

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BARR-REEVE COMMUNITY SCHOOLS, INC.

DAVISS COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
01/15/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mary Lottes	07-01-12 to 06-30-16
Superintendent of Schools	Travis Madison	07-01-12 to 06-30-16
President of the School Board	Galen Graber Joe Cummings Scott Lottes Galen Graber	07-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15



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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE BARR-REEVE COMMUNITY SCHOOLS, INC., DAVIESS COUNTY, INDIANA

This report is supplemental to our audit report of the Barr-Reeve Community Schools, Inc. (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

October 6, 2015

BARR-REEVE COMMUNITY SCHOOLS, INC.
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, misstatements of the SEFA could remain undetected.

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)

FINDING 2014-002 - ALLOWABLE COSTS

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year (or Other Identifying Number): 12-1315, 13-1315, and 14-1315
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Allowable Costs compliance requirement that has a direct and material effect on the program. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that costs budgeted and disbursed for parental involvement activities were for allowable costs. During the audit period, costs incurred for parental involvement family night activities were charged to the grant for items such as gift cards totaling \$750 that were given away for local restaurants and food expenses totaling \$1,263.07. The total amount of \$2,013.07 is considered to be a questioned cost.

The Title I Fiscal Handbook, Allowable Uses of Title I Funds section, states in part: . . .

"Gift Cards - gift cards are never an allowable expense, as there is no guarantee the card will be used on educationally-related purchases. This includes, for example, gift cards issues as door-prizes, gift cards issued to teachers for supplies, or Apple gift cards to download software on iPads and iPods.

Food - Generally, there is a very high burden of proof to show that paying for food and beverages with Federal funds is necessary to meet the goals and objectives of a Federal grant. When a grantee is hosting a meeting, the grantee should structure the agenda for the meeting so that there is time for participants to purchase their own food, beverages, and snacks. In addition, when planning a meeting, grantees may want to consider a location in which participants have easy access to food and beverages.

BARR-REEVE COMMUNITY SCHOOLS, INC.
FEDERAL FINDINGS
(Continued)

While these determinations will be made on a case-by-case basis, and there may be some circumstances where the cost would be permissible, it is likely that those circumstances will be rare. Grantees, therefore, will have to make compelling case that the unique circumstances they have identified would justify these costs as reasonable and necessary."

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

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the compliance requirement for Allowable Costs.

FINDING 2014-003 - REPORTING

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): 12-1315, 13-1315 and, 14-1315

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the Reporting compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The final expenditure reports and monthly requests for reimbursements are filed on-line by the School Corporation Treasurer. There was no segregation of duties over the report submission, such as an oversight, review, or approval process.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

BARR-REEVE COMMUNITY SCHOOLS, INC.
FEDERAL FINDINGS
(Continued)

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

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the compliance requirements could result in the loss of federal funds to the School Corporation.

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

***FINDING 2014-004 - SPECIAL TEST AND PROVISION -
PARTICIPATION OF PRIVATE SCHOOL CHILDREN***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): 12-1315, 13-1315, and 14-1315

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system over compliance with Special Tests and Provisions - Participation of Private School Children. The failure to establish an effective internal control system places the School Corporation at risk of material noncompliance. The School Corporation did not conduct consultations with private school officials to determine the kind of educational services to provide to eligible private school children regarding Title I Local Educational Grants 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."

20 USC 7881(c)(1) states:

"To ensure timely and meaningful consultation, a State educational agency, local educational agency, educational service agency, consortium of those agencies, or entity shall consult with appropriate private school officials during the design and development of the programs under this chapter, on issues such as-

- (A) how the children's needs will be identified;
- (B) what services will be offered;
- (C) how, where, and by whom the services will be provided;

BARR-REEVE COMMUNITY SCHOOLS, INC.
FEDERAL FINDINGS
(Continued)

(D) how the services will be assessed and how the results of the assessment will be used to improve those services;

(E) the size and scope of the equitable services to be provided to the eligible private school children, teachers, and other educational personnel and the amount of funds available for those services; and

(F) how and when the agency, consortium, or entity will make decisions about the delivery of services, including a thorough consideration and analysis of the views of the private school officials on the provision of contract services through potential third-party providers."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation establish controls to ensure all grant requirements are complied with and to conduct consultations with private school officials to ensure private school children receive any educational services needed.

BARR-REEVE COMMUNITY SCHOOLS, INC.

***Dedicated Staff * Engaged Students * Involved Parents * Devoted Community
"Together We Are Better"***

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: **Mary Lottes, Treasurer**
Contact Phone Number **812-486-3220**

Description of Corrective Action Plan

Changes are being made to implement better internal controls of the Schedule of Federal Awards (SEFA). The superintendent will review the SEFA when completed by the treasurer for accuracy.

Anticipated Completion Date: **07-01-2015**

FINDING 2014-002

Contact Person Responsible for Corrective Action: **Mary Lottes, Treasurer**
Contact Phone Number **812-486-3220**

Description of Corrective Action Plan

Discussions have been held with the Title I Director to review allowable expenditures from the grant and the School Corporation will review the Title I Fiscal Handbook periodically to assure that we are in compliance of expenditures of the grant.

Anticipated completion Date: **07-01-2015**

BARR-REEVE COMMUNITY SCHOOLS, INC.

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FINDING 2014-003

Contact Person Responsible for Corrective Action: **Mary Lottes, Treasurer**
Contact Phone Number **812-486-3220**

Description of Corrective Action Plan

The Superintendent or Title I Director will review and initial all reports that are submitted to Title I for reimbursement and the final reports to assure that no errors or misrepresentations are submitted by the treasurer.

