

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHELBY EASTERN SCHOOLS

SHELBY COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
03/08/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mary C. Scott	07-01-12 to 06-30-16
Superintendent of Schools	Donald Swisher	07-01-12 to 12-31-12
	Brad Valentine (Interim)	01-01-13 to 06-30-13
	Linda Coleman	07-01-13 to 10-18-13
	(Vacant)	10-19-13 to 11-30-13
	Robert Boyd (Interim)	12-01-13 to 06-30-14
	Dr. Robert Evans	07-01-14 to 06-30-16
President of the School Board	Kevin Schofner	07-01-12 to 12-31-14
	Jason Redd	01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
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Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE SHELBY EASTERN SCHOOLS, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the Shelby Eastern Schools (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](http://www.in.gov/sboa).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

January 12, 2016

SHELBY EASTERN SCHOOLS  
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.

The SEFA included the following errors:

- For fiscal year 2011/2012, two grants were omitted from the SEFA. These were the Title I Grants to Local Educational Agencies pass-through identifying number FY 11-12 \$63,796 and the Special Education\_Grant to States pass-through identifying number 14212-087-PN01 \$21,708.
- The commodities values for the Child Nutrition Cluster were omitted from the SEFA for both school years. The value of commodities for the 2012-2013 school year was \$38,363 and the value of the commodities for the 2013-2014 school year was \$41,532.

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

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

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

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

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

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

- (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.

SHELBY EASTERN SCHOOLS  
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 - ELIGIBILITY***

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 2013, FY 2014

Pass-Through Entity: Indiana Department of Education

The School Corporation participated in the Child Nutrition program and based students eligibility status on what was recorded in the cafeteria software database. The School Corporation relied on the eligibility designations within the cafeteria software database as the program was administered. The software was updated to a new version for the 2014-2015 school year.

The School Corporation's Information Technology Director was only able to verify the eligibility status of one student at a time for one particular day at a time, and not over a length of time such as the entire school year, or after a certain date, or between dates.

The Information Technology Director indicated confirming the student's eligibility status for one day at a time was a difficult and time consuming process that involves multiple steps and multiple queries. The decision was reached that the School Corporation would not be able to devote the resources necessary to confirm the eligibility status of a large sample of students from the 2012-2013 and 2013-2014 school years.

Without access to the cafeteria software database, we were unable to confirm the following:

- That the eligibility determinations made from the manual records agreed with the eligibility determinations assigned to the students within the software.
- The time frames (or cut offs) for student's whose eligibility status may have changed.
- Errors (in turns of recorded eligibility status) were not made during the processing of a particular days activity at a particular cafeteria.

SHELBY EASTERN SCHOOLS  
FEDERAL FINDINGS  
(Continued)

There was no internal control to ensure the information related to the student's eligibility status as recorded in the cafeteria software database was readily accessible. Proper backups of the previous cafeteria software database were not made.

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 3016.42 states in part:

"(a) *Applicability.*

- (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
  - (i) Required to be maintained by the terms of this Part, program regulations or the grant agreement, or
  - (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement. . . .

(b) *Length of retention period.*

- (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . .

(c) *Starting date of retention period –*

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

The failure to establish internal controls has enabled material noncompliance to go undetected. In addition, the failure to maintain and retain financial and grant records, as required, could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation establish internal controls and comply with record retention requirements designed to ensure that access to previous data within the cafeteria software database is retained for audit inspection.

SHELBY EASTERN SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-003 - INTERNAL CONTROLS OVER THE CHILD NUTRITION CLUSTER***

Federal Agency: U.S. Department of Agriculture  
Federal Program: School Breakfast Program, National School Lunch Program  
CFDA Number: 10.553, 10.555  
Federal Award Number and Year (or Other Identifying Number): FY 2013, FY 2014  
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 all of the following compliance requirements that have a direct and material effect to the programs. This includes the following compliance requirements: Program Income, Reporting, and Special Tests and Provisions - Paid Lunch Equity.

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 programs.

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.

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 listed above.

