

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HAMILTON COMMUNITY SCHOOLS

STEUBEN COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
04/07/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Internal Controls Over the Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2014-002 - Internal Controls Over Financial Transactions and Reporting	5-6
Finding 2014-003 - Allowable Costs	6-7
Corrective Action Plan.....	8-10
Audit Results and Comments:	
Supporting Documentation	11
Finance Charges - Credit Cards.....	11
Overdrawn Cash Balances.....	11
Official Response	12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stacy Oberlin Mark Skinner	07-01-12 to 06-30-14 07-01-14 to 06-30-16
Superintendent of Schools	Jon Willman	07-01-12 to 06-30-16
President of the School Board	Scott Lucas	07-01-12 to 06-30-16



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 HAMILTON COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

This report is supplemental to our audit report of the Hamilton Community 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/.

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 26, 2015

HAMILTON COMMUNITY SCHOOLS
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 controls 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 the following errors:

The Child Nutrition Cluster grant expenditures (CFDA 10.553 and 10.555) were not included on the SEFA in the amount of \$109,479 for 2012/2013 and \$95,042 for 2013/2014. The Special Education Cluster (IDEA) grant expenditures (CFDA 84.027 and 84.173) were not included on the SEFA in the amount of \$121,136 for 2012/2013 and \$131,229 for 2013/2014.

Title I Grants to Local Educational Agencies (CFDA 84.010) were over reported in 2012/2013 by \$23,900.

There was a posting error that resulted in an understatement in 2013/2014 for Title I Grants to Local Educational Agencies (CFDA 84.010) of \$14,875 and an overstatement for Improving Teacher Quality State Grants (CFDA 84.367) of \$14,875.

The Rural Education grant (CFDA 84.358) was not included in 2012/2013 in the amount of \$1,886.

There was an understatement in 2013/2014 for Improving Teacher Quality State Grants (CFDA 84.367) of \$11,768.

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."

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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.
- (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. The School Corporation has not separated incompatible activities related to cash, receipts, and payroll. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

- a. There was lack of evidence that receipts posted, deposits prepared, and bank reconciliements prepared were reviewed or approved by anyone other than the preparer.
- b. There was lack of evidence that payrolls prepared were adequately reviewed or approved by anyone other than the preparer.

The failure to establish these controls could enable misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 2014-003 - 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): 12-7610, 13-7610, 14-7610

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 Allowable Costs compliance requirements that have a direct and material effect to the program.

There were no controls in place to ensure that only Title I employees were paid from the Title I Grants to Local Educational Agencies grant. At the School Corporation, the same person performs all activities of the payroll process. There is no evidence of segregation of duties, such as an oversight, review, or approval process or other compensating control to ensure payroll costs are allocated to the appropriate accounts, funds, and 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. 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.

HAMILTON COMMUNITY SCHOOLS
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 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.

Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742



Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

Office of the Superintendent
Phone: (260) 488-2513
FAX: (260) 488-2348

Hamilton Junior-Senior High School
Phone: (260) 488-2161
FAX: (260) 488-3149

FINDING 2014-001

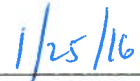
Contact Person: Mark Skinner
Title: Business Manager/Treasurer
Phone Number: 260-488-2513

The Business Manager with the assistance of the Director of Curriculum, Title I Coordinator, and Food Service Manager will compile a list of all federal awards each fiscal year. The Business Manager will prepare the Schedule of Expenditures of Federal Awards as required at the end of each fiscal year. The Business Manager will provide the list of all federal awards for the fiscal year to the Superintendent who will review all documentation supporting the Schedule's contents for accuracy and completeness prior to the Schedule's submission via Gateway.


Anticipated Completion Date: June 30, 2016



Business Manager/Treasurer



Date



Superintendent



Date

Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742



Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

Office of the Superintendent
Phone: (260) 488-2513
FAX: (260) 488-2348

Hamilton Junior-Senior High School
Phone: (260) 488-2161
FAX: (260) 488-3149

FINDING 2014-002

Contact Person: Mark Skinner
Title: Business Manager/Treasurer
Phone Number: 260-488-2513

The Business Manager/Treasurer will reconcile the corporation and extra-curricular bank accounts after deputy treasurer makes deposits. The payroll disbursements will be processed by the Payroll Manager and reviewed and initialed by the Business Manager and Superintendent. The reconciliation is reviewed by the Superintendent and signed by Superintendent and School Board at the next monthly meeting.

