

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
DEARBORN COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
05/06/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Rebecca Heller Shawn Spindler	07-01-12 to 12-31-13 01-01-14 to 06-30-16
Superintendent of Schools	Dr. John Mehrle	07-01-12 to 06-30-16
President of the School Board	Daryl Cutter Gene Ferguson Bill Lane David Lusby	07-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16



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TO: THE OFFICIALS OF THE SOUTH DEARBORN COMMUNITY
SCHOOL CORPORATION, DEARBORN COUNTY, INDIANA

This report is supplemental to our audit report of the South Dearborn Community 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

February 25, 2016

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - 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.

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to cash and investments, receipts, and vendor disbursements. During the audit period the Treasurer was primarily responsible for issuing receipts, depositing receipts, issuing vendor checks, recording transactions in the financial accounting system, and reconciling the funds ledger to the depository balance.
2. The School Corporation's internal controls over payroll disbursements require approval of the disbursement by the School Board. Payroll disbursements were not approved by the School Board in 2 of the 40 disbursements tested.

The failure to establish or properly implement 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.

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

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

FINDING 2014-002 - 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 Treasurer prepared the SEFA. There was no evidence presented that the information was reviewed or approved by another individual.

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:

1. The expenditures presented for audit for CFDA 84.010, Title I Grants To Local Educational Agencies were understated in the amount of \$297,932.
2. The expenditures presented for audit for CFDA 84.027, Special Education-Grants to States were overstated in the amount of \$1,243,586.
3. The expenditures presented for audit for CFDA 84.173, Special Education-Preschool Grants were overstated in the amount of \$125,302.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.
- (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."

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

***FINDING 2014-003 - CASH MANAGEMENT, ELIGIBILITY,
REPORTING, AND SPECIAL TESTS AND PROVISIONS***

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): 12-1600, 13-1600, 14-1600

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, Eligibility, Reporting, and Special Tests and Provisions.

Cash Management and Reporting: Reimbursement requests were prepared and submitted to the State by the Treasurer. There was no control in place to ensure that reimbursement requests were accurate and reflected only expenditures paid prior to requesting reimbursement.

Eligibility

Secretaries from each school building update student information that was submitted on the Real Time Report, and used to determine eligibility. There was no control in place to ensure the Real Time Report information is accurate prior to submission. For eligibility of individuals, the School Corporation prepares an assessment of the students based on various testing modules to determine eligibility. There was no control in place to ensure the assessment was properly performed in accordance with criteria established by the School Corporation.

Special Tests and Provisions (Comparability)

The Assistant Superintendent prepared the Title I comparability reports. No evidence was presented to indicate that a control was in place to ensure that the comparability reports were accurate and complete.

Special Tests and Provisions (Annual Report Card/High School Graduation Rate): The School Corporation utilized a Withdrawal/Exit Interview Form to support removal of a student from the cohort. The control established by the School Corporation was that the Withdrawal/Exit Interview Forms were reviewed and signed by the building principal; however the forms presented for audit did not contain the signature of the building principal.

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.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
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. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

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

FINDING 2014-004 - ALLOWABLE COSTS/COST PRINCIPLES

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): 12-1600, 13-1600, 14-1600

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

The School Corporation did not have a system in place to ensure compliance with the Circular A-87 regulations for time and effort reporting. The semiannual certification activity reports include all employees that worked exclusively on Title I activities. Only one of the four semiannual certification activity reports was presented for audit.

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.

OMB Circular A-87, Attachment B, Section B (h), Compensation for personal services, states in part:

"Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation . . .

- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
- (a) More than one Federal award
 - (b) A Federal award and a non-Federal award
 - (c) An indirect cost activity and a direct cost activity
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity."

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

"The audit shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee 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 with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls and policies and procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirements of the program.

FINDING 2014-005 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Education

Federal Program: Special Education-Grants to States; Special Education-Preschool Grants

CFDA Number: 84.027, 84.173

Federal Award Number and Year (or Other Identifying Number): 14212-130-PN01, 14213-052-PN01,
14214-052-PN01, 99914-052-TA01,
45712-130-PN01, 45713-052-PN01,
45714-052-PN01

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 designated a fiscal agent to receive and manage the funding of the Special Education programs. The School Corporation did not have controls in place to monitor the fiscal agent's system of internal control. We noted the following deficiencies in the internal control system of the fiscal agent:

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cash Management

Requests for Reimbursement were prepared by the fiscal agent's Treasurer. There was no control in place to ensure that expenditures were paid prior to requesting reimbursement.

Reporting

The Requests for Reimbursement and Final Expenditure Reports were prepared and submitted by the fiscal agent's Treasurer. There was no control in place to ensure that the reports were accurate prior to submission.