Anticipated completion Date: 07-01-2015

FINDING 2014-004

Contact Person Responsible for Corrective Action: **Travis Madison**
Contact Phone Number **812-486-3220**

Description of Corrective Action Plan

The Superintendent will send letters to the private schools officials in our corporation inviting them to attend a meeting to explain the Title I program and what services are available to the private school students.

Anticipated completion Date: 07-01-2015



(Signature)



(Title)



(Date)

BARR-REEVE COMMUNITY SCHOOLS, INC.
AUDIT RESULTS AND COMMENTS

PREPAID SCHOOL LUNCH ACCOUNT

The prepaid school lunch account in the financial records is not being reconciled monthly to the subsidiary records by student. The total per the subsidiary records was less than the balance in the prepaid school lunch account in the amount of \$415.74 and \$563.89 as of June 30, 2013 and 2014, respectively.

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 Vol. 183)

POSTING CONTRACTS ON SCHOOL WEBSITE

As of April 1, 2015, not all of the current School Corporation Administrator's contracts have been posted on the School Corporation's website.

Indiana Code 20-26-5-4.7(b) states: "The superintendent shall post the provisions of an employment contract that the school corporation enters into with a certificated employee on the school corporation's Internet web site."

FUND SOURCES AND USES

Funds were disbursed from the Capital Projects fund for items not noted in Indiana Code 20-40-8 such as monthly trash disposal, pest control, parking lot sweeping, and office supplies.

A similar comment appeared in prior Report B41782.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CAPITAL ASSET RECORDS

Information presented for audit indicated that a complete record of capital assets was not maintained. An outside company was hired to compile a capital asset inventory report as of June 30, 2014. However, this report did not include all assets that should have been included pursuant to the School Corporation's Capital Assets policy. Items left off the report included technology assets purchased during the audit period.

A similar comment appeared in prior Report B41782.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BARR-REEVE COMMUNITY SCHOOLS, INC.
 AUDIT RESULTS AND COMMENTS
 (Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures reported to the state, were incorrect for the school years ending June 30, 2013 and 2014.

The enrollment count dates for school year 2013 and school year 2014 were September 14, 2012, and September 13, 2013, respectively. The difference between the count reported on the ADM and the verified figures are shown below:

School Year	Grade	Count as Reported on Form Number 30A	Actual Enrollment Figures	Difference
2013	1 through 12	659.00	656	3.00
2014	Kindergarten	39.5	40	(0.5)

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)

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 Average Daily Membership claimed was accurate for the 2012-2013 school year.

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." Effective July 1, 2015, Indiana Code 5-15-6-3 was amended and now states: "No financial records or records relating to financial records shall be destroyed until the earlier of the following actions: (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied. (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

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)

BARR-REEVE COMMUNITY SCHOOLS, INC.
AUDIT RESULTS AND COMMENTS
(Continued)

BOARD MEMBER PAID FOR BUS DRIVING

A Board member was paid for bus driving during the audit period.

A similar comment appeared in prior Report B41782.

Indiana Code 20-26-4-11 states:

"In addition to any other eligibility requirements for members of the governing body of a school corporation as set forth in law, an individual who is employed as a teacher or as a non-certificated employee (as defined in IC 20-29-2-11) of the school corporation may not be a member of the governing body of the school corporation."

This report was forwarded to the office of the local prosecuting attorney.

CURRICULAR MATERIAL RENTAL AND EDUCATIONAL FEES

On June 25, 2013, the School Board approved the curricular material rental and educational fees to be charged for the 2013-2014 school year. However, the actual educational fees that were charged to students in Grades K-5 did not agree with the amount that was approved by the School Board. In addition, the School Corporation could not provide a written opinion from the School Corporation attorney concerning whether the fees were appropriate in regards to Constitutional provisions.

Supporting documentation was not presented for audit to support the calculations of the curricular material rental that was charged for the 2012-2013 and 2013-2014 school years. It was noted that the calculation did include an estimated shipping charge of 8 percent instead of using the actual shipping charges from the paid invoices.

A similar comment appeared in prior Report B41782.

All authorized educational fees (the School Board should be able to justify any educational fees (non-payroll positions) and ensure Constitutional problems do not exist) must be receipted to the General Fund of the school corporation and included as miscellaneous revenues when preparing the school corporation budget. Textbook rental funds maintained at a school building may be used to temporarily record proper fees collected (as a convenience during the collection process of textbook rental). However, proper educational fees belong in the school corporation general fund and should be transferred timely. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

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) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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)

BARR-REEVE COMMUNITY SCHOOLS, INC.
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-26-12-2 states:

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

- (1) in compliance with the minimum certifications 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 percent (25%) of the retail price of the curricular materials.

(b) 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.

(c) This section does not limit other laws."

BARR-REEVE COMMUNITY SCHOOLS, INC.
EXIT CONFERENCE

The contents of this report were discussed on June 4, 2015, with Mary Lottes, Treasurer; Travis Madison, Superintendent of Schools; Galen Graber, President of the School Board. Separate exit conferences were held on the same day with Lana Helms, Board member, and Ronald W. Boyd, Board member.

The contents of this report were discussed on October 6, 2015, with Mary Lottes, Treasurer; Travis Madison, Superintendent of Schools; and Galen Graber, President of the School Board by telephone.