

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TAYLOR COMMUNITY SCHOOL CORPORATION

HOWARD COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
05/27/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Deborah Barton	07-01-12 to 06-30-16
Superintendent of Schools	Dr. John Magers Eric Hartman (Acting) Robert Foreman (Interim) Christopher Smith	07-01-12 to 06-30-13 07-01-13 to 07-31-13 08-01-13 to 12-31-13 01-01-14 to 06-30-16
President of the School Board	Dennis Marler	07-01-12 to 06-30-16



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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 TAYLOR COMMUNITY SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

This report is supplemental to our audit report of the Taylor 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 incorporated within this report, were not verified for accuracy.

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

March 24, 2014

TAYLOR COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

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

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Treasurer prepared and submitted the SEFA through the Gateway system. However, there was no additional oversight of the SEFA information. 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:

Total federal expenditures were incorrectly reported due to commodities being omitted from the SEFA. Special Education monies handled through Kokomo Area Special Education Cooperative were left off of the SEFA. Information such as program title, pass-through entity, and pass-through identifying number was omitted for some grant awards. 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:

TAYLOR COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Program: Special Education_Grants to States

CFDA Number: 84.027

Federal Award Number and Year (or Other Identifying Number): 14211-035-PN01, 14212-035-PN01,
14213-035-PN01, 14214-035-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 its grant agreements and the Allowable Costs/Cost Principles compliance requirements. The School Corporation is a member of the Kokomo Area Special Education Cooperative (KASEC), and they provide oversight of KASEC through the School Corporation Superintendent who serves as a member of the KASEC Board. However, the KASEC has not established an effective internal control system in relation to Allowable Costs/Cost Principles.

The failure to establish an effective internal control system resulted in the School Corporation being in noncompliance with Allowable Costs/Cost Principles compliance requirements related to its Special Education grants. Semi-Annual Certification Activity Reports for fiscal year 2014 could not be located by KASEC, and therefore were not presented for audit.

TAYLOR COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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-87, Attachment B, paragraph 8h(3) states:

"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 semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

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

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

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance 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 2014-003 - INTERNAL CONTROL OVER ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, CASH MANAGEMENT, EQUIPMENT AND REAL PROPERTY MANAGEMENT, PERIOD OF AVAILABILITY, REPORTING, AND SPECIAL TESTS AND PROVISIONS

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): 12-3460, 13-3640, 14-3460

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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Period of Availability, Reporting, and Special Tests and Provisions.

TAYLOR COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

There was a lack of segregation of duties regarding the following compliance requirements:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Availability

The Deputy Treasurer is the sole person responsible for the preparation of payroll, which is 90 percent of the grant, with no oversight or review.

Cash Management and Reporting

The Treasurer/ Business Manager is the sole person responsible for the preparation and submission of the monthly Request for Reimbursement and the Annual Financial Reports with no oversight or review.

Equipment and Real Property Management

The Technology Director is the sole person responsible for purchasing and maintaining the inventory of electronic equipment with no oversight or review.

Special Tests and Provisions - Schoolwide Programs and Highly Qualified Teachers and Paraprofessionals

The Principals at the schools are the sole persons responsible for the verification of teachers and paraprofessionals qualifications. The principals are the sole persons responsible for the creation of the schoolwide improvement plans with no oversight or review.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

TAYLOR COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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: 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): 12-3460, 13-3640, 14-3460

Pass-Through Entity: Indiana Department of Education

The School Corporation is in noncompliance with the Allowable Costs/Cost Principles compliance requirements related to its Title I Grants. For those employees that were paid entirely from Title I funds, the School Corporation did not include their names on a Semi-Annual Certification Activity Report. For employees that were paid partially from Special Education funds, there were no personnel activity reports maintained to ensure that payments were properly allocated between federal and non-federal funds as required.

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

- "(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 semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- (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.
- (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."

The failure to maintain Semi-Annual Certification Activity Reports and personnel activity reports could result in improper salary payments being made to employees from Title I funding.

We recommended that the School Corporation's management establish records that comply with the compliance requirement listed above.

CORRECTIVE ACTION PLAN

FINDING 2014-001

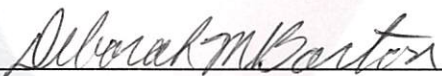
Contact Person Responsible for Corrective Action: Deborah Barton

Contact Phone Number: 765-453-3035

Description of Corrective Action Plan:

The Cafeteria Director will provide the total commodities amount to the Corporation Treasurer, who will include them on the SEFA. Special Education monies handled through KASEC were included on the subsequent 2015 SEFA and will be on all other subsequent SEFA's. The SEFA will be reviewed by the Superintendent to ensure all information is complete and accurate before it is submitted on Gateway.