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. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

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



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CORRECTIVE ACTION PLAN

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Shawn Spindler, Treasurer
Contact Phone Number: 812.926.2090

Description of Corrective Action Plan:

1. The School Corporation has hired an assistant since the audit period to help with the lack of segregation of duties. This person issues all receipts, issues all checks, and will be trained on reconciling the funds ledger. The Treasurer reviews all receipts and claims prior to issuing checks. The Superintendent and Assistant Superintendent also review the claims prior to issuing checks.
2. The School Corporation has implemented several controls to ensure all payroll disbursements are approved by the School Board. This includes review by the Treasurer and Assistant Superintendent, and verification that the ledger matches with the payroll reports.

Anticipated Completion Date: January 26, 2016

FINDING 2014-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Shawn Spindler, Treasurer
Contact Phone Number: 812.926.2090

Description of Corrective Action Plan: After completion of the SEFA, it will be reviewed and approved by both the Superintendent and Assistant Superintendent.

Anticipated Completion Date: July 1, 2016

FINDING 2014-003 - CASH MANAGEMENT, ELIGIBILITY, REPORTING, AND SPECIAL TESTS AND PROVISIONS

Contact Person Responsible for Corrective Action: Shawn Spindler, Treasurer
Eric Lows, Assistant Superintendent/Title I Director
Contact Phone Number: 812.926.2090

Description of Corrective Action Plan: The School Corporation has implemented additional control over the cash management and reporting of the Title I program. Prior to submission of reimbursement requests, the Treasurer reviews the request with the Assistant Superintendent/Title I Director who then signs off on it. When determining eligibility for Title I, we will begin to have each principal sign off on the assessment reports showing they have reviewed for accuracy. Prior to submission to the state for the Real Time Reports, we will also have the principals sign off on them after reviewing. For the comparability reports, the Assistant Superintendent will complete the reports and then review with the Treasurer and Superintendent who will approve. Moving forward, the Withdrawal forms will be reviewed and signed by the building principal as they have control of the building.

Anticipated Completion Date: July 1, 2016

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FINDING 2014-004 - ALLOWABLE COSTS/ COST PRINCIPLES

Contact Person Responsible for Corrective Action: Eric Lows, Assistant Superintendent/Title I Director
Contact Phone Number: 812.926.2090

Description of Corrective Action Plan: The Assistant Superintendent/Title I Director will ensure that all semi-annual certification activity reports will be completed twice per year.

Anticipated Completion Date: January 26, 2016

FINDING 2014-005 - CASH MANAGEMENT AND REPORTING

Contact Person Responsible for Corrective Action: Shawn Spindler, Treasurer
Contact Phone Number: 812.926.2090

Description of Corrective Action Plan: The ROD co-op has implemented a control regarding cash management for the reimbursement requests. The Treasurer will prepare the requests and the Director will approve and sign off on them. A control will be implemented for the reporting to where the requests will be presented to the Board, which consists of school Superintendents, and have them approve and sign off on them.

Anticipated Completion Date: July 1, 2016



(Signature)



(Title)



(Date)

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SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

TRAVEL POLICY

The School Corporation does not have a written travel policy that addresses reimbursements for lodging, meals, and mileage.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

The School Board did not establish a bad debt policy concerning student school lunch account balances.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not properly conducted. It was the Treasurer's practice to reconcile fund receipts to bank receipts, and fund disbursements to bank disbursements monthly; however, he did not verify that the fund balance agreed to the bank account balance. This resulted in the following errors being undetected and uncorrected by the

1. A disbursement was posted to the Debt Service fund in the amount of \$419,347.96 to reimburse the General fund for the School Corporation's common school loan payment. No receipt for the same amount to the General fund, resulting in a variance between the bank balance and the fund balance was posted.
2. Unidentified cash short in the amount of \$3,265.97.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CURRICULAR MATERIALS RENTAL CHARGES

The textbook rental fees charged to students for the school years ended June 30, 2013 and June 30, 2014, were not adopted by the School Board.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

RECONCILIATION OF PREPAID FOOD ACCOUNTS

Reconciliations of the student's individual Prepaid Food account balances to the Prepaid Food fund were not performed. A report of the individual Prepaid Food account balances at June 30, 2014 was not presented for audit. As of January 25, 2016, the student's individual Prepaid Food account balances exceeded the balance in the Prepaid Food fund by \$7,858.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 25, 2016, with Shawn Spindler, Treasurer; Dr. John Mehrle, Superintendent of Schools; David Lusby, President of the School Board; and Eric Lows, Assistant Superintendent of Schools.