

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FREMONT COMMUNITY SCHOOLS

STEBEN COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
05/27/2016



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2014-001 - Internal Controls Over Financial Transactions and Reporting .....	4
Finding 2014-002 - Preparation of the Schedule of Expenditures of Federal Awards .....	4-6
Finding 2014-003 - Cash Management, Period of Availability, and Reporting .....	6-7
Corrective Action Plan.....	8-9
Audit Results and Comments:	
Bank Account Reconciliations .....	10
Condition of Records .....	10
Overdrawn Cash Balances.....	11
Official Response .....	12
Exit Conference.....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Shayne Tresenriter Brandon Penrod	07-01-12 to 10-07-13 10-08-13 to 12-31-16
Superintendent of Schools	Loraine Vaughn	07-01-12 to 06-30-16
President of the School Board	Tim Knoblauch Sheri Thomson Marty McNeal	07-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-16



**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](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE FREMONT COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

This report is supplemental to our audit report of the Fremont 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/](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

March 14, 2016

FREMONT COMMUNITY SCHOOLS  
FEDERAL FINDINGS

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

We noted deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. 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 cash and investments and receipts. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. We believe the following deficiencies constitute material weaknesses.

1. Cash and Investments: Bank reconciliations were not subjected to a review or approval process to ensure that they were complete and accurate.
2. Receipts: The School Corporation Deputy Treasurer, except for school lunch monies, writes receipts, posts receipts, prepares the deposit slips, and takes the deposit to the bank. For school lunch, the Food Service Director collects each school's daily receipts, prepares the deposit slip, and takes the deposit to the bank.
3. During the audit of the financial statement, we noted the School Corporation had underreported receipts for FY 12-13 and FY 13-14 by \$4,943,377 and \$1,937,913, respectively. The School Corporation also underreported disbursements for FY 12-13 and FY 13-14 by \$4,731,246 and \$3,328,040, respectively. Audit adjustments netting a positive \$325,577 to the June 30, 2013, total cash balance and a negative \$1,065,550 to the June 30, 2014, total cash balance were proposed, accepted by the School Corporation, and made to the financial statement 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)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (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 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.

FREMONT COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

During the audit of the SEFA, we noted the School Corporation had failed to report any expenditures for FY 12-13. Audit adjustments totaling \$1,932,737 were proposed, accepted by the School Corporation, and made to the SEFA presented in this report. For FY 13-14, the SEFA had underreported \$10,409 in expenditures for Title I, Part A Cluster and omitted the expenditures for the Child Nutrition Cluster, the Child and Adult Care Food Program, the Special Education Cluster, and the Head Start Cluster. Audit adjustments totaling \$1,625,295 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.

FREMONT COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (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 2014-003 - CASH MANAGEMENT, PERIOD OF AVAILABILITY, AND REPORTING***

Federal Agency: Department of Health and Human Services

Federal Program: Head Start

CFDA Number: 93.600

Federal Award Number and Year: 05CH419147, 05CH419148, 05CH834901

Pass-Through Entity: Direct

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 several of the compliance requirements that have a direct and material effect on the program. This includes the compliance requirements for Cash Management, 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 program.

*Cash Management, Reporting*

The School Corporation has not designed or implemented adequate policies or procedures to ensure that required reports were accurately prepared. One employee was solely responsible for preparing and submitting all required reports. There was no segregation of duties, such as an oversight, review, or approval process.

*Period of Availability*

The School Corporation has not established controls to ensure federal funds were obligated within the period of availability when requesting federal drawdowns or reimbursements. One employee was solely responsible for preparing and submitting all federal drawdowns or reimbursements. There was no segregation of duties, such as an oversight, review, or approval process.

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

FREMONT 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 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 and implement controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

# Fremont Community Schools

*Indiana Performance Qualified School District*

Loraine K. Vaughn, Ed.S.  
**Superintendent**  
Brandon H. Penrod, Ed.S.  
**Business Manager**  
Shayne Tresenriter  
**Deputy Treasurer**  
Robin Byler  
**Accounts Payable**  
Linda McCarty  
**Secretary**

**Board of School Trustees**

Peggy Bailey  
Gary Baker  
Kimberly Bennett  
Jill Cox  
Anna Creager  
Laura McLatcher  
Marty McNeal

March 14, 2016

## CORRECTIVE ACTION PLAN

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

Contact Person Responsible for Corrective Action: Brandon Penrod  
Contact Phone Number: 260-495-5005

Description of Corrective Action Plan:

1. Lack of Segregation of Duties-the district will establish segregation of duties by assigning at least two people to each process. This will allow one to do the transaction and the other to verify it.

