

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAFAYETTE SCHOOL CORPORATION

TIPPECANOE COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
10/14/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Eric L. Rody	01-01-13 to 12-31-16
Superintendent of Schools	Les L. Huddle	01-01-13 to 12-31-16
President of the School Board	Kay Walton Brian Wagner Stephen Bultinck	01-01-13 to 12-31-13 01-01-14 to 12-31-15 01-01-16 to 12-31-16



STATE OF INDIANA
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TO: THE OFFICIALS OF THE LAFAYETTE SCHOOL CORPORATION, TIPPECANOE COUNTY, INDIANA

This report is supplemental to our audit report of the Lafayette School Corporation (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/.

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

June 16, 2016

LAFAYETTE SCHOOL CORPORATION
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).

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

1. The SEFA was prepared using the calendar year instead of the fiscal school year expenditure amounts. This resulted in the understatement of federal expenditures by \$682,674 for the 2013-2014 school year.
2. National School Lunch Program expenditures did not include commodities or After-School Snack program expenditures totaling \$200,499 and \$238,492 for the 2013-2014 and 2014-2015 school years, respectively.
3. Several program names did not match those shown on the CFDA website.
4. One program listed the incorrect pass-through agency.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

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:

LAFAYETTE SCHOOL CORPORATION
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.
..."

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 remained undetected and the SEFA contained the errors identified in the *Condition*.

Views of Responsible Officials

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

FINDING 2015-002 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to disbursements. The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors during the payroll process. No audit evidence was provided to document that more than one employee was responsible for all aspects of the payroll process. There was no segregation of duties, such as an oversight, review, or approval process.
2. Monitoring of Controls: The School Corporation had no process to identify or communicate corrective actions to improve controls.

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.

LAFAYETTE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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)

Cause

Management of the School Corporation had not established a proper system of internal control. An evaluation of the School Corporation's system of internal control had not been conducted. Management had not conducted a risk assessment related to the School Corporation's financial reporting and transactions.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Views of Responsible Officials

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

FINDING 2015-003 - INTERNAL CONTROL OVER THE 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): FY13-14, FY14-15

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles

The School Corporation had not designed or implemented adequate policies and procedures to ensure that payroll transactions were for allowable activities or were allowable costs. There were no documented controls over payroll transactions during the audit period.

Eligibility

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with Eligibility requirements of the grant. There were no documented procedures to ensure the accuracy of the eligibility determinations made at the beginning of each school year.

LAFAYETTE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure that requests for reimbursement reports or other required reports were accurate and properly submitted.

Special Tests and Provisions - Verification of Free and Reduced Price Applications

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the Verification Summary was accurate and properly submitted.

Context

The School Corporation had a lack of internal controls throughout the audit period.

Criteria

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.

Effect

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.

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 requirements listed above.

Views of Responsible Officials

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

LAFAYETTE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-004 - 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): FY13-14, FY14-15

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system, which would include segregation of duties, was not in place. There was not a documented review of the monthly fund reports by the Food Service Director.

The School Lunch fund balance for the School Corporation exceeded the average expenditures for 3 months in all 24 months of the audit period. The average expenditures for 3 months of the School Lunch fund for FY 13-14 and FY 14-15 were \$1,054,988 and \$1,247,340, respectively. Average cash balances were \$3,940,392 and \$3,468,421 for FY 13-14 and FY 14-15, respectively.

Context

The lack of properly designed or implemented controls and the noncompliance with the Cash Management requirements applied to both years of the audit period. This was not an isolated incident. The cash balances have exceeded the average expenditures for three months for several fiscal years.

Criteria

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 220.7(e)(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 . . ."

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)."

Cause

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

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

LAFAYETTE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with the 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.

Lafayette School Corporation

Nurture Inspire Empower

2300 Cason Street Lafayette, IN 47904 Phone: (765) 771-6000 Fax: (765) 771-6049

June 15, 2016

State Board of Accounts
302 W. Washington Street, Rm E418
Indianapolis, IN 46204-2765

Re: CORRECTIVE ACTION PLAN

FINDING 2015-001; Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Eric Rody
Contact Phone Number: 765-771-6000

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation is adopting a new board policy regarding internal controls and will document procedures in administrative guidelines under an over-arching policy.

Anticipated Completion Date: 2016-17 school year.

FINDING 2015-002; Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Eric Rody
Contact Phone Number: 765-771-6000

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation is adopting a new board policy regarding internal controls and will document procedures in administrative guidelines under an over-arching policy. While personnel do review each other's work, there exists no "sign-off" that such a review has taken place. The new policy and guidelines will force that action to take place.

Anticipated Completion Date: 2016-17 school year

FINDING 2015-003; Internal Control Over the Child Nutrition Cluster

Contact Person Responsible for Corrective Action: Eric Rody
Contact Phone Number: 765-771-6000

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation is adopting a new board policy regarding internal controls and will document procedures in administrative guidelines under an over-arching policy. While personnel do review each other's work, there exists no "sign-off" that such a review has taken place. The new policy and guidelines will force that action to take place. We are disappointed that employees have not followed direction in this area from the previous audit. While we do believe that checks and balances do occur, we do understand that there was no audit evidence of such.

Anticipated Completion Date: 2016-17 school year

FINDING 2015-004: Cash Management

Contact Person Responsible for Corrective Action: Eric Rody

Contact Phone Number: 765-771-6000

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Again, the internal control procedures are being established over the 2016-17 school year as mentioned in previous findings. This cash balance was developed over a period of several years dating back prior to 2010. While we accept the fact that the balance is high when compared to the guideline handed out in recent years, we are holding some of this cash for upcoming building projects involving several buildings as our enrollment has grown significantly over the past few years. Kitchens will be upgraded in four buildings with kitchen upgrades coming from this cash balance.

