONS***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013, FY 2014

Pass-Through Entity: Indiana Department of Education

SOUTH VERMILLION COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to Verification of Free and Reduced Price Applications. As a result, the verification of the eligibility status of students was not determined using the recommended procedures. The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with the compliance requirement 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.

Verification of the Free and Reduced Price Applications was not performed by an individual other than the individual who made the initial eligibility determination. The verification portion of the verified Applications for Free and Reduced Price Meals were not signed.

The "For School Use Only" portion the Free/Reduced Price Application completed annually has two sections. The first section is "Eligibility Determination." All applications had this part filled in and signed by the individual making the determination. The second section "Verification" is required to be completed for a percentage of the total applications. This verification portion of the application should be completed and signed by someone other than the person completing the eligibility determination portion. It also requires documentation of the verification process and the results in addition to the signature of the verifying official.

The August 2013 Eligibility Manual for School Meals Determining Eligibility and Verification (the Manual) issued by the USDA states on page 69: "CONFIRMATION REVIEWS Prior to any other verification activity, an LEA official, other than the official who made the initial eligibility determination, must review each approved application selected for verification to ensure that the initial determination was accurate."

The Manual further states on pages 75 and 76: "INDIVIDUAL APPLICATIONS For each application, the LEA must keep records of the source of information used to verify the application such as wage stubs or names and titles of collateral contacts. The LEA must retain: . . . Any change in eligibility as a result of verification procedures, the reason for the change and the date the household was notified, if necessary, and the date it became effective; and records of follow-up attempts and results. LEAs should also record: Any additional information necessary to show the efforts made by the LEA to meet the verification requirements; Title and signature of the verifying official . . ."

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, including segregation of duties, related to the grant agreement and the compliance requirement listed above, and to comply with the Verification of Free and Reduced Price Applications requirement.



SOUTH VERMILLION COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-003 - ALLOWABLE COSTS/COST PRINCIPLES***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013, FY 2014

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 Allowable Costs/Cost Principles compliance requirement that have a direct and material effect to the Child Nutrition Cluster. The failure to establish an effective internal control system resulted in the School Corporation being in noncompliance with the Allowable Costs/Cost Principles compliance requirement related to its School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children (Child Nutrition Cluster).

The School Corporation had not designed or implemented adequate policies or procedures to ensure that Time and Effort records for their employees paid from the Child Nutrition Cluster were prepared. School Corporation officials did not prepare the required Semi-Annual Certification Activity Reports for employees paid solely from the Child Nutrition Cluster, nor did they prepare Personnel Activity Reports or equivalent documentation, for their employees paid from various cost objectives including the Child Nutrition Cluster. Records documenting the time worked were not prepared for the entire audit period. However, Allowable Costs pertaining to employees compensation related to the Child Nutrition Cluster were verified.

OMB A-87, Attachment B, Item 8h, 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 could result in the loss of federal funds to the School Corporation.

SOUTH VERMILLION COMMUNITY 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 the Allowable Costs/Cost Principles. We also recommended that the School Corporation maintain Personnel Activity Reports and Semi-Annual Certifications Activity Reports for all employees paid from these federal programs.

**FINDING 2014-004 - EQUIPMENT AND REAL PROPERTY MANAGEMENT**

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013, FY 2014

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 Equipment and Real Property Management compliance requirement that have a direct and material effect to the Child Nutrition Cluster. The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. 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 did not maintain records that identify equipment and other property acquired with School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children monies. Equipment purchases during the audit period totaled \$204,722 or 9 percent of the Child Nutrition Cluster expenditures. These purchases, made at the individual schools with extracurricular lunch funds, were not included with the School Corporation records. A physical inventory of equipment was done in March of 2014 at the individual school cafeterias, but these inventories did not include the date of purchase, cost of purchase, or serial numbers. The School Corporation did not identify whether items were acquired with federal or nonfederal funds.

7 CFR 3016.32(d) states:

*"Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

SOUTH VERMILLION COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

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, including segregation of duties, related to the grant agreement and the Equipment and Real Property compliance requirement. We also recommended that the School Corporation design and properly monitor procedures that would ensure accurate detailed capital asset records are maintained for food service equipment and that inventories of property and equipment are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also, any assets acquired with Federal Funds must be designated as such so that they are not disposed of improperly.

***FINDING 2014-005 - 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): 12-8020, 13-8020, 14-8020

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 reporting for the Title I program.

The School Corporation Treasurer was solely responsible for the preparation and submission of the Annual Expenditure Reports and the monthly Reimbursement Forms for the 2012-2013 and 2013-2014 grant years. There were no controls in place to ensure that the submitted reports were accurate.

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirement 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.

SOUTH VERMILLION COMMUNITY 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-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 would 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.



