

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCOTT COUNTY SCHOOL DISTRICT 2

SCOTT COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
10/07/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2014-002 - Internal Controls and Compliance over Financial Transactions and Reporting	5-6
Finding 2014-003 - Internal Controls over Child Nutrition Cluster	7
Finding 2014-004 - Allowable Costs/Cost Principles	7-9
Finding 2014-005 - Cash Management	9
Finding 2014-006 - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts	10-11
Finding 2014-007 - Reporting	11-12
Finding 2014-008 - Special Tests and Provisions - Paid Lunch Equity	12
Finding 2014-009 - Allowable Costs/Cost Principles	12-14
Finding 2014-010 - Internal Controls over Title I, Part A Cluster	14-15
Finding 2014-011 - Special Tests and Provisions - Comparability	15-16
Finding 2014-012 - Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals	16-17
Finding 2014-013 - Internal Controls over Special Education Cluster (IDEA)	17-18
Finding 2014-014 - Suspension and Debarment	18
Corrective Action Plan	19-22
Audit Results and Comments:	
Appropriations	23
Supporting Documentation	23
Promotional Expenditures	23-24
Public Works Project	24
Compensation and Benefits	25
Collection of Amounts Due	25
Average Daily Membership (ADM) - Lack of Records	25-26
Curricular Materials Rental Fees	26
Exit Conference	27

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Steve Nauman Melinda Sparkman	01-01-12 to 01-05-14 01-06-14 to 12-31-16
Superintendent of Schools	Dr. Philip Deardorff Dr. Marc Slaton	07-01-12 to 06-30-13 07-01-13 to 06-30-17
President of the School Board	Teresa Cozart Jason Kendall	01-01-12 to 12-31-12 01-01-13 to 12-31-16



STATE OF INDIANA
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TO: THE OFFICIALS OF THE SCOTT COUNTY SCHOOL DISTRICT 2, SCOTT COUNTY, INDIANA

This report is supplemental to our audit report of the Scott County School District 2 (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 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

August 15, 2016

SCOTT COUNTY SCHOOL DISTRICT 2
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).

The School Corporation should have had 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 operated effectively, material misstatements of the SEFA remained undetected.

During the audit of the SEFA, there were the following errors:

1. The Child Nutrition Cluster program activity was not included on the SEFA.
2. Some pass-through grants were improperly identified as direct grants.
3. Some grant programs did not have the CFDA number listed.
4. Some grants did not have the amounts broken out by the separate grant project year.
5. Some State grants were reported on the SEFA.
6. Several federal grants were reported with the incorrect amounts.

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

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:

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

- (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.
- (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 CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

Controls were not in place to ensure that financial activity associated with student meals adjustments and transfers were properly recorded in the financial records and contained sufficient supporting documentation. Several deficiencies were noted regarding controls for the financial transactions and reporting as follows:

1. A monthly reconciliation of the student meal account balances with the balance in the Prepaid Food fund were not performed. At June 30, 2013, the student meal account balance and the Prepaid Food fund contained a variance of \$78. At June 30, 2014, the student meal account balance and the Prepaid Food fund balance contained a variance of \$25,062.
2. Adjustments were recorded to the Prepaid Food fund and the School Lunch fund without documentation supporting the reason and validity of the adjustment recorded. The following undocumented transfers were recorded as receipts and disbursements between the Prepaid Food fund and the School Lunch fund:
 - a. In December 2012, a transfer was recorded in the amount of \$59,847.
 - b. In June 2013, a transfer was recorded in the amount of \$38,661.
 - c. In July 2013, a transfer was recorded in the amount of \$82,731.
 - d. In December 2013, a transfer was recorded in the amount of \$34,494.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

