

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
EAST WASHINGTON SCHOOL CORPORATION
WASHINGTON COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
02/18/2016

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 Over Financial Transactions and Reporting	5
Finding 2014-003 - Activities Allowed or Unallowed and Allowable Costs/Cost Principles	6-7
Finding 2014-004 - Cash Management and Reporting	7-8
Finding 2014-005 - Eligibility	8-9
Finding 2014-006 - Special Tests and Provisions - Verification of Free and Reduced Price Lunch Applications	9-10
Finding 2014-007 - Special Tests and Provisions - Paid Lunch Equity.....	11-12
Finding 2014-008 - Allowable Costs/Cost Principles, Cash Management, and Reporting	13
Finding 2014-009 - Cash Management and Reporting	14-15
Corrective Action Plan.....	16-19
Audit Results and Comments:	
Collection of Amounts Due	20
Collective Bargaining Agreement	20-21
Prepaid Lunch Accounts.....	21
Official Response	22
Exit Conference.....	23

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Christi Pruitt (Vacant) Jodi Cole	01-01-12 to 04-24-15 04-25-15 to 05-25-15 05-26-15 to 12-31-15
Superintendent of Schools	Dr. Phyllis L. Amick (Interim) Steve Darnell	07-01-12 to 07-16-12 07-17-12 to 06-30-17
President of the School Board	Theresa Drescher Linda McClellan	01-01-12 to 12-31-12 01-01-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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 EAST WASHINGTON SCHOOL
CORPORATION, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the East Washington School Corporation (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

December 15, 2015

EAST WASHINGTON SCHOOL CORPORATION
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 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, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted that total federal expenditures for fiscal years 2013 and 2014 were incorrectly reported, with expenditures being understated by \$469,083 and \$941,124, respectively. The under reporting of expenditures was a result of the following errors: (a) the omission of funding for the Child Nutrition Cluster for fiscal year 2014, (b) commodities required to be reported under the National School Lunch Program, CFDA 10.555, were omitted for both fiscal years, (c) Title I expenditures were under reported for both fiscal years, (d) a \$70,000 Special Education grant was not included for fiscal year 2014, and (e) \$850,879 of Special Education grants administered by the South Central Area Special Education Cooperative were not included. In addition, state matching funds for the Child Nutrition Cluster and three state grants were erroneously included.

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

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, vendor disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

The School Corporation Treasurer prepared the bank reconciliations and there was no other review and approval until February of 2013. The School Lunch Treasurer prepared the bank reconciliations for the school lunch program with no other review or approval for the fiscal year July 1, 2012 to June 30, 2013. Some disbursements for payroll withholdings were never listed on the accounts payable register, and; therefore, were never approved by the School Board.

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)

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

**FINDING 2014-003 - ACTIVITIES ALLOWED OR UNALLOWED
AND ALLOWABLE COSTS/COST PRINCIPLES**

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Number and Year (or Other Identifying Number): FY13, FY14
Pass-Through Entity: Indiana Department of Education

The School Corporation has a Payroll Clerk that is responsible for the payroll for the entire School Corporation, including payroll for the Child Nutrition Cluster programs. After completing each payroll, the Payroll Clerk sends the detailed information supporting the gross pay to the School Food Treasurer, and the required funds are disbursed to the School Corporation. The amounts required for health insurance, dental insurance, vision insurance, long-term disability, life insurance, and health savings were not supported by any detailed documentation. The Payroll Clerk determined the amount required at the beginning of the school year and requested the amount be reimbursed each month. No supporting documentation was presented for audit regarding how these amounts were calculated.

The total amount of \$111,478 that was charged to the programs for payroll expenses are considered questioned costs because there were no records available to audit.

OMB Circular A-87, Attachment B, Part 8, states in part:

"Compensation for personal services.

a. *General.* Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h . . .

b. *Reasonableness.* Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

c. *Unallowable costs.* Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.

d. *Fringe benefits.* . . .

- (5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities. . . ."

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 School Corporation did not have controls in place to reduce the risk of noncompliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect to the program could result in loss of federal funds to the School Corporation.

We recommended the School Corporation's management establish and implement internal controls and ensure compliance with the grant agreement and compliance requirements pertaining to Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

FINDING 2014-004 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Number and Year (or Other Identifying Number): FY13, FY14
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 grant agreement and the following compliance requirements: Cash Management and Reporting.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the Annual Financial Report and the Verification Summary are accurately prepared. The School Food Treasurer posts the financial records for the program and does the verification of free and reduced

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

applications. She also completes the Annual Financial Report and the Verification Summary and there is no other review, oversight, or approval process. In addition, no documentation was available to determine that School Corporation officials were monitoring the School Lunch Fund cash balances for cash management purposes.

