

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SPENCER-OWEN COMMUNITY SCHOOLS

OWEN COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
09/14/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Darla Thomas	07-01-12 to 12-31-16
Superintendent of Schools	Greg Linton (Vacant) Dr. Carrie Milner (interim) Brock Beeman (interim) Dr. Chad S. Briggs	07-01-12 to 09-25-14 09-26-14 to 09-28-14 09-29-14 to 01-22-15 01-23-15 to 02-15-15 02-16-15 to 06-30-18
President of the School Board	Jason Hale Tom Abrell Kevin Cooper	01-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-16



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TO: THE OFFICIALS OF THE SPENCER-OWEN COMMUNITY SCHOOLS, OWEN COUNTY, INDIANA

This report is supplemental to our audit report of the Spencer-Owen 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/.

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 Plans 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 28, 2016

SPENCER-OWEN COMMUNITY SCHOOLS
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). Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could have remained undetected.

During the audit of the SEFA, there were amounts reported incorrectly for four programs, resulting in federal expenditures being underreported by \$623,715 for school year 2012-2013 and \$68,000 for school year 2013-2014. In addition, seven out of eight federal program names were 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.
- (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.

SPENCER-OWEN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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 - INTERNAL CONTROL OVER CHILD NUTRITION CLUSTER

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): SY 12/13, SY13/14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system, which would have included segregation of duties, related to the grant agreement and the following compliance requirements that have a direct and material effect on the programs: Cash Management, Eligibility, Program Income, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Applications and Paid Lunch Equity.

A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Cash Management

The School Corporation had not designed or implemented adequate controls, policies, or procedures to ensure that the monthly cash balances of the School Lunch fund did not exceed the average expenditures for three months.

Eligibility

The School Corporation had not designed or implemented adequate controls, policies, or procedures to ensure that students' eligibility for free and reduced lunches was properly determined in compliance with program requirements. One person was solely responsible for inputting applications into the software system that determined student eligibility. An oversight or review process had not been established to ensure that the eligibility determinations were accurate.

Program Income

The School Corporation had not designed or implemented adequate controls, policies, or procedures to ensure that program income was being accurately documented. Reconciliations or reviews of collections were not being prepared to ensure that amounts were accurate.

SPENCER-OWEN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Reporting

The School Corporation had not designed or implemented adequate controls, policies, or procedures to ensure that required reports were accurately prepared. The School Lunch Director prepared and submitted the monthly Sponsor Claims (claims for reimbursement) and the Annual Financial Reports electronically via the Indiana Department of Education website. There was no segregation of duties, such as an oversight, review, or approval process to ensure that the information submitted was complete and accurate.

Special Tests and Provisions - Verification of Free and Reduced Applications

The School Corporation had not designed or implemented adequate controls, policies, or procedures to ensure that free and reduced meal applications were verified. There was no segregation of duties, such as an oversight, review, or an approval process.

Special Tests and Provisions - Paid Lunch Equity

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the paid lunch equity calculations were correct.

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 have also allowed noncompliance with compliance requirements and allowed 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 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.

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

SPENCER-OWEN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - REPORTING

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): SY12/13, SY13/14
Pass-Through Entity: Indiana Department of Education

The Indiana Department of Education (IDOE) required that the School Corporation file an Annual Financial Report at the end of each program year. Reports were submitted to IDOE by the School Corporation for school years 2012-2013 and 2013-2014 as required; however, testing of the reports revealed the following discrepancies:

- Total income and expenses reported did not agree with the ledger.
- Classifications of income and expenses were incorrect.
- Expenses were reported as indirect costs; however, these were actually administrative payroll expenses charged directly to the grant.
- Federal reimbursements reported for 2013-2014 were the total amount claimed for reimbursement instead of the actual cash received during the fiscal year.
- Ending cash balances reported for 2012-2013 and 2013-2014 were overstated by \$18,232 and \$43,427, respectively.

OMB Circular A-133 Subpart C - Auditees Section .300 Auditee responsibilities states in part: "The auditee shall: . . . (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs. . . ."

The State Agency Sponsor Agreement for Child Nutrition Program states in part: "Program Administration. The Sponsor agrees to comply with all applicable laws, regulations, guidelines, and amendments thereto"

The *Indiana Department of Education Sponsor Training Manual for School Nutrition Programs - Sponsor & Site Claims*, Version 1.0, August 2003, Chapter P, states in part:

"At the end of each program year, each sponsor must submit an annual financial report that summarizes its financial participation in the School Nutrition Program. This report requires your organization to provide total amounts for income and expenses, and requires you to provide account and depreciation information."