SHELBY EASTERN SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-004 - INTERNAL CONTROLS OVER THE TITLE I  
GRANTS TO LOCAL EDUCATIONAL AGENCIES***

Federal Agency: U.S. 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): FY 11-12, FY 12-13, FY 13-14

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 that have a direct and material effect to the program. This includes the following compliance requirements: Allowable Cost/Cost Principles, Cash Management, Eligibility, Period of Availability, and Reporting. 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 programs.

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. Non-compliance 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 listed above.



# SHELBY EASTERN SCHOOLS

Superintendent: Dr. Robert Evans ■ Corp. Treasurer: Chris Scott

## ***Mission Statement:***

***Shape, Empower, and Support the minds of tomorrow***

January 7, 2016

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

### CORRECTIVE ACTION PLAN FOR 2012-2014 AUDIT

#### FINDING 2014-001-PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person: Mary C Scott/Dr. Robert Evans

Title: Corporation Treasurer

Phone: 765-544-2246

Expected Completing Date: January 31, 2016

### CORRECTIVE ACTION PLAN

Procedures will be implemented to have another member of the Central Office staff review and sign off on the Schedule of Expenditures of Federal Awards (SEFA). In addition, responsibilities will be reassigned to ensure no one person has control over receipts, disbursements and cash and investment balances.

A second person will review monthly reporting and document this approval. All documentation will be retained for review by the State Board of Accounts Auditors. The Corporation Treasurer will research additional training for the completion of this report.

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Superintendent, Dr. Robert Evans

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Corporation Treasurer, Mary C Scott



# SHELBY EASTERN SCHOOLS

Superintendent: Dr. Robert Evans ■ Corp. Treasurer: Chris Scott

***Mission Statement:***

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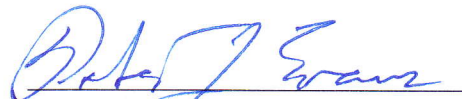
FINDING 2014-002-ELIGIBILITY

Federal Agency: Department of Agriculture  
Federal Program: School Breakfast Program, National School Lunch Program  
CFDA Number 10.553 and 10.555  
Federal Award Number and Year (or Other Identifying Number) FY 2013, FY 2014  
Pass-Through Entity: Indiana Department of Education

Contact Person: Mary C Scott/Dr. Robert Evans  
Title: Corporation Treasurer  
Phone: 765-544-2246  
Expected Completing Date: January 31, 2016

## CORRECTIVE ACTION PLAN

With the School Corporation now overseeing the Cafeteria fund and the addition of a Food Service Manager we will be able to implement the required internal controls and segregation of duties. New procedures are being developed for the Verification process for those students qualifying for free and/or reduced meals. We will have monthly activity reports prepared by each school, input and reviewed by the Food Service Manager, with final approval signed off by the Corporation Treasurer. Shelby Eastern Schools Technology department will establish and comply with record retention requirements designed to insure that access to previous data within the cafeteria software database is retained for audit inspection.

  
\_\_\_\_\_  
Superintendent, Dr. Robert Evans

  
\_\_\_\_\_  
Corporation Treasurer, Mary C Scott



# SHELBY EASTERN SCHOOLS

Superintendent: Dr. Robert Evans ■ Corp. Treasurer: Chris Scott

## ***Mission Statement:***

***Shape, Empower, and Support the minds of tomorrow***

January 7, 2016

Indiana State Board of Accounts  
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### FINDING 2014-003-INTERNAL CONTROLS OVER THE CHILD NUTRITION CLUSTER

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number 10.553 and 10.555

Federal Award Number and Year (or Other Identifying Number) FY 2013, FY 2014

Pass-Through Entity: Indiana Department of Education

Contact Person: Mary C Scott/Dr. Robert Evans

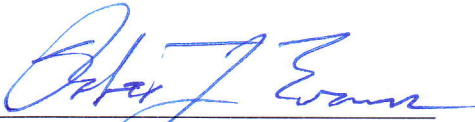
Title: Corporation Treasurer

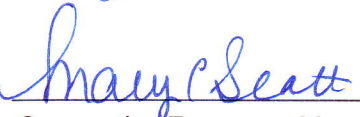
Phone: 765-544-2246

Expected Completing Date: January 31, 2016

### CORRECTIVE ACTION PLAN

With the addition of a Food Service Manager, we will be able to implement the required internal controls and segregation of duties, We will have monthly activity reports prepared by each school treasurer, input and reviewed by the Food Service Manager, with final approval signed off by the Corporation Treasurer. Other food service activity regarding eligibility, procurement and suspension and ineligibility and program income will be performed by the Food Service Manager and approved by the Corporation Treasurer.