Anticipated Completion Date: 2016-17, 2017-18 and 2018-19 school years.

Thank you very much.

Sincerely,



Eric L. Rody
Chief Financial Officer

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LAFAYETTE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP - LACK OF RECORDS

The designated building-level personnel did not provide written certification that the detailed student records maintained to support the Average Daily Membership (ADM) claimed were accurate.

A similar comment was included in prior Report B43695.

During the audit period, Indiana Code 5-15-6-3(f) stated in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission. . . ."

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)

CREDIT CARDS

The School Corporation did not retain proper documentation for credit card payments. Credit card purchases were paid based on the information detailed on the credit card statement.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed: . . .

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. . . .

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK RENTAL CHARGE

The officials of the School Corporation did not compute the textbook rental charges based on Indiana Code 20-26-12-2. For curricular materials that have been extended for use or have already been paid for through the previous collections, the School Corporation continued to compute the textbook rental charge using the 25 percent rate instead of the allowable maximum of 15 percent.

During the audit period, Indiana Code 20-26-12-2(a) stated in part: ". . . The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials."

LAFAYETTE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

During the audit period, Indiana Code 20-26-12-2(b) stated:

"Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of curricular materials that have been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

ACADEMIC HONORS DIPLOMAS - INCORRECT REPORTING TO THE STATE

The information presented for audit indicated that the number of academic honors diplomas reported to the state was incorrect for the school years ending June 30, 2014, and June 30, 2015.

The difference between the count reported on the DOE-GR and the verified figures are shown below:

<u>School Year</u>	<u>Honors Diploma Reported per Form DOE-GR</u>	<u>Actual Graduation Figures</u>	<u>Difference</u>
2013-2014	88	91	(3)
2014-2015	105	113	(8)

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

EXTRACURRICULAR RECEIPTS AND DISBURSEMENTS

The following items were noted from the information presented for audit from Miami Elementary School:

1. Receipts were not issued for monies collected.
2. The Claim for Payment (SA-7) was not used for claiming payment in situations where purchase orders were not used. Payments were not properly approved by the person with authorization. Signatures verifying the receipt of goods and services were not available. Additionally, the certification by the Extracurricular Treasurer could not be verified for the cash disbursements.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

The Claim for Payment (SA-7) is to be printed and print ruled, original only, and gathered in pads of 50. The Claim for Payment (SA-7) shall be used for claiming payment by anyone in situations where purchase orders are not used; for example, purchases from delivery salesmen, services of officials at athletic events, etc.

LAFAYETTE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Signatures are required by the person authorized to purchase and the person acknowledging the receipt of the good or services. Additionally, the extra-curricular treasurer is to sign the required certification on the form SA-7.

(Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

PREPAID LUNCH ACCOUNT RECONCILIATIONS

The School Corporation did not use a Prepaid Food account.

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)

Lafayette School Corporation

2300 Cason Street Lafayette, IN 47904 Phone: (765) 771-6000 Fax: (765) 771-6049

June 23, 2016

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

Submitted via email to: Lisa David ldavid@sboa.in.gov

OFFICIAL RESPONSE (revised)

Dear Sir:

Following is a written response to the audit results and comments of our recent State Board of Accounts audit.

Average Daily Membership

We certainly believe that the records concerning ADM counts should be maintained by each school in an orderly fashion. We will develop an internal form which each principal will sign indicating the records on file for each count day in the school year. That form will be kept in the Principal's office and a copy sent to the curriculum office as well.

Credit Cards

The Board has established that the Treasurer may maintain a credit card for corporation purchases for travel, equipment and small purchases as approved by the Treasurer. The Business Office does maintain a log of use of the card and it is signed out by appropriate personnel. It is very clearly stated that the actual purchase receipt must be returned to the Business Office upon return of the card.

Textbook Rental Charge

This particular item pertains to Tecumseh Junior High School. During the audit period, it was noted that the allowable rate for extended use textbooks should have dropped to 15% of cost and did not. This was an oversight by the school building administration during a summer in which the applicable administrator had a severe physical injury and was away from school several months. The corporation will make every effort charge in correct manners in the future.

Academic Honors Diplomas

This item will amount to more money due LSC by the Department of Education. We will contact the Department and make arrangements to submit the proper paperwork to obtain these additional funds due.

Extra-Curricular Receipts and Disbursements

Per the new Risk Management Report completed by each school ECA treasurer, two schools were chosen for audit during this period. The two schools chosen were Miami Elementary School, and Oakland High School. It was reported by the auditor that Miami Elementary did not issue receipts. The proper discussions will be had with not only that treasurer but all ECA treasurers about following the procedures per the ECA manual. Receipts and use of form SA-7 will be included in the discussion.

Prepaid Lunch Account Reconciliation

The school corporation will begin using the prepaid school lunch clearing account according to procedure, commencing with the 2016-17 school year. We will contact a few other school corporations to understand better how the overall process will work.

Please accept this letter as our response to the audit and our commitment to properly address all issues raised by the auditor during the review. We thank you very much for your help and professionalism during the audit. It has been our pleasure to work with Ms. Thornton in her audit capacity.

Sincerely,



Mr. Les Huddle
Superintendent



Eric L. Rody
Chief Financial Officer

LAFAYETTE SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on June 16, 2016, with Eric L. Rody, Treasurer; Kim S. Cain, Bookkeeper; Lorrie Rainey, Food Service Director; Stephen Bultinck, President of the School Board; and Les L. Huddle, Superintendent of Schools.