Anticipated Completion Date: Ongoing

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

Contact Person Responsible for Corrective Action: Brandon Penrod  
Contact Phone Number: 260-495-5005

Description of Corrective Action Plan:

1. An additional verification by someone other than the preparer will be added to the SEFA reporting process.

Anticipated Completion Date: Ongoing

# Fremont Community Schools

*Indiana Performance Qualified School District*

## **FINDING 2014-003 CASH MANAGEMENT, PERIOD OF AVAILABILITY, AND REPORTING**

Contact Person Responsible for Corrective Action: Brandon Penrod

Contact Phone Number: 260-495-5005

Federal Agency: Department of Health and Human Services

Federal Program: Head Start

CFDA Number: 93.600

Federal Award Number and Year: 05CH419147, 05CH149148, 05CH834901, FY 12-13 FY 13-14

Pass-Through Entity: Direct

### Description of Corrective Action Plan:

1. School will add an additional verification by someone other than the preparer for all Head Start documents that are prepared for submission.

Anticipated Completion Date: Ongoing



(Signature)

*Business Manager*

(Title)

*3-14-16*

(Date)

FREMONT COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

Depository reconciliations of the fund balances to the bank account balances were conducted on a monthly basis; however, the reconciliations did not include all bank accounts. Two accounts with another bank were not included in the monthly reconciliation. When a depository reconciliation which included those bank accounts was performed, the total bank balances were less than the total fund balances by \$761 at June 30, 2013, and the total bank balances were more than the total fund balances by \$225 at June 30, 2014.

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."

***CONDITION OF RECORDS***

Financial records presented for audit contained some deficiencies which included:

1. Bank transfers recorded as receipts and disbursements.
2. A temporary loan distribution receipted to a clearing account as opposed to the appropriate funds.
3. Interest not posted.
4. A bank account with a balance of \$1,608,276 at June 30, 2013, and a balance of \$58,511 at June 30, 2014, was not reflected in the Construction Fund in the corporation's financial records.
5. Transactions recorded as "negative" receipts and disbursements.

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)

FREMONT COMMUNITY SCHOOLS  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

**OVERDRAWN CASH BALANCES**

The financial statements presented in the financial statement and federal single audit report of the School Corporation included the following funds with overdrawn cash balances at June 30, 2013, and June 30, 2014:

Fund	Amount Overdrawn at June 30, 2013	Amount Overdrawn at June 30, 2014
Retirement/Severance Bond	\$ 9,936	\$ 12,775
School Lunch	38,897	18,140
Educational License Plates	254	198
P.L. 221 Professional Development	-	1,590
Day Care Program	130,857	113,753
Title I 2011-2012	8,281	8,281
National Science Foundation, Title IV, Part A	3,295	4,687

A similar comment appeared in prior Report B41821.

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)

# Fremont Community Schools


*Indiana Performance Qualified School District*

Loraine K. Vaughn, Ed.S.  
**Superintendent**  
Brandon H. Penrod, Ed.S.  
**Business Manager**  
Shayne Tresenriter  
**Deputy Treasurer**  
Robin Byler  
**Accounts Payable**  
Linda McCarty  
**Secretary**

**Board of School Trustees**

Peggy Bailey  
Gary Baker  
Kimberly Bennett  
Jill Cox  
Anna Creager  
Laura McLatcher  
Marty McNeal

TO: Indiana State Board of Accounts

FROM: Brandon Penrod 

DATE: March 15, 2016

RE: Official Audit Response

Please consider this the Official Audit Response of Fremont Community Schools for the Indiana State Board of Accounts audit period July 1, 2012 through June 30, 2014.

Regarding the Schedule of Findings and Questioned Costs, we agree that those measures were not put in place during the audit period. We do make note, however, that the documents that now require dual signatures have never required dual signatures in the past, nor are there any obvious lines or places for signatures to be affixed. Had we known that we were supposed to sign a document without a place for a signature, we certainly would have done so and will do so from this point forward.

Thank you for taking the time to discuss these results with Fremont Community Schools.

FREMONT COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2016, with Loraine Vaughn, Superintendent of Schools; Brandon Penrod, Treasurer; and Marty McNeal, President of School Board.