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

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

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

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements and could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish and implement internal controls, including segregation of duties, related to the grant agreement and compliance requirements pertaining to Cash Management and Reporting.

FINDING 2014-005 - ELIGIBILITY

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Number: 10.553, 10.555, 10.559

Federal Award Number and Year (or Other Identifying Number): FY13, FY14

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 grant agreement and the compliance requirement for Eligibility.

The Extra Curricular Treasurer in each building receives the applications for free and reduced lunches and determines the student's eligibility. There was no segregation of duties, such as oversight, review, or approval process to ensure student's eligibility. A review of application for 40 students receiving free and reduced price meals identified that five applications tested for the 2013-2014 school year were missing the signature of the determining official and the eligibility determination of either approved free, approved reduced or denied.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The notices distributed to the parents of all children did not include the required statement: "In the operation of child feeding programs, no child will be discriminated against because of race, sex, color, national origin, age or disability;"

7 CFR 245.5(a) states in part:

". . .

(1) Except as provided in § [245.6\(b\)](#), a letter or notice and application distributed on or about the beginning of each school year, to the parents of all children in attendance at school. The letter or notice shall contain the following information: . . .

(viii) The statement: "In the operation of child feeding programs, no child will be discriminated against because of race, sex, color, national origin, age or disability;. . ."

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 and implement internal controls enabled noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish and implement controls including segregation of duties, related to Eligibility compliance requirements. Additional training should be provided to staff regarding the Eligibility requirements and the required documentation.

FINDING 2014-006 - SPECIAL TESTS AND PROVISIONS - VERIFICATION OF FREE AND REDUCED PRICE LUNCH APPLICATIONS

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Number: 10.553, 10.555, 10.559

Federal Award Number and Year (or Other Identifying Number): FY13, FY14

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 grant agreement and the Special Test and Provisions compliance requirement for Verification of Free and Reduced Price Lunch Applications.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that the applications for free and reduced priced meals are verified in accordance with program requirements and that the proper eligibility determinations are made. The employee that determines the eligibility for the high school was also the employee that was solely responsible for performing the verification for all applicants. An oversight or review process has not been established to ensure proper verification of the applications.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation did not change the children's eligibility status when a change was required as a result of verification activities conducted under §245.6a. Thirteen applications were required to be verified during the audit period. Two applications should have had a change of status from free to reduced, but they were verified as no change. As a result, the applicants were receiving benefits for which they were not eligible. This also resulted in the School Corporation not reporting and claiming reimbursement for meals by the proper categories, i.e., free, reduced, or paid.

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 programs. 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.

7 CFR 245.6(c)(3)(iii) states:

"Changes resulting from verification or administrative reviews. The local educational agency must change the children's eligibility status when a change is required as a result of verification activities conducted under §245.6a or as a result of a review conducted in accordance with §210.18 of this chapter."

7 CFR 245.6a(f)(7) states in part:

"Eligibility changes. Based on the verification activities, the local educational agency shall make appropriate modifications to the eligibility determinations made initially. . . ."

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended the School Corporation's management establish and implement controls to ensure compliance related to the grant agreement and the Special Tests and Provisions compliance requirement for Verification of Free and Reduced Price Lunch Applications.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-007 - SPECIAL TEST AND PROVISIONS - PAID LUNCH EQUITY

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, 10.559
Federal Award Number and Year (or Other Identifying Number): FY13, FY14
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 grant agreement and Special Tests and Provisions compliance requirement for Paid Lunch Equity.

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 type of 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 programs. 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.

The failure to establish an effective internal control system resulted in noncompliance with the Paid Lunch Equity requirement for the school year 2012-2013. The weighted average lunch meal price required to be charged for the 2012-2013 school year to comply with the Paid Lunch Equity requirements was \$2.10 and the actual weighted average amount charged was only \$2. The School Corporation did not keep the documentation to prove they had calculated paid lunch equity for 2012-2013 or that any review and approval of that information occurred.

7 CFR 210.23(c) states:

"Retention of records. State agencies and school food authorities may retain necessary records in their original form or on microfilm. State agency records shall be retained for a period of 3 years after the date of submission of the final Financial Status Report for the fiscal year. School food authority records shall be retained for a period of 3 years after submission of the final Claim for Reimbursement for the fiscal year. In either case, if audit findings have not been resolved, the records shall be retained beyond the 3-year period as long as required for the resolution of the issues raised by the audit."