Noncompliance of the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

We recommended that the School Corporation implement procedures to ensure the accuracy of reporting to Indiana Department of Education and to comply with the Reporting requirements of the programs.

SPENCER-OWEN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2014-004 - INTERNAL CONTROL OVER THE SPECIAL EDUCATION CLUSTER

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to Schools, Special Education - Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14212-065-PN01, 14213-065-PN01,
14214-065-PN01, 45712-065-PN01,
45713-065-PN01, 45714-065-PN01,
999914-065-TA01

Pass-Through Entity: Indiana Department of Education

The School Corporation was a member of the Forest Hills Special Education Cooperative (Cooperative). The Cooperative operated the Special Education program and managed the Special Education grant funds.

Management of the Cooperative had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements that have a direct and material effect on the programs: Cash Management, Period of Availability, and Reporting.

Cash Management, Reporting

The Cooperative had not designed or implemented adequate policies or procedures to ensure that required reports were accurately prepared. One employee was solely responsible for preparing and submitting all required reports. There was no segregation of duties, such as an oversight, review, or approval process.

Period of Availability

The Cooperative had not designed or implemented adequate policies or procedures to ensure that adjustments made to the ledger for corrections of amounts expended were properly made. One employee was solely responsible for making the adjustments. There was no segregation of duties, such as an oversight, review, or approval process.

The failure to establish an effective internal control system placed the Cooperative at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

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.

SPENCER-OWEN 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. . . ."

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative.

Spencer-Owen Community Schools

205 East Hillside Avenue, Spencer, Indiana 47460 Phone 812-829-2233 Fax 812-829-6614

"All Spencer-Owen Community Schools students will learn, achieve, and succeed."

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Amber Willen, *Vice President*
Rick Smeltzer, *Secretary*
Larry Hight, *Secretary Pro Tem*
Jack White
Sonia Brinson
Brian Mauder

Administration:

Dr. Chad S. Briggs, *Superintendent*
Brock Beeman, *Curriculum Director*

CORRECTIVE ACTION PLAN

Finding 2014-001

Contact Person Responsible for Corrective Action: Darla Thomas, Treasurer
Contact Phone Number: 812-829-2233

When the Schedule of Federal Awards is prepared for the FY2015, the Treasurer will go to the Federal Clearing House website to verify that each and every fund title reported agrees with the school corporation report. After reviewing the FCH, the Treasurer will make sure all programs are reported accurately by name and CFDA number.

Once the Schedule of Federal Awards is prepared, the Treasurer will have the Superintendent and Curriculum Director review the schedule for accuracy before it is submitted. A copy of the schedule will be printed, signed by the three involved, and retained for future audits.

This correction plan of action will begin with the July 1, 2015 reporting.

Date: June 28, 2016

Signed: Darla Thomas
Darla Thomas, Treasurer

Signed: Chad S. Briggs
Dr. Chad S. Briggs, Superintendent

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Brian Mauder

Administration:

Dr. Chad S. Briggs, *Superintendent*
Brock Beeman, *Curriculum Director*

CORRECTIVE ACTION PLAN

Finding 2014-002

Contact Person Responsible for Corrective Action: Darla Thomas, Treasurer
Contact Phone Number: 812-829-2233

Cash Management

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the monthly cash balances of the school lunch fund were maintained in compliance with the Cash Management requirement.

The Corporation Treasurer will give the Food Service Director and assistant a detailed listing of daily cash deposits per building each month. These cash balances will be reviewed by the Food Service Director or Assistant and compared with month end reporting for accuracy.

All shared accounts were dissolved as of June 5, 2015 and SOCS Food Service will no longer allow shared accounts in the future to assist with reporting errors.

Eligibility

The School Corporation has not designed or implemented adequate policies and procedures to ensure that student's eligibility for free and reduced lunches is properly determined in compliance with program requirements. One person is solely responsible for inputting applications into the computer software system which determines eligibility. An oversight or review process has not been established to ensure accurate eligibility determinations.