3. Students were allowed to purchase meals on account resulting in deficit account balances. There were no procedures in place to collect on the amounts owed. As of June 30, 2013, student account balances accumulated to a deficit amount of \$84,554. New policies were adopted in July 2013 and fully implement as of December 2013 addressing collection procedures for deficit account balances and steps taken to prevent the accumulation of large deficit account balances. As of June 30, 2014, the student account balances were \$7,888.
4. The School Corporation had not separated incompatible activities related to receipts for meals. The same person was responsible for recording payments to student accounts, recording receipts to the ledger, collecting and depositing funds, and recording adjustments. There was no control to ensure that monies collected are accounting for in student meal accounts had been deposited and recorded in the proper fund.
5. The following deficiencies were noted in the information generated from the student meal software:
 - a. Figures generated on some of the School Nutrition Reports did not foot properly. It could not be determined if all transactions were properly appearing on the reports.
 - b. The student account balances report generated from the software did not contain vital information such as, the name of the school building and date the information was being reported. This information is required to properly identify the time period of the activity and reconcile with the control account.

Failure to establish controls over student meal collections, adjustments, and transfers could have resulted in the misappropriation of monies going undetected and incorrect financial reporting.

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)

Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 3)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - INTERNAL CONTROLS 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, SY 13-14
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: Eligibility and Special Tests and Provisions - Verification of Free and Reduced Applications (NSLP).

Eligibility

The School Corporation had not designed or implemented adequate control procedures to ensure compliance with Eligibility requirements. The same individual was responsible for entering eligibility income guidelines, inputting the individual student's free and reduced price application information into the computer system, and performing verifications of the applications.

Special Tests and Provisions - Verification of Free and Reduced Applications (NSLP)

The School Corporation had not designed or implemented adequate control procedures to ensure that the verifications of free and reduced price applications were reviewed. There was no segregation of duties, such as an oversight, review, or approval process over compliance with the verification of free and reduced price applications requirements.

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 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.

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 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, SY 13-14
Pass-Through Entity: Indiana Department of Education

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the requirements for Allowable Costs/Cost Principles.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the School Corporation expended funds for allowable costs of the programs. Program expenditures were not reviewed or approved to ensure that the expenditures were for allowable costs of the programs prior to payment.

Failure to establish proper controls over allowable costs resulted in costs being charged to the program that were not in compliance with the program requirements. Costs in the amount of \$49,688 were charged to the grant programs, which were considered to be questioned costs. A detail of these costs that were considered to be in noncompliance are as follows:

1. Employees working solely for the school meal program did not complete Semiannual Certifications certifying that their time was spent solely for the benefit of the school meal program.
2. Personnel Activity Reports documenting how salary costs were allocated to the grant program were not completed for an employee who performed duties related to the school meal program and other secretarial duties for the School Corporation.

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. . . ."

OMB Circular A-87, Attachment B, section 8(h) 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 and 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. 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,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity. . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and requirements pertaining to Allowable Costs/Cost Principles. Procedures should have been implemented to ensure Personnel Activity Reports and Semiannual Certifications were completed and reviewed.

FINDING 2014-005 - 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): SY 12-13, SY 13-14

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 requirements for Cash Management.

The monthly cash balance for the School Lunch fund exceeded the average expenditures for 3 months for 23 of the 24 months during the audit period. The School Lunch fund balance was in excess of the average expenditures for 3 months, ranging from \$1,161 to \$202,430.

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. . . ."

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) states in part:

"Each school food authority approved to participate in the program shall. . . ., with respect to participating schools under its jurisdiction: . . .

- (iv) Limit its net cash resource 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 enabled material noncompliance to go undetected. Noncompliance with 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 the compliance requirement noted above.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

FINDING 2014-006 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, PROGRAM INCOME, AND SPECIAL TESTS AND PROVISIONS - SCHOOL FOOD ACCOUNTS

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.533, 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 requirements for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts.