7 CFR 210.14(e) states in part:

"Pricing paid lunches. For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

- (1) Calculation procedures. Each school food authority shall:
 - (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (i.e., the reimbursement difference);
 - (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section.
- (2) Average paid lunch price is equal to/greater than the reimbursement difference. When the average paid lunch price from the prior school year is equal to or greater than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average paid lunch price for the current school year that is not less than the difference identified in (e)(1)(iii) of this section; except that, the school food authority may use the procedure in paragraph (e)(4)(ii) of this section when establishing prices of paid lunches.
- (3) Average lunch price is lower than the reimbursement difference. When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:
- (i) 2 percent; and
 - (ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the Federal Register announcing the national average payment rates, from the prior year.
- (4) Price Adjustments. (i) Maximum required price increase. The maximum annual average price increase required under this paragraph shall not exceed ten cents.
- (ii) Rounding of paid lunch prices. Any school food authority may round the adjusted price of the paid lunches down to the nearest five cents.
 - (iii) Optional price increases. A school food authority may increase the average price by more than ten cents. . . ."

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."

Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended the School Corporation's management establish and implement controls and ensure compliance related to the grant agreement and the Special Tests and Provisions compliance requirement for Paid Lunch Equity.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

***FINDING 2014-008 - ALLOWABLE COSTS/COST PRINCIPLES,
CASH MANAGEMENT, AND 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): 12-8215, 13-8215, 14-8215

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 grant agreement and the following compliance requirements: Allowable Costs, Cash Management, and Reporting.

The Title I Director prepared the Semi-Annual Certification Activity Report listing all employees paid solely from Title I funds as required, but there was no other review and approval of these reports by any other individuals. The Treasurer completes and submits the reimbursement requests. There was no evidence of any other review and approval of these reports.

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. 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.

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

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of 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, including segregation of duties, related to the grant agreement and compliance requirements pertaining to Allowable Costs/Cost Principles, Cash Management, and Reporting.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-009 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Education
Federal Program: Special Education_Grants to States and Special Education_Preschool Grants
CFDA Number: 84.027 and 84.173
Federal Award Number and Year (or Other Identifying Number): 14212-056-PN01; 14213-056-PN01;
14214-056-PN01; 99914-056-PN01; 45712-056-PN01; 45713-056-PN01; 45714-056-PN01;
Pass-Through Entity: Indiana Department of Education

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operates the Special Education program on behalf of the School Corporation and manages the Special Education grant funds.

Management of the Cooperative has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management and Reporting.

Cash Management

The Cooperative had established procedures to ensure expenditures were incurred and/or paid prior to requesting the reimbursement. The procedures were that the reimbursement request was to be supported by an expenditure or appropriation report and reviewed by the Director. However, these controls were not properly implemented or effective because the Cooperative claimed and received reimbursement of expenditures which were not incurred and/or paid to the date of claiming the reimbursement. Instances were noted where expenditure reports generated for the period were either for more or less than amounts claimed for reimbursement. Also, the Total Expenses to Date shown on the reimbursement request forms were all more than the amount of shown on the expenditure reports. Examination of supporting documentation for six reimbursement claims showed all six where the supporting documentation did not agree with the amounts requested. Inaccurate reimbursement requests resulted in unexpended grant funds being on hand at months end during the audit period for the various Special Education grants.

Reporting

The Cooperative had established procedures to ensure that reports were filed accurately. The procedures when submitting a report were that the report was to be supported by an expenditure or appropriation report and reviewed by the Director. However, these controls were not properly implemented or effective because the Cooperative submitted Reimbursement Request Forms requesting a reimbursement for expenses for each month and Final Reports for the completion of the grants that were not accurate and they did not have reports to back up the total expenditures reported on the final reports. Supporting documentation for four out of four reimbursement requests tested and one out of two final reports tested did not agree with the Cooperative's records. Inaccurate reimbursement requests resulted in unexpended grant funds being on hand.

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."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

34 CFR 80.21 states in part:

"(b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205. . . .

(d) *Reimbursement.* Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. . . ."

31 CFR 205.12(b)(5) states:

"Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

34 CFR 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (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 subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure that reimbursement basis grant expenditures are paid prior to the date that the reimbursement is claimed and amounts claimed and reported agree to supporting documentation in accordance with Cash Management and Reporting requirements.

East Washington School Corporation



"All for one and one for all"

1050 North Eastern School Road ♦ Pekin, IN 47165
Phone 812-967-3926 ♦ Fax 812-967-5797

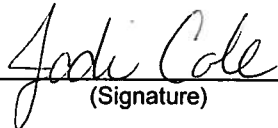
FINDING 2014-001

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

The corporation Treasurer prepares the Schedule of Expenditures of Federal Awards (SEFA). In order to improve the corporation's system of internal controls, the SEFA will be reviewed by the Superintendent to ensure assurance regarding the reliability of financial information maintained on the SEFA.

