

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

COMMUNITY SCHOOLS OF FRANKFORT

CLINTON COUNTY, INDIANA

July 1, 2013 to June 30, 2015



**FILED**  
09/15/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Leslie L. Michael	07-01-13 to 06-30-17
Superintendent of Schools	Don DeWeese	07-01-13 to 06-30-17
President of the School Board	Carol Bartley Sandra L. Miller	07-01-13 to 11-24-14 11-25-14 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE COMMUNITY SCHOOLS OF FRANKFORT, CLINTON COUNTY, INDIANA

This report is supplemental to our audit report of the Community Schools of Frankfort (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

July 27, 2016

COMMUNITY SCHOOLS OF FRANKFORT  
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

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 federal expenditures reported in the SEFA presented for audit were understated by a material amount for the years ended June 30, 2014 and 2015.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

*Criteria*

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 in part:

"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. . . ."

COMMUNITY SCHOOLS OF FRANKFORT  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA could have remained undetected.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2014-002 - CASH MANAGEMENT**

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): 2013/2014, 2014/2015

Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system, which would have included segregation of duties, was not in place at the School Corporation in order to ensure compliance with the Cash Management requirements. There were no controls in place to ensure that the School Lunch monthly balances were limited to the average expenditures for three months.

The School Lunch fund balance for the School Corporation exceeded its average expenditures for 3 months in all 24 months of the audit period. The School Lunch fund average expenditures for 3 months during 2013/2014 and 2014/2015 were \$366,235 and \$413,146, respectively. The School Lunch fund average cash balances during 2013/2014 and 2014/2015 were \$1,996,256 and \$2,290,196, respectively.

*Context*

This is not an isolated incident. The balances were over the three month average for numerous fiscal years. The School Corporation had a plan to spend a portion of their excess balance on updates to some of their kitchens and pay rate increases for program employees; however, no action was taken during the audit period.

*Criteria*

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; and"

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 section 210.19(a)."

COMMUNITY SCHOOLS OF FRANKFORT  
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. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

The School Corporation had not properly developed or implemented a plan to reduce the cash balance of the School Lunch fund to an amount that had not exceeded the average expenditures for three months.

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

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

We also recommended that the School Corporation's management comply with the Cash Management requirements of the programs.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.





Don DeWeese, Ed. S., *Superintendent of Schools*  
Joel McKinney, *Assistant Superintendent*

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765.659.6220

**CORRECTIVE ACTION PLAN**

**FINDING 2015-001**

Contact Person Responsible for Corrective Action: Leslie Michael, Treasurer  
Contact Phone Number: 765-654-5585

**Description of Corrective Action Plan:**

The Treasurer shall make sure that the SEFA is uploaded into the Gateway and all Federal funds shall be included on such.

Further segregation of duties are being put into place to make sure that all reports are completed in a timely manner and within the timelines given by the various governmental agencies to remain in compliance.

Anticipated Completion Date: Immediately

**FINDING 2014-002**

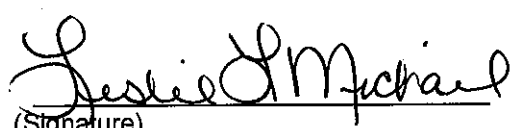
Contact Person Responsible for Corrective Action: Diane Stiening  
Contact Phone Number: 765-654-8545

**Description of Corrective Action Plan:**

The school corporation is going to update foodservice equipment and cafeterias in individual schools. The School Board will review a proposal for an increase to School Lunch personnel pay.

Further internal controls for segregation of duties are being put into place for compliance of cash management. All monthly reports are to be reviewed by the Director of School Lunch and the Corporation Treasurer.

Anticipated Completion Date: Ongoing project, plans in the works.

  
(Signature)

July 27, 2016  
(Title)

Treasurer  
(Date)

- |                           |                                 |                         |                              |                                   |                             |                             |
|---------------------------|---------------------------------|-------------------------|------------------------------|-----------------------------------|-----------------------------|-----------------------------|
| Sandy Miller<br>President | James McQuade<br>Vice President | Jeff Tatum<br>Secretary | Karen Sutton<br>Board Member | Kristen Beardsley<br>Board Member | Mark Sheets<br>Board Member | Annie Bacon<br>Board Member |
|---------------------------|---------------------------------|-------------------------|------------------------------|-----------------------------------|-----------------------------|-----------------------------|

COMMUNITY SCHOOLS OF FRANKFORT  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented in the Financial Statement and Single Audit Report included the following funds with overdrawn cash balances at June 30, 2014 and 2015:

Fund	Amount Overdrawn	
	June 30, 2014	June 30, 2015
School Transportation	\$ (74,913)	\$ (136,807)
Textbook Rental	(294,031)	(82,062)
Special Ed Coop-Occup Therapy	(66,135)	(35,662)
Alternative Education	(13,224)	(50,679)

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

**OFFICIAL BONDS NOT RECORDED**

The following official bonds were not filed in the Office of the County Recorder during the audit period:

Position	Bond Term
Corporation Treasurer	11-19-14 to 11-19-15
Extra-Curricular Treasurer - High School	01-01-13 to 12-31-15
Extra-Curricular Treasurer - Middle School	01-01-13 to 12-31-15
Extra-Curricular Treasurer - Green Meadows	01-01-13 to 12-31-15
Extra-Curricular Treasurer - Suncrest Elementary School	01-01-13 to 12-31-15
Extra-Curricular Treasurer - Blue Ridge Elementary School	01-01-13 to 12-31-15

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 36-2-7-10. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

The treasurer of each extra-curricular account shall provide a faithful performance of duty bond for one year, the term of the office. The amount of the bond shall be fixed and approved by the school superintendent and principal approximating the total amount of anticipated funds which will come into the hands of the treasurer at any one time during the regular school year, IC 20-41-1-6. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder and also with the school board. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

COMMUNITY SCHOOLS OF FRANKFORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

***CERTIFIED REPORT FILED AFTER DUE DATE***

The School Corporation did not timely file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) with the Indiana State Board of Accounts for 2014 and 2015. The reports due January 31 each year were filed on February 10, 2014, and February 2, 2015, respectively.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

***AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS***

The designated building level personnel did not provide written certification that the detailed student records maintained to support the ADM claimed were accurate for both school years of the audit period.

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)

***EDUCATIONAL FEES***

The School Corporation charged various educational fees, such as art fees, physical education locker fees, etc. The School Corporation did not obtain a written opinion from the School Corporation's Attorney to verify that all educational fees charged by the School Corporation were appropriate in regards to the Constitutional provisions.

Indiana Code 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds. . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

COMMUNITY SCHOOLS OF FRANKFORT  
AUDIT RESULTS AND COMMENTS  
(Continued)

***PREPAID LUNCH ACCOUNT RECONCILIATIONS***

The School Corporation did not use a Prepaid Food clearing account. This account is necessary in order to maintain a control of the prepaid student lunch account balances. Subsidiary records of student lunch account balances should be reconciled to the control account monthly.

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

COMMUNITY SCHOOLS OF FRANKFORT  
EXIT CONFERENCE

The contents of this report were discussed on July 27, 2016, with Sandra L. Miller, President of the School Board; Don DeWeese, Superintendent of Schools; Joel McKinney, Assistant Superintendent of Schools; and Leslie L. Michael, Treasurer.