Controls were not in place to ensure that financial activity derived from student meals were properly recorded in the School Lunch fund and used in accordance with the requirements. Control deficiencies resulted in noncompliance with the requirements listed above as follows:

1. Expenditure amounts were recorded to the School Lunch fund as small claims write offs in the amount of \$38,661 in June 2013 and \$82,731 in July 2013, resulting in \$121,392 in questioned costs.
2. The amounts shown as sales per the school nutrition software was not in agreement with the amounts recorded in the financial records. In school year 2012/2013, there were \$9,498 more meal sales than what was recorded in the financial records. In school year 2013/2014, there were \$3,510 less in reported meal sales than what was recorded in the financial records.
3. The School Corporation had not separated incompatible duties associated with program income derived from the sale of meals. The same person was responsible for recording monies collected, recording receipts, collecting and depositing funds, and recording adjustments.

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. . . ."

OMB Circular A-82, Attachment B, section 5 states: "Bad debts. Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable."

7 CFR 210.14(c) states in part:

"*Financial assurances.* The school food authority shall meet the requirements of the State agency for compliance with §210.19(a) . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

School Breakfast Program:

7 CFR 220.13(i) states in part:

"Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with 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 requirement listed above.

FINDING 2014-007 - 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): SY 12-13, SY 13-14

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, to provide sufficient oversight related to the compliance requirements related to Reporting.

Reports are completed by one individual and no controls exist to ensure the reports are complete and accurate.

Failure to establish proper controls resulted in errors being made on the Annual Financial Reports filed. The amounts reported for the Prepaid Food fund in the report were shown as zero in each school year. The actual balances in the Prepaid Food fund were negative \$84,476 and negative \$17,174 for 2012/2013 and 2013/2014, respectively.

7 CFR 3016.20(b) Standards for financial management systems states in part: "(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 sub grant."

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

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurances 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 and implement internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement that have a direct and material effect to the programs could have resulted in the loss of federal funds to the School Corporation.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, related to the grant agreement and all requirements for Reporting.

FINDING 2014-008 - SPECIAL TESTS AND PROVISIONS - PAID LUNCH EQUITY

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program

CFDA Number: 10.555

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

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 requirements for Special Tests and Provisions - Paid Lunch Equity.

No controls were in place to ensure that the School Corporation performed price calculations and retained records of these calculations. Paid lunch equity price calculations were not presented for audit in order to be able to determine compliance with the program requirement.

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

"The audited 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 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

The failure to maintain supporting documentation of internal control procedures prevented the ability to verify if the School Corporation was in compliance with the requirements for Special Tests and Provisions - Paid Lunch Equity.

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, related to the requirements for Special Tests and Provisions - Paid Lunch Equity.

FINDING 2014-009 - 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): 12-7255, 13-7255, 14-7255,
SY 12-13, SY 13-14

Pass-Through Entity: Indiana Department of Education

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the requirements for Allowable Costs/Cost Principles that have a direct and material effect on the program.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that costs budgeted and disbursed were for allowable costs and that Semiannual Certifications and Personnel Activity Reports were properly completed. During the audit period, total costs in the amount of \$58,660 were determined to be questioned costs as indicated below:

1. Costs in the amount of \$4,784 were charged for parental involvement family night activities for the purchase of food and the payment of salaries and benefits for cafeteria workers for food preparation.
2. Costs in the amount of \$53,876 were charged to the grant program related to salaries and benefits, but were not supported by proper documentation to justify the allocation of the amounts paid.
 - a. Semiannual Certifications and Personnel Activity Reports were not completed for all employees whose salaries were charged to the program. There were 14 employees identified as being paid in school year 2012/2013 and 4 employees in the school year 2013/2014 for which certifications and reports were not completed.

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. . . ."

OMB Circular A-87, Attachment B, section (8)(h), 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. 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,
- (c) An indirect cost activity and a direct cost activity,

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity. . . ."

The failure to establish internal controls 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 and comply with the grant agreement and the requirements for Allowable Costs/Cost Principles.

FINDING 2014-010 - INTERNAL CONTROLS OVER TITLE I, PART A CLUSTER

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): 12-7255, 13-7255, 14-7255,
SY 12-13, SY 13-14

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: Cash Management, Eligibility, and Reporting.