Anticipated Completion Date: June 30, 2016



Treasurer

March 24, 2016



TAYLOR COMMUNITY SCHOOL CORPORATION

3750 E. 300 S., Kokomo, IN 46902 • ph: 765.453.3035 fx: 765.455.8531

CORRECTIVE ACTION PLAN

FINDING 2014-002

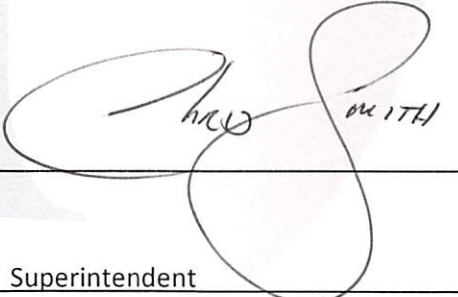
Contact Person Responsible for Corrective Action: Christopher Smith

Contact Phone Number: 765-453-3035

Description of Corrective Action Plan:

Per Suzie Reagle, Director of Special Education, KASEC, all required time and effort documentation is currently maintained in accordance with federal requirements. Controls were in place for the 2014-15 school year and remain in place. This maintenance of documentation will be continued as required. As a member of the KASEC advisory board, the superintendent will ensure the documentation is maintained.

Anticipated Completion Date: Immediate



Superintendent

March 24, 2016



TAYLOR COMMUNITY SCHOOL CORPORATION

3750 E. 300 S., Kokomo, IN 46902 • ph: 765.453.3035 fx: 765.455.8531

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Pam Stamm/Michelle Haus

Contact Phone Number: 765-453-3800/765-453-3035

Description of Corrective Action Plan:

The Title I payroll distribution report for each payroll will be sent to the Title I Director for signature and verification that the proper employees were paid from the Title I grant. The signed for will be kept in the Title I grant file in the corporation office.

The monthly Request for Reimbursement and Annual Year-End Financial Reports and supporting documents will be sent to the Title I Director for verification and signature before being submitted to the Department of Education.

Electronic equipment orders to be purchased from the Title I grant will be sent to the Title I Director for signature before the purchase is made. The Title I Director will keep a separate inventory of electronic equipment purchased with Title I funds.

The Principals will obtain paper documentation of teachers and paraprofessionals qualifications and send it to the Deputy Treasurer, who will review it and file it in the employees' personnel files. The Superintendent will review and sign the schoolwide improvement plans, prepared by the principals.

Anticipated Completion Date: March 17, 2016



Title I Director

March 24, 2016



Deputy Treasurer

March 24, 2016



CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: Pam Stamm

Contact Phone Number: 765-453-3800

Description of Corrective Action Plan:

The Title I Director will prepare Semi-Annual Activity Reports for employees that are paid entirely from Title I funds and obtain Time and Effort logs from employees that are partially paid from federal and non-federal funds to ensure proper allocation of payments.

Anticipated Completion Date: February 15, 2016



Pamela L. Stamm

Title I Director

March 24, 2016



TAYLOR COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OFFICIAL BOND

The School Corporation's ECA Treasurers did not obtain individual or blanket position surety bond. Instead, the School Corporation covered the ECA Treasurers through the School Corporation insurance policy.

Indiana Code 20-41-1-6 states:

"(a) The treasurer shall give a bond in an amount fixed by the superintendent and principal of the school approximating the total amount of the anticipated funds that will come into the possession of the treasurer at any one (1) time during the regular school year. Bonds shall be filed with the trustee or board of school trustees. The surety on the bonds must be a surety company authorized to do business in Indiana. However, the requirement for giving the bond and the requirement to deposit the receipts in a separate bank account, as required in section 9 of this chapter, do not apply to any school for which the funds, as estimated by the principal, will not exceed three hundred dollars (\$300) during a school year.

(b) The requirements of this chapter may be fulfilled by providing a comprehensive bonding instrument, including a single blanket position bond, for all extracurricular treasurers. A comprehensive bonding instrument is acceptable instead of individual separate personal position bonds."

OVERDRAWN CASH BALANCES

The financial statements presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the Textbook Rental fund which was overdrawn \$133,990 at June 30, 2013, and \$119,603 at June 30, 2014.

A similar comment appeared in prior Report B41969.

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)

TAYLOR COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

TEXTBOOK RENTAL FEES

The School Corporation has been charging textbook rental fees that are set at 25 percent of the cost of each textbook. The School Corporation has been using that rate for the entire time that the textbook is in use.

During the audit period, Indiana Code 20-26-12-2 stated in part:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular material.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of curricular materials that have been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

TAYLOR COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 24, 2016, with Dennis Marler, President of the School Board; Christopher Smith, Superintendent of Schools; and Deborah Barton, Treasurer.