Anticipated Completion Date: Effective Immediately



(Signature)

Corporation Treasurer
(Title)

December 18, 2015
(Date)

FINDING 2014-002

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

The corporation Treasurer prepares monthly bank reconciliations. Statements are sent directly from the bank to the Superintendent who opens the statements, reviews and verifies receipts and expenditures, and then forwards bank statements to the corporation Treasurer for reconciliation. This internal control practice will be replicated for school lunch bank accounts to ensure reasonable financial oversight of the school lunch accounts.

Anticipated Completion Date: Effective Immediately



(Signature)

Assistant to the Superintendent
(Title)

December 18, 2015
(Date)

FINDING 2014-003

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

Actual costs for Child Nutrition Cluster programs are computed monthly and documented for employee benefits. During the period of time audited, there were not adequate records of amounts charged for employee benefits in Food Service. The previous Human Resource Director did not keep adequate records. In fact, \$111,879.17 has been documented as verified expenses that were charged to Food Service. From the audit period ending to the current time, we now have benefits on a spreadsheet and charge those costs monthly to the school lunch account accordingly. This practice was implemented October 2013.

Anticipated Completion Date: October 2013



(Signature)
Corporation Treasurer
(Title)
December 18, 2015
(Date)


FINDING 2014-004

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

Additional internal controls will be added to ensure the Annual Financial Report and the Verification Summary will be verified and accurately prepared. Steps will be taken internally to provide reasonable assurance that financial requirements of the federal program are completed as defined in OMB Circular A-133, Subpart C, section 300.

Anticipated Completion Date: Effective Immediately



(Signature)
Assistant to the Superintendent
(Title)
December 18, 2015
(Date)

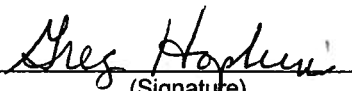
FINDING 2015-005

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

Additional internal controls will be added to ensure applications for free and reduced status are verified and student's eligibility is clearly signed by the determining official with eligibility determination of other approved free, approved reduced, or denied noted. Steps will be taken internally to provide reasonable assurance that financial requirements of the federal program are completed as defined in OMB Circular A-133, Subpart C, section 300.

Anticipated Completion Date: Effective Immediately



(Signature)
Assistant to the Superintendent
(Title)
December 18, 2015
(Date)

FINDING 2014-006

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

The school corporation will implement adequate policies and procedures to ensure applications for free and reduced priced meals are verified in accordance with program requirements and that proper eligibility determination is made on each application. Steps will be taken internally to provide reasonable assurance that financial requirements of the federal program are completed as defined in OMB Circular A-133, Subpart C, section 300.

Anticipated Completion Date: Effective Immediately


(Signature)

Assistant to the Superintendent
(Title)

December 18, 2015
(Date)

FINDING 2014-007

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

Internal control procedures will be put in place to ensure paid lunch equity requirements are followed annually. This practice began in 2013 and will continue to ensure the weighted average lunch meal price required to be charged will comply with the paid lunch equity requirements. Documentation through School Board of Trustees minutes will reflect action taken. Steps will be taken internally to provide reasonable assurance that financial requirements of the federal program are completed as defined in OMB Circular A-133, Subpart C, section 300.

Anticipated Completion Date: Effective Immediately


(Signature)

Assistant to the Superintendent
(Title)

December 18, 2015
(Date)


FINDING 2014-008

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

Additional internal control procedures will be implemented to ensure review and approval of Semi-Annual Certification Activity Reports is completed by the building principal in addition to the Title I Director. Reimbursement requests prepared by the corporation Treasurer are reviewed and verified by the Superintendent and Title I Director to ensure program expenses charges to the federal program are reasonable and within program parameters.

Anticipated Completion Date: Effective Immediately



(Signature)

Corporation Treasurer

(Title)

December 18, 2015

(Date)


FINDING 2014-009

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Description of Corrective Action Plan:

Additional internal control procedures will be implemented to ensure the Cooperative complies with requirements that reimbursement basis grant expenditures are paid prior to the date that the reimbursement is claimed and amounts claimed and reported agree to supporting documentation in accordance with federal requirements.