Cash Management

The Treasurer/Business Manager was responsible for the preparation and submission of the Reimbursement Forms. There were no controls in place to ensure the accuracy and completeness of the requests.

Eligibility

The Title I Director prepared and submitted the grant application and the Superintendent certified the application. Although controls were in place to ensure that information entered on the grant applications were accurately completed, they were not effective, differences were identified in the figures entered on the applications and the supporting documentation.

Reporting

The Treasurer/Business Manager was responsible for the preparation and submission of the Reimbursement Forms and the Annual Expenditure Reports. There were no controls in place to ensure the accuracy and completeness of those reports.

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. . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

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.

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

FINDING 2014-011 - SPECIAL TESTS AND PROVISIONS - COMPARABILITY

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): 12-7255, 13-7255, 14-7255,
SY 12-13, SY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the requirements for Special Tests and Provision - Comparability.

The School Corporation had not designed or implemented adequate policies and procedures to ensure comparability information was properly reported and documentation was not retained to support figures used in the calculation. The following information on the report could not be verified: number of students enrolled; number of full-time equivalency staff; and a comparison between local services provided to each school.

The number of reported students enrolled was not in agreement with the number of students per the Average Daily Membership (ADM) records. Documentation to support the number of Full Time Equivalency Staff (FTE) reported on the comparability report was not presented for audit. Non-Title I/Comparison School Data was not completed.

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. . . ."

34 CFR 80.36 states in part:

". . . (b) *Length of retention period.* (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . .

(c) *Starting date of retention period*—(1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due. . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

The failure to maintain supporting documentation of internal control procedures prevented the ability to verify if the School Corporation was in compliance with the requirements for Special Tests and Provisions - Comparability.

We recommended that the School Corporation's management establish controls, including segregation of duties, to ensure compliance with the grant agreement and the compliance requirements for Special Tests and Provisions - Comparability.

**FINDING 2014-012 - SPECIAL TESTS AND PROVISIONS - HIGHLY QUALIFIED
TEACHERS AND PARAPROFESSIONALS**

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): 12-7255, 13-7255, 14-7255,
SY 12-13, SY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the requirements related to Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals.

The School Corporation had not designed or implemented adequate policies and procedures to ensure staff met the qualifications as highly qualified. A review of qualifications of school personnel identified instances in which information was not retained on file to document the person's qualifications. The information was not retained on file to demonstrate the individual met the required qualifications for at least four individuals working in a school identified as a Title I schoolwide program.

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. . . ."

34 CFR 80.36 states in part:

". . . (b) *Length of retention period.* (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . ."

(c) *Starting date of retention period*—(1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due. . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

The failure to maintain supporting documentation of internal control procedures prevented the ability to verify if the School Corporation was in compliance with the requirements for Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals.

We recommended the School Corporation's management establish and implement controls to ensure compliance with grant agreements and compliance requirements for Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals. Information regarding qualifications should be retained centrally in the personnel files.

FINDING 2014-013 - INTERNAL CONTROLS OVER SPECIAL EDUCATION CLUSTER (IDEA)

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): 14211-038-PN01, 14212-038-PN01,
14213-038-PN01, 14214-038-PN01,
99914-157-TA01, 45711-038-PN01,
45712-038-PN01, 45713-038-PN01

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: Cash Management, Period of Availability, and Reporting.

The School Corporation designated Madison Area Educational Special Services Unit (MAESSU) as the fiscal agent to receive and manage the funding of the Special Education programs. There were the following deficiencies in the internal control system:

Cash Management

Requests for Reimbursement were prepared by MAESSU's Business Manager. There was no control in place to ensure that expenditures were paid prior to requesting reimbursement.

Period of Availability

MAESSU's Business Manager monitored expenditures for compliance with Period of Availability requirements. There was no control in place to ensure expenditures were incurred within the period of availability.