  
\_\_\_\_\_  
Superintendent, Dr. Robert Evans

  
\_\_\_\_\_  
Corporation Treasurer, Mary C Scott



# SHELBY EASTERN SCHOOLS

Superintendent: Dr. Robert Evans ■ Corp. Treasurer: Chris Scott

***Mission Statement:***

***Shape, Empower, and Support the minds of tomorrow***

January 7, 2016

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

## FINDING 2014-004-INTERNAL CONTROLS OVER THE TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

Federal Agency: Department of Agriculture

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number 84.010

Federal Award Number and Year (or Other Identifying Number) FY 2013, FY 2014

Pass-Through Entity: Indiana Department of Education

Contact Person: Mary C Scott/Dr. Robert Evans

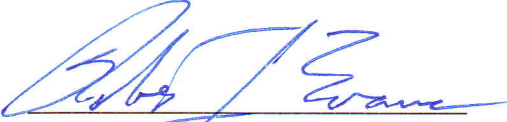
Title: Corporation Treasurer

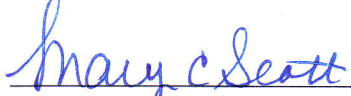
Phone: 765-544-2246

Expected Completing Date: January 31, 2016

### CORRECTION ACTION PLAN

Our Elementary Principals are assigned the responsibilities of Title I Directors. All activities regarding the Title I grant will be discussed and approved by both the Superintendent/Corporation Treasurer and the Title I director. These approvals will be documented accordingly. All required logs and reports will be completed by the Title I director, as required, with appropriate approval documented. Necessary reviews will be presented to the Board of School Trustees for their approval. Documentation will be maintained for review by State Board of Accounts Auditors. Shelby Eastern Schools will comply with all Title I requirements.

  
Superintendent, Dr. Robert Evans

  
Corporation Treasurer, Mary C Scott

SHELBY EASTERN SCHOOLS  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

The records presented for audit indicated that the Capital Projects fund expenditures were in excess of budgeted appropriations by \$89,291 for calendar year 2012.

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

**AVERAGE DAILY MEMBERSHIP (ADM)**

The information presented for audit indicated the following problems:

1. Enrollment figures on Form No. 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2013.

The enrollment reported on the ADM was 1,256.50 students and the number of students enrolled as indicated by the class list provided for audit inspection was 1,258.50 students. Therefore, from the information presented for audit, the School Corporation underreported two students for the 2012-2013 school year.

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)

2. Additionally, there were several detail student records provided for audit that did not include the written certification from the designated building level person that affirmed that the detailed student records were maintained to support the assertion that the Average Daily Membership claimed was accurate.

This applied to the September 14, 2012 ADM count for Morristown Elementary, Waldron Elementary, Morristown Junior Senior High School, and Waldron Junior Senior High School. This also applied to the February 3, 2014 ADM count for Morristown Elementary and Waldron Junior Senior High School.

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)

SHELBY EASTERN SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

***ERRORS ON CLAIMS (ABSENCE OF BOARD APPROVAL)***

During the test of disbursements it was noted that the School Corporation was not able to provide an Accounts Payable Voucher Register, signed by the governing board, which included the claim vouchers written on December 11, 2012, May 7, 2013, and November 12, 2013.

Of the specific claims chosen for testing, 15 percent did not have Board approval.

One additional claim chosen for testing was approved by the Board after the check was distributed.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

SHELBY EASTERN SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on January 12, 2016, with Mary C. Scott, Treasurer; Dr. Robert Evans, Superintendent of Schools; Jason Redd, President of the School Board; and Kristi Platt and Frank Schonfield, School Board members.