Anticipated Completion Date: Effective Immediately



(Signature)

Corporation Treasurer

(Title)

December 18, 2015

(Date)

EAST WASHINGTON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

COLLECTION OF AMOUNTS DUE

The amount of \$1,700 was due to the School Corporation as of June 30, 2014, for charges to student and adult lunch accounts. The School Corporation's policy allows students to have a credit balance in the lunch account of \$5. Letters are sent to parents to notify them of credit balances, but no other action is taken to collect amounts due. There was no policy for adults to charge meals and there was no policy to collect from adults. On June 30, 2014, the total due from students was \$1,557 and 24 adults owed \$143.

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)

COLLECTIVE BARGAINING AGREEMENT

The collective bargaining agreement presented for audit for the 2014-15 school year and ratified on September 23, 2014, included the following subjects not authorized by Indiana Code 20-29-6-4.5:

1. Negotiation/discussion procedures

During the audit period, Indiana Code 20-29-6-4 states:

"(a) A school employer shall bargain collectively with the exclusive representative on the following:

(1) Salary.

(2) Wages.

(3) Salary and wage related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off as permitted to be bargained under IC 20-28-9-11.

(b) Salary and wages include the amounts of pay increases available to employees under the salary scale adopted under IC 20-28-9-1, but do not include the teacher evaluation procedures and criteria, or any components of the teacher evaluation plan, rubric, or tool."

During the audit period, Indiana Code 20-29-6-4.5(a) states:

"For a contract entered into after June 30, 2011, a school employer may not bargain collectively with the exclusive representative on the following:

1. The school calendar.

2. Teacher dismissal procedures and criteria.

3. Restructuring options available to a school employer under federal or state statutes, regulations, or rules because of the failure of the school corporation or a school to meet federal or state accountability standards.

EAST WASHINGTON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

4. The ability of a school employer to contract, partner, or operate jointly with an educational entity that provides postsecondary credits to students of the school employer or dual credits from the school employer and the educational entity.
5. Any subject not expressly listed in section 4 of this chapter.

PREPAID LUNCH ACCOUNTS

There was no prepaid meal control account being kept to reconcile to the subsidiary student meal account records. At June 30, 2014, the prepaid meal detailed records totaled \$9,394. The School Corporation changed software programs starting in July 2014 and no records were presented for the prepaid meal totals prior to June 30, 2014.

Subsidiary records by student should be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized forms will be required to be maintained in the following manner to accurately account for prepaid items:

A column titled "Prepaid Food" is added to the Daily Record of Cash Received, Form SF-2, for recording prepaid amounts received which have not been identified as to revenue type, i.e., lunch, breakfast, etc. Amounts will be entered both in "Prepaid Food" and "Total Cash Received" for each day because cash has been received.

Another column "Prepaid Food Applied" is also added to Form SF-2, which will show periodic (and monthly) activity whenever prepaid meals are identified (charged to breakfast, lunch, etc.). Amounts in "Prepaid Food Applied" should at all times equal for each day, the amounts charged to various categories, i.e., student lunch, adult breakfast, etc. that were not paid for in cash. Amounts will not be added to "Total Cash Received" because cash has been previously entered and recognized in "Prepaid Food." You are merely transferring "Prepaid Food" to the applicable categories.

The final column added to SF-2 is "Prepaid Food Trust," which is the running balance column which shows the difference between "Prepaid Food" and "Prepaid Food Applied." The amounts in "Prepaid Food Trust" are deducted from the "Balance" column in SF-3 Form, School Food Service Cash Disbursements which then should equal the amount in the new SF-3 Column "Available Cash Balance." Amounts are not entered in "Total Cash Received" because "Prepaid Food Trust" is merely a balance column. Computerized systems should provide a list, by student, of cash balances which should sum to the "Prepaid Food Trust."

The Ledger of Receipt, Disbursement and Balances, SF-4 Form should also show appropriate columns for those transactions. (Accounting and Uniform Compliance Guidelines Manual For Extra-Curricular Accounts, Chapter 3)

East Washington School Corporation



"All for one and one for all"

1050 North Eastern School Road ♦ Pekin, IN 47165

Phone 812-967-3926 ♦ Fax 812-967-5797

Official Response

Additional internal control procedures will be implemented to ensure the corporation complies with requirements for collection of amounts due and reconciliation of prepaid lunch accounts to stated requirements. Reference to legal requirements of negotiation and discussion were removed from the 2015-16 collective bargaining agreement.

Anticipated Completion Date: Immediately

Steve Donnell

(Signature)

Superintendent

(Title)

12-15-15

(Date)

EAST WASHINGTON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 15, 2015, with Jodi Cole, Treasurer; Steve Darnell, Superintendent of Schools, Linda McClellan, President of the School Board; and Greg Hopkins, Assistant to the Superintendent of Schools.