

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
EASTERN HOWARD SCHOOL CORPORATION
HOWARD COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
07/01/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Teresa Vester	07-01-12 to 12-31-16
Superintendent of Schools	Dr. Tracy Caddell	07-01-12 to 06-30-16
President of the School Board	Matt Adams	07-01-12 to 12-31-12
	Lisa Manfred	01-01-13 to 12-31-13
	Brian Day	01-01-14 to 12-31-14
	Mark Lantz	01-01-15 to 12-31-15
	Matt Adams	01-01-16 to 12-31-16



STATE OF INDIANA
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TO: THE OFFICIALS OF THE EASTERN HOWARD SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

This report is supplemental to our audit report of the Eastern Howard 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 Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

March 24, 2016

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS

***FINDING 2014-001 - SEGREGATION OF DUTIES OVER FINANCIAL TRANSACTIONS AND REPORTING
AND PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

There were 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 reconcilements. The School Corporation Treasurer completed all aspects of the bank reconcilements of School Corporation funds without any additional monitoring or other controls in place. 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.
2. Preparation of the SEFA: The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected. The Treasurer prepares the SEFA without any oversight, review, or approval process or other control to ensure its accuracy.

During the audit of the SEFA, we noted the following errors: federal expenditures were incorrectly reported; and for some federal grant awards, expenditures and information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were omitted. 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."

EASTERN HOWARD SCHOOL CORPORATION
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 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, CASH MANAGEMENT, ELIGIBILITY, PROGRAM INCOME

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Number): 3480, FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, and Program Income.

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

For fiscal years 2012-2013 and 2013-2014, there was no review of payroll that showed the individual employees paid from each fund in order to verify that all employees paid from the School Lunch fund were allowed.

Cash Management

The School Corporation had no review or other control in place to ensure that the School Lunch fund did not exceed three months' average of expenditures.

Eligibility

During fiscal years 2012-2013 and 2013-2014, the Elementary Secretary and the High School ECA Treasurer were responsible for determining Eligibility for Free and Reduced Price meals, but determinations were performed independently, without oversight or review.

Program Income

School lunch fees were collected at the individual schools and kept by the ECA Treasurers until the end of the month when it was transferred to the Corporation Treasurer, who did not review the bank deposits of school lunch fees.

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.

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

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-003 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education

Federal Program: Special Education_Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (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 of Schools who serves as a member of the KASEC board. However, 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 Certifications for fiscal year 2014 could not be located by KASEC, and therefore were not presented for audit. For those employees that were paid from Special Education funds, KASEC should have included their names on Semi-Annual Certification Activity Reports, and retained the reports.

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 8(h)(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 first hand 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. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

EASTERN HOWARD 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 requirement listed above.

FINDING 2014-004 - REPORTING

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Number): 3480, FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the Reporting compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

The Requests for Reimbursement, Annual Financial Report (AFR), and Verification Summary are required reports that are being prepared by the School Corporation Treasurer; however, there was no documented control over the required reports to ensure their accuracy before being submitted.

For fiscal year 2014, the income and expenses reported on the National School Lunch Program AFR did not match the income and expenses presented in the financial statement or the supporting documents issued from the School Corporation. Total income on the National School Lunch Program AFR was \$623,426.12. Total income on the financial statement was \$661,025.84. This resulted in an under reported difference of \$37,599.72. Total expenses on the National School Lunch Program AFR were \$623,710.89. Total expenses on the financial statement was \$582,408.53. This resulted in an over reported difference of \$41,302.36..

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . . "

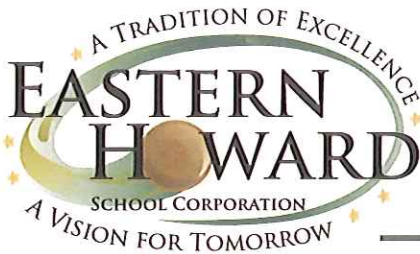
EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 enabled 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. We recommended that the School Corporation officials ensure that all required reports are prepared on an accurate basis, in accordance with the Reporting requirements, and that all records are retained in accordance with retention requirements.