Reporting

The Requests for Reimbursement and Final Expenditure Reports were prepared and submitted by MAESSU's Business Manager. There were no controls in place to ensure that the Requests for Reimbursement and Final Expenditure Reports were accurate prior to submission.

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. . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

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.

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 2014-014 - SUSPENSION AND DEBARMENT

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, SY 13-14

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 Suspension and Debarment compliance requirement. The School Corporation had not designed or implemented adequate control procedures to ensure compliance with Suspension and Debarment requirements. A monitoring or review process had not been established to ensure that the vendors selected for procured products were not suspended or debarred from participation in federal programs.

The failure to maintain supporting documentation of internal control procedures prevented the ability to verify if the School Corporation was in compliance with the requirements for Suspension and Debarment.

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 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, related to the grant agreement and the compliance requirements pertaining to Suspension and Debarment that have a direct and material effect on the programs and to retain all supporting documentation required to verify compliance with those requirements.

SCOTT COUNTY

SCHOOL DISTRICT

375 East McClain Avenue
Scottsburg, IN 47170



812-752-8946
812-752-8951 Fax

Dr. Marc Slaton
Superintendent

Mr. Chuck Rose
Director of Elementary Education

Ms. Melinda Sparkman
Business Manager

Corrective Action Plan

2012-14

Audit Contact Person: Melinda Sparkman
Title of Contact Person: Business Manager/Treasurer
Phone Number: 812-752-8982
Email: msparkman@scsd2.k12.in.us

Finding 2014-001

The new Business Manager is aware of the errors noted and will be more knowledgeable going forward. The listing of federal awards will be compared back to the Funds Report from the accounting system will be used as a checklist to compare to the listing of federal awards listed in the Schedule of Expenditures of Federal Awards (SEFA)

Finding 2014-002

The Prepaid Meal account is now being reconciled monthly. Policies are in place to deter student deficit lunch account balances. Starting in September, 2016 the Student Service Clerk will continue to enter the adjustment to student accounts but the Deputy Treasurer will collect and deposit the funds. Starting in the 2015-16 school year the Food Service staff was instructed to document any adjustments on their reports to reconcile the reports to the actual deposit. The Student Services Clerk, on a daily basis, reviews those reports and deposit be ensure accuracy.

Finding 2014-003

Starting at the beginning of the 2017-18 school year, Scott 2 will segregate the duties of eligibility income guidelines to the Business Manager and the free and reduced application input to various staff in the business office during peak periods but with primary function assigned to the District Food Service Coordinator (DFSC). Starting in the 2016-17 school year, the Business Manager will review the income document and the application to ensure proper eligibility.

Finding 2014-004

Starting in September 2016, Scott 2 will maintain semi-annual certifications in the DFSC's office. And starting Sept 1, 2016, those employees that are NOT 100% food service, will maintain a personal activity log. Our new DFSC has attended and will be attending various training to learn what is allowable. In addition, any invoice or PO is approved by the DFSC before submitting for payment.

Finding 2014-005

Scott 2's new DFSC is aware of the compliance requirement of the net cash resources. The new DFSC plans to bring the positive variance closer to compliance through kitchen equipment purchases. Starting September 2016 month-end, a monthly report will be provided from the Business Manager to the DFSC that will show monthly expenditures and revenue in order to monitor the cash balance.

Finding 2014-006

Policies are place today that should prevent the need for writeoffs in the future. Alternative meals are strictly enforced as well as continuous review of student lunch account balances by the Student Service Clerk. Any adjustments to student accounts are approved by the Business Manager and are maintained by the Student Services Clerk.

Finding 2014-007

The new DFSC is meeting the DOE Field Consultant in August 2016 to be trained on the completion of the Annual Financial Report. The Business Manager will review and sign the report as well when completed.

Finding 2014-008

Scott 2 is currently using the PLE tool and in fact just raised 2016-17 lunch prices by \$.10 and will continue to analyze. This procedure is on the DOE School Nutrition website as well as other procedures. The new DFSC monitors this site to ensure all procedures are performed.