The Food Service Assistant will process applications using the corporation's software system. Upon completion, the Deputy Treasurer or Food Service Director will review a random selection of applications to check for accuracy. Once reviewed, they will be initialed and dated by the Deputy Treasurer or Food Service Director verifying that they are correct.

Program Income

Reconciliations are not being prepared daily at each of the cafeterias comparing the daily sales report to actual cash deposits. Discrepancies should be identified and reported daily.

The Food Service Assistant will provide a spreadsheet to the Unit Leader of each cafeteria that is to be completed daily. They will record the actual deposit amount and the total cash recorded in the software system. Both totals should match. They will turn this report in to the Food Service Assistant weekly for verification. The spreadsheets will be initialed and dated by all parties.

Reporting

The School Corporation has not designed or implemented adequate policies and procedures to ensure that required reports were accurately prepared. The school lunch Director prepared and submits the monthly reimbursement requests and the Annual Financial Report electronically via DOE website. These reports are not verified by anyone prior to submission.

The Food Service Assistant will prepare the monthly reimbursement and annual report. The Food Service Director or Deputy Treasurer will verify accuracy before the report is submitted to the DOE. Copies of the report will be initialed and dated by both parties.

Verification

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the verification of free and reduced meal applications was completed as required. There was no segregation of duties, such as an oversight review or approval process.

The Food Service Assistant will complete annual verification of Free/Reduced Applications. The Deputy Treasurer will review for accuracy. The reports will be initialed and dated.

Paid Lunch Equity

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the paid lunch equity calculations were performed as required.

The Food Service Assistant will complete the Paid Lunch Equity calculator annually and submit the completed report to the Superintendent for review.

Date: June 28, 2016

Signed: Olivia M Weyer
Olivia Weyer, Aramark/ Food Service Director

Signed: Chad S. Briggs
Dr. Chad S. Briggs, Superintendent

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Sonia Brinson
Brian Mauder

Administration:

Dr. Chad S. Briggs, *Superintendent*
Brock Beeman, *Curriculum Director*

CORRECTIVE ACTION PLAN

Finding 2014-003

Contact Person Responsible for Corrective Action: Darla Thomas, Treasurer
Contact Phone Number: 812-829-2233

Reporting

Starting with the annual report for 2014-2015, the Food Service Assistant will record the five partial office wage expenditures as payroll, a direct cost, not an indirect cost.

The Food Service Assistant will make sure the Annual Financial Report for Food Services matches the June 30th report from the Treasurer before submitting the final report.

Date: June 28, 2016

Signed: Olivia M. Weyer

Olivia Weyer, Aramark/Food Service Director

Signed: Chad S. Briggs

Dr. Chad S. Briggs, Superintendent

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Brian Mauder

Administration:

Dr. Chad S. Briggs, *Superintendent*
Brock Beeman, *Curriculum Director*

CORRECTIVE ACTION PLAN

Finding 2014-004

Contact Person Responsible for Corrective Action: Darla Thomas, Treasurer
Chad Briggs, Superintendent

Contact Phone Number: 812-829-2233

INTERNAL CONTROLS OVER THE SPECIAL EDUCATION CLUSTER

The Treasurer and Superintendent will work with the Forest Hills Special Education Cooperative to ensure that they establish internal controls over cash management, reporting, and period of availability.

Anticipated Completion Date: Immediately

Date: June 28, 2016

Signed: *Darla Thomas*
Darla Thomas, Treasurer

Signed: *Chad S. Briggs*
Dr. Chad S. Briggs, Superintendent

SPENCER-OWEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

PREPAID LUNCH ACCOUNTS

The student account balances in the food service software program had greater cash balances than the School Corporation's ledger. As of June 30, 2013 and 2014, the balance in food service software program exceeded the ledger balance by \$311 and \$1,039, respectively.

Subsidiary ledger balances must reconcile to the control ledger fund balance. Every transaction should be posted to the control ledger and to the appropriate subsidiary ledger. Fund balances should reconcile between the control ledger and the subsidiary ledger. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

School Officials did not present sufficient detailed student records to support the Average Daily Membership claimed by the School Corporation for September 2012, September 2013, and February 2014 counts. We were unable to determine if the number of students claimed was accurate.

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SPENCER-OWEN COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on June 28, 2016, with Dr. Chad S. Briggs, Superintendent of Schools; Darla Thomas, Treasurer; Brock Beeman, Title I P.A./Curriculum Director; and Rick Smeltzer, member of the School Board.