Anticipated Completion Date: June 30, 2016

Mark Skinner
Business Manager/Treasurer

1/25/16
Date

Jon Wallman
Superintendent

1/25/16
Date

Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742



Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

Office of the Superintendent
Phone: (260) 488-2513
FAX: (260) 488-2348

Hamilton Junior-Senior High School
Phone: (260) 488-2161
FAX: (260) 488-3149

FINDING 2014-003

Contact Person: Mark Skinner
Title: Business Manager/Treasurer
Phone Number: 260-488-2513

The Business Manager will prepare the final expenditure reports and monthly requests for reimbursements and after being reviewed and initialed by the deputy treasurer and superintendent for accuracy will submit them via Title I portal for reimbursement.

Anticipated Completion Date: June 30, 2016

Handwritten signature of Mal Shumer in blue ink.

Business Manager/Treasurer

Handwritten signature of the date 1/25/16 in blue ink.

Date

Handwritten signature of Jon Willman in blue ink.

Superintendent

Handwritten signature of the date 1/25/16 in blue ink.

Date

HAMILTON COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

SUPPORTING DOCUMENTATION

Of the claims tested, 17 did not include supporting documentation to support the purchase. This represented \$98,525 of disbursements without documentation. This included claims for the payment of credits cards and travel reimbursements. The claims presented for audit did not include receipts or proper invoices, explanations of travel costs, documentation, or recipient information regarding prizes and awards purchased. Due to the lack of supporting information, we could not verify the purpose of the disbursements.

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

FINANCE CHARGES - CREDIT CARDS

The School Corporation paid finance charges during the audit period of \$751 for credit card purchases because the School Corporation did not remit payments on a timely basis.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest, or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at June 30, 2013, and June 30, 2014.

Fund	Amount Overdrawn 06-30-13	Amount Overdrawn 06-30-14
Referendum Tax Levy	\$ -	\$ 323,609
School Lunch	-	4,318
Textbook Rental	10,900	39,949
Extracurricular Activities	-	1,081

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742

Hamilton Elementary School

Phone: (260) 488-2101

Fax: (260) 488-3634

Office of the Superintendent

Phone: (260) 488-2513

FAX: (260) 488-2348

Hamilton Junior-Senior High School

Phone: (260) 488-2161

FAX: (260) 488-3149



Official Response – Hamilton Community Schools for 2012-2013 & 2013-2014 Audit Period

This letter serves as Hamilton Community Schools' official response to the audit and exit conference that was conducted on Tuesday January 26, 2016. The corporation employees who performed the duties related to the audit period; were no longer employed with the corporation and current Business Manager/Treasurer and HR/Payroll employees did not have as much knowledge of where all previous files and documentation for the audit period were located.

The new business officials have implemented procedures related to the findings and audit results and comments. The new procedures are addressing the findings, results, and comments in a positive, proactive way to handle the duties and responsibilities in a more professional, appropriate, and accurate method. Corrective Action Plans have been submitted and implemented immediately and continuous improvement is being striven for as the day-to-day duties of the business department are completed.

The Superintendent, School Board, Treasurer, and Deputy Treasurer will be reviewing, signing, and initialing financial transactions related to submitting reimbursement requests for grants, payroll processing, and bank reconcilements to monitor accuracy and provide more transparency in internal controls.

Supporting documentation will be gathered more often related to claims, credit card payments, and travel expenses. Resolutions have been passed so that bills are paid in a more timely fashion. Claims and travel expenses will provide more receipts, invoices, canceled checks, tickets, bills, and contracts to provide support for the purpose of the disbursements. Resolutions have also been passed to eliminate overdrawn cash balances for funds and it is the goal to operate with funds with positive balances going forward.

We appreciate the field examiners, audit managers, and coordinators for their professionalism, knowledge, and expertise in helping to find solutions and best-practices for implementing procedures that will deliver better financial reporting both now and in the future.

Sincerely,



Jon Willman, Superintendent



Mark Skinner, Business Manager/Treasurer

HAMILTON COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 26, 2016, with Mark Skinner, Treasurer; Jon Willman, Superintendent of Schools; Scott Lucas, President of the School Board; Pamela Howard, ECA Treasurer; and Michelle Badger, Deputy Treasurer.