Finding 2014-009

Starting in the 2016-17 school year, Scott 2 will not process any expenditure from the Title 1 Grant which is not an allowable costs under the program. The new Scott 2 Title I Director, Business Manager, and Superintendent are aware of the questionable costs identified. Before the end of the 2016-17 school both the Business Manager and Title 1 Director will attend training on allowable costs and proper documentation procedures under the Title 1 program. Semi-annual certifications will be completed and maintained in the Scott 2 Admin Office by the the Title 1 Director.

Finding 2014-010

Starting in the 2016-17 school year, Scott 2 will have 2 people (Superintendent, Title 1 Director or Business Manager) review and sign off on reimbursement requests, grant application and annual expenditure reports.

Finding 2014-011

Starting in the 2016-17 school year, Scott 2 will ensure the comparability information is properly reported by having both the Title 1 Director and the Business Manager review and sign off on the biennial report. The new Scott 2 Title I Director, Business Manager,

and Superintendent are aware of the biennial report requirements. The documentation will be maintained in the Scott 2 Admin Office by the Title 1 Director.

Finding 2014-012

Starting in the 2016-17 school year, Scott 2 will ensure compliance that all Title 1 staff meets the qualifications for highly qualified teachers and paraprofessionals by maintaining a checklist of all Title 1 staff. Scott 2 will perform an immediate audit of those currently scheduled to work in 2016-17 school year. Should Scott 2 identify any of those that do not meet the paraprofessional requirements, Scott 2 will take immediate steps to get the current paraprofessionals up to the current standards by the end of the calendar year 2016.

Finding 2014-013

Effective July 1, 2016 Scott 2 is no longer part of the Madison Educational Special Services Unit. In the future, reimbursement requests and final expenditure reports will be prepared by the Business Manager and reviewed by the Director of Special Education.

Finding 2014-014

The new DFSC is aware of the suspension and debarment requirements and will review with the DOE Field Rep in the month of August 2016 to create the review and monitoring process.

Submitted by:  _____ Marc Slaton, Superintendent

 _____ Melinda Sparkman, Treasurer

SCOTT COUNTY SCHOOL DISTRICT 2
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The School Transportation fund expenditures exceeded the budgeted appropriations for the years 2012 and 2013 by \$38,306 and \$87,858, respectively.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

SUPPORTING DOCUMENTATION

Disbursement transactions were recorded as transfers from one fund to another in the amounts of \$38,306 and \$139,319 in December 2012 and 2013, respectively, in the School Transportation fund. Corresponding receipt transactions were reported in the General fund; however, no documentation was provided to support the reason for the transfers.

Disbursement transactions were recorded for insurance in the amount of \$158,450 and \$30,469 in school years 2012/13 and 2013/14, respectively, for which there was not supporting documentation. Entries were made to record a negative disbursement to the payroll clearing group insurance account with a corresponding disbursement to the General fund.

The former School Corporation Business Manager/Treasurer stated he believed the transfers were made to reimburse the General fund for expenditures made in previous years for transportation related items. However, no documentation was provided to document the disbursements made or the year in which the disbursements occurred. Due to the lack of supporting information, we could not verify the purpose of the disbursement.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PROMOTIONAL EXPENDITURES

Expenditures for promotional items such as the purchase of meals for board meetings, staff meetings, and retirement parties were paid from various appropriation line items within the General fund, instead of the account number, 23160, per the prescribed chart of accounts. A review of expenditures identified promotional type purchases totaling \$8,772 for school year 2012/2013, of which only \$2,242 was charged to the proper appropriation line account number. Promotional expenditures of \$7,302 were identified in school year 2013/2014 of which only \$1,371 was charged to the proper appropriation line account number. Total promotion type expenditures in each year exceeded the \$3,000 maximum allowable based upon the School Corporation's average daily membership (ADM) in accordance with the Indiana Code.

