

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SMITH-GREEN COMMUNITY SCHOOLS

WHITLEY COUNTY, INDIANA

July 1, 2013 to June 30, 2015



**FILED**  
09/13/2016



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jodi Royer	07-01-13 to 06-30-16
Superintendent of Schools	Galen Mast	07-01-13 to 06-30-16
President of the School Board	Cathy Petrie Nicholas Uecker Luke Gross	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

STATE BOARD OF ACCOUNTS  
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ROOM E418  
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Telephone: (317) 232-2513  
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TO: THE OFFICIALS OF THE SMITH-GREEN COMMUNITY SCHOOLS, WHITLEY COUNTY, INDIANA

This report is supplemental to our audit report of the Smith-Green Community Schools (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 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, incorporated within this report, was not verified for accuracy.

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

May 24, 2016

SMITH-GREEN COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2015-001 - 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 2014 and 2015 were incorrectly reported resulting in total expenditures being understated by \$47,289 and \$32,998 in each year, respectively.

The errors and omissions on the SEFA were partially caused by a lack of sufficient internal controls over the preparation of the SEFA and insufficient familiarity with 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.

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.

SMITH-GREEN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (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 - CASH MANAGEMENT***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Years: FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

*Internal Controls*

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 Cash Management compliance requirement. 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 have controls in place to ensure that the School Lunch fund cash balances did not exceed the average expenditures for three months.

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. . . ."

SMITH-GREEN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Compliance*

The School Corporation was not in compliance with the Cash Management requirement. The average expenditures for three months for the fiscal years 2014 and 2015 were \$160,131 and \$150,883, respectively. The School Lunch fund's net cash resources were maintained at an amount in excess of the average expenditures for three months from July 1, 2013 to May 31, 2014.

7 CFR section 210.14(b) states:

*"Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e)(1)(iv) states: "Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

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

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

***FINDING 2015-003 - REPORTING***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Years: 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 Reporting compliance requirement. The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The School Corporation submits an Annual Financial Report at the end of each grant year, and a Sponsor Claims (claims for reimbursement) to the Indiana Department of Education. There were no controls in place to ensure that these reports were accurate.

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.



SMITH-GREEN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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 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 the Reporting compliance requirement.

# Smith-Green Community Schools

*Superior Schools ... In a Supportive Community*

222 West Tulley Street, Churubusco, Indiana 46723 • 260-693-2007 • 260-693-6434 • [www.sgcs.k12.in.us](http://www.sgcs.k12.in.us)

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Indiana State Board of Accounts  
302 W Washington St  
4<sup>th</sup> Floor, Room E418  
Indianapolis, IN 46204-2765

## Corrective Action Plan

To Whom It May Concern:

This letter serves as our official response to the results and comments listed on the audit for the years July 1, 2013 through June 30, 2015.

### **Finding 2015 001 - Preparation of the Schedule of Expenditures of Federal Awards**

**Description of Corrective Action Plan:** The Corporation Treasurer will continue with the current procedures to ensure accurate completion of the Schedule of Expenditures of Federal Awards. During the fiscal years of 2014 & 2015, food service commodities were omitted from the Schedule of Expenditures. The Business Manager will review and verify accurate completion of the Schedule.

**Anticipated Completion Date:** Ongoing - The Corporation Treasurer and Business Manager will provide signatures as proof of review.

### **Finding 2015 002 - Cash Management**

Federal Agency: Department of Agriculture  
Federal Program: Child Nutrition Cluster  
CFDA Number: 10.553, 10.555  
Federal Award Years: FY 2013-2015  
Pass-Through Entity: Indiana Department of Education

**Description of Corrective Action Plan:** Smith-Green Community Schools, in accordance with the checks and balances, will implement a quarterly review for ensuring that balances of the three-month average do not exceed the maximum allowable for a non-profit entity. Excess balances will be used to update and maintain food service equipment and cafeteria facilities to ensure operational efficiency.

*"The mission of Smith-Green Community Schools is to provide a superior education that ensures success for every student through excellence in teaching and learning."*

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Board of School Trustees: Mr. Dean Geiger • Mr. Luke Gross • Mrs. Carey Jacquay • Mrs. Cathy Petrie • Mr. Nick Uecker  
Superintendent: Mr. Galen Mast

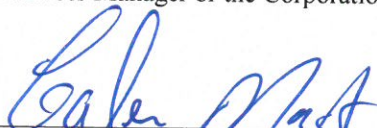
Anticipated Completion Date: Ongoing - The Business Manager currently prepares a cash flow statement. The Corporation Treasurer will review this statement. Both the Business Manager and Corporation Treasurer will provide signatures on the statement as proof of review.

**Finding 2015-003 - Reporting**


Federal Agency: Department of Agriculture  
Federal Program: Child Nutrition Cluster  
CFDA Number: 10.553, 10.555  
Federal Award Years: FY 2013-2015  
Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan: The School Corporation Food Service Manager will continue to submit the Annual Financial Report and monthly reimbursement claims to the Indiana Department of Education. The Business Manager or the Corporation Treasurer will review these reports for accuracy.

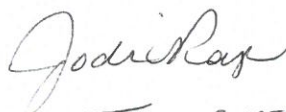
Anticipated Completion Date: Ongoing - The Food Service Manager will provide a signature on each report and the Business Manager or the Corporation Treasurer will provide signatures on each report as proof of review.

  
\_\_\_\_\_  
Galen Mast, Superintendent

5-24-16  
Date

  
\_\_\_\_\_  
Todd Fleetwood, Business Manager

5-24-16  
Date

  
Treasurer

5/24/16

*"The mission of Smith-Green Community Schools is to provide a superior education that ensures success for every student through excellence in teaching and learning."*

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Superintendent: Mr. Galen Mast

SMITH-GREEN COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2016, with Jodi Royer, Treasurer; Todd Fleetwood, Business Manager; Galen Mast, Superintendent of Schools; and Luke Gross, President of the School Board.