# South Vermillion Community School Corporation

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## CORRECTIVE ACTION PLAN

### SECTION III – Federal Award Findings and Questioned Costs

#### FINDING 2014-001

Federal Agency: U.S. Dept. of Education  
Federal Program: Special Education Cluster  
CFDA: 84.027, 84.173  
Federal Award Number(s): 14211-008-PN01, 14212-008-PN01, 14213-008-PN01  
14214-008-PN01, 99999-008-PN01, 45711-008-PN01  
45712-008-PN01, 45713-008-PN01, 45714-008-PN01  
  
Auditee Contact Person: Cindy Guinn  
Title of Contact Person: Business Manager  
Phone Number: 765-832-2426

Briefly describe action to be taken to correct finding:

The Covered Bridge Cooperative Treasurer will no longer submit requests for reimbursement based on the appropriation report, but will calculate actual expenses incurred for the period of reimbursement.

The School Corporation Business Manager (Treasurer) will review all reimbursement requests prior to the submission of the requests to the pass-through entity. The Covered Bridge Cooperative Treasurer will provide the School Corporation with adequate proof of expenditures from Cooperative records to ensure the proper reimbursement is being requested.

Estimated Date of Completion: April 1, 2016

Signed: Cindy Guinn Cindy Guinn, South Vermillion Business Manager

Signed: David A. Chapman David Chapman, South Vermillion Superintendent

Signed: Jeffery Blake Jeffery Blake, Covered Bridge Cooperative Director

800 W. Wildcat Drive - P.O. Box 387, Clinton IN 47842-0387

765-832-2426

Fax 765-832-7391

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**David Chapman, Superintendent**  
Jennifer Fossi, Director of Instructional Technology  
Cindy Guinn, Business Manager - Finance  
Stephanie Farrington, Corporation Secretary - Payroll - Personnel



# South Vermillion Community School Corporation

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## CORRECTIVE ACTION PLAN

### SECTION III – Federal Award Findings and Questioned Costs

FINDING 2014-002

FINDING 2014-003

FINDING 2014-004

Federal Agency: U.S. Dept. of Agriculture  
Federal Program: School Breakfast Program  
National School Lunch Program  
Summer Food Service Program for Children  
CFDA: 10.553, 10.555 and 10.559  
Federal Award Number and Year: FY 2013 and FY 2014  
Pass-Through Entity: Indiana Department of Education  
Auditee Contact Person: Cindy Guinn  
Title of Contact Person: Business Manager  
Phone Number: 765-832-2426

Briefly describe action to be taken to correct finding:

South Vermillion Community School Corporation's internal control system (segregation of duties) for Free/Reduced Price Applications will be certified by the Food Service Supervisor. The South Vermillion High School Treasurer will be responsible for the annual meal verification. This procedure will begin October 2016 - annual verification start time.

The Food Service Supervisor will ensure that time and effort records for employees paid from the Child Nutrition programs are prepared each six-month period and submitted to the Central Office for documentation of said wages. Those employees paid from other funding sources (Transportation) will have payroll documentation attached to the bi-annual activity report.

South Vermillion cafeterias will provide annual inventory of all major equipment. All current equipment with a value over \$5,000 will be included in South Vermillion's fixed asset inventory report for the period ending June 30, 2016.

Estimated Date of Completion: #002 – October 1, 2016 #003 – May 1, 2016 #004 – June 30, 2016

Signed: Cindy Guinn Cindy Guinn, South Vermillion Business Manager

Signed: David Chapman David Chapman, South Vermillion Superintendent

Signed: Debbie Ballock Debbie Ballock, Food Service Supervisor

800 W. Wildcat Drive - P.O. Box 387, Clinton IN 47842-0387

765-832-2426

Fax 765-832-7391

**David Chapman, Superintendent**

Jennifer Fossi, Director of Instructional Technology

Cindy Guinn, Business Manager - Finance

Stephanie Farrington, Corporation Secretary – Payroll - Personnel





# South Vermillion Community School Corporation

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## CORRECTIVE ACTION PLAN

### SECTION III – Federal Award Findings and Questioned Costs

#### FINDING 2014-005

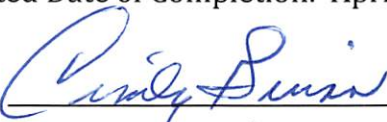
Federal Agency: U.S. Dept. of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA: 84.010  
Federal Award Number and Year: FY12-13 and FY13-14

Auditee Contact Person: Cindy Guinn  
Title of Contact Person: Business Manager  
Phone Number: 765-832-2426

Briefly describe action to be taken to correct finding:

South Vermillion Community School Corporation's internal control system (segregation of duties) for the Title I program will require the Title I Director to approve monthly reimbursement requests, as well as the annual expenditure report prior to submission. The Title I Director will sign and date each report and return to the Business Manager for safekeeping.

Estimated Date of Completion: April 1, 2016

Signed:  Cindy Guinn, *South Vermillion Business Manager*

Signed:  David Chapman, *South Vermillion Superintendent*

Signed:  Lori Dickey, *Title I Director*

SOUTH VERMILLION COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on June 8, 2016, with David Chapman, Superintendent of Schools; Cindy Guinn, Treasurer; Stephanie Farrington, Deputy Treasurer; Debbie Ballock, Food Service Director; and Bruce W. West, President of the School Board.