SCOTT COUNTY SCHOOL DISTRICT 2
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-26-5-4(a)(3) states:

"To appropriate from the school corporation's general fund an amount, not to exceed the greater of three thousand dollars (\$3,000) per budget year or one dollar (\$1) per pupil, not to exceed twelve thousand five hundred dollars (\$12,500), based upon the school corporation's ADM of the previous year (as defined by IC 20-43-1-7) to promote the best interest of the school corporation through:

- (A) the purchase of meals, decorations, memorabilia, or awards;
- (B) provision for expenses incurred in interviewing job applicants; or
- (C) developing relations with other governmental units."

PUBLIC WORKS PROJECT

The School Corporation declared an emergency for the purchase and installation of a chiller at Scottsburg Elementary School. The Corporation contracted with a company for the installation of the new chiller. The total cost of the project was \$159,000. Information was not documented in the board minutes indicating the names of other companies invited to bid or provide quotes. Only one quote was presented for audit.

The School Corporation entered into a contract in the amount of \$474,733 with a company for the renovation of offices at Scottsburg Elementary School. No information was presented for audit to indicate a performance bond was obtained from the contractor.

Indiana Code 36-1-12-9 states:

"(a) The board, upon a declaration of emergency, may contract for a public work project without advertising for bids if bids or quotes are invited from at least two (2) persons known to deal in the public work required to be done.

(b) The minutes of the board must show the declaration of emergency and the names of the persons invited to bid or provide quotes."

Indiana Code 36-1-12-14(e) states in part:

". . . the contractor shall furnish the board with a performance bond equal to the contract price. If acceptable to the board, the performance bond may provide for incremental bonding in the form of multiple or chronological bonds that, when taken as a whole, equal the contract price. The surety on the performance bond may not be released until one (1) year after the date of the board's final settlement with the contractor. The performance bond must specify that:

- (1) a modification, omission, or addition to the terms and conditions of the public work contract, plans specifications, drawings, or profile;
- (2) a defect in the public work contract; or
- (3) a defect in the proceedings preliminary to the letting and awarding of the public work contract; does not discharge the surety."

SCOTT COUNTY SCHOOL DISTRICT 2
AUDIT RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS

Compensation was paid to eleven employees for positions or extra duties assignments that were not included on an approved salary ordinance, resolution, salary schedule, or contract. Compensation was paid to a temporary teacher without the execution of a temporary teaching contract.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Indiana Code 20-28-6-6 states in part:

"(a) A temporary teacher's contract shall be used only for employing:

- (1) a teacher to serve in the absence of a teacher who has been granted a leave of absence by the school corporation for:
 - (A) engaging in defense service or in service auxiliary to defense service;
 - (B) professional study or advancement;
 - (C) exchange teaching;
 - (D) extended disability to which a licensed physician has attested; or
 - (E) serving in the general assembly; . . ."

COLLECTION OF AMOUNTS DUE

Services for Preschool Transportation for the school year 2013/2014 were not billed to Madison Area Educational Special Services Unit.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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 the counts performed in September 2013 and February 2014. We were unable to determine if the number of students claimed was accurate. Adjustments were made to the enrollment figures based upon correspondence with Indiana Department of Education; however, these adjustments were not documented.

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

SCOTT COUNTY SCHOOL DISTRICT 2
AUDIT RESULTS AND COMMENTS
(Continued)

The building level official (Principal, Assistant Principal, etc.) 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)

CIRRICULAR MATERIALS RENTAL FEES

Information was not presented for audit documenting how the middle and high school curricular materials fees for electronic books were calculated.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Indiana Code 20-26-12-2(a) states:

"A governing board may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular material to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five (25%) of the retail price of the curricular materials."

SCOTT COUNTY SCHOOL DISTRICT 2
EXIT CONFERENCE

The contents of this report were discussed on August 15, 2016, with Melinda Sparkman, Treasurer; Dr. Marc Slaton, Superintendent of Schools; and Jason Kendall, President of the School Board.

The contents of this report were also discussed on August 10, 2016, with Steve Nauman, former Treasurer.