Dr. Tracy A. Caddell
Superintendent of Schools

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CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Dr. Tracy Caddell, Superintendent
Contact Phone Number: 765-628-3391

Views of Responsible Official:

We concur with findings.

Description of Corrective Action Plan:

- ***We feel the duties of the Administration Office are pretty well segregated and checks and balances are done as they become a part of the financials, and the Superintendent has always reviewed the monthly bank statement & financial reports, he just did not sign off on the reports. To correct this finding, the Superintendent will sign off on these reports so we will have a written record of his review.***

Anticipated Completion Date:

- ***Updated controls were put in to place during this audit. It is our goal to also cross-train with the Deputy Treasurer and other staff on the bank reconciliation process provided in our accounting software.***

Description of Corrective Action Plan:

- ***Preparation of the SEFA is a new responsibility for school corporation offices. Preparation of this information will be shared with other staff for review and verification and sign off.***

Anticipated Completion Date:

- ***Corrective processes will be implemented immediately moving forward.***

FINDING 2014-002

Contact Person Responsible for Corrective Action: Dr. Tracy Caddell, Superintendent
Contact Phone Number: 765-628-3391

Views of Responsible Official:

We concur with findings.

Description of Corrective Action Plan:

- ***Activities Allowed or Not Allowed and Allowable Costs/Cost Principles – A review of payroll distribution has been implemented per audit findings. A detail list of individuals***

paid from the school lunch fund, as well as all other funds, is provided to Corporation Treasurer for review and signs off before going to the School Board for approval at the monthly meeting. I think it should also be noted that we are also using True Time in our Skyward Software. Time sheets are electronically submitted to the Director of School Food and then to the Building Principal prior to going to our payroll clerk for payroll processing

Anticipated Completion Date:

- *Immediate implementation and sharing of processing information.*

Description of Corrective Action Plan:

- *Cash Management controls will be communicated to the Food Service Director and Head Cooks. A monthly report will be established to check monthly cash balance to ensure that the cash balance does not exceed three months' worth of expenditures.*

Anticipated Completion Date:

- *Immediate implementation. First report regarding Cash Management will be generated at the end of March 2016.*

Description of Corrective Action Plan:

- *Eligibility for lunch & book assistance – continued use of the Skyward Software for eligibility determination will be used as reviewed by building administration. The software is updated with the formula to calculate eligibility.*

Anticipated Completion Date:

- *Already implemented*

Description of Corrective Action:

- *We will develop internal controls that will allow effective oversight of this federal program. Controls such as monthly detail of student paid lunches to be submitted with monthly transfer of these funds to the Corporation Account. Also a review of the ECA Bank Reconciliation.*

Anticipated Completion Date:

- *Completion Date is set for the end of the school year and no later than June 30, 2016*

FINDING 2014-003

Contact Person Responsible for Corrective Action: Dr. Tracy Caddell, Superintendent
Contact Phone Number: 765-628-3391

Views of Responsible Official:

- *We concur with findings.*

Description of Corrective Action:

- *The co-op board, made up of Superintendents for each participating school, will clarify with the Special Education Co-OP Management Team that they are maintaining effective internal controls. The board will together determine the appropriate segregation of duties and identify reports which will allow individual schools to be in compliance on segregation of duties and oversight of this grant.*

Anticipated Completion Date:

- *Immediate*

FINDING 2014-004

Contact Person Responsible for Corrective Action: Dr. Tracy Caddell, Superintendent
Contact Phone Number: 765-628-3391

Views of Responsible Official:


- *We concur with the findings.*

Description of Corrective Action:

- *A review will need to be done to better identify who is doing what and where the information is coming from. Currently, the monthly requests for Reimbursements are done at the building levels by the Food Service Director now. For this Audit Period, we had Sodexo as Food Management Service, and I believe that caused opportunities with our financial reports. The AFR will be done by the Corporation Treasurer going forward as it had been prior to Sodexo. Procedures will be set up for review prior to submission.*

Anticipated Completion Date:

- *Completion date is set for the end of the school year and no later than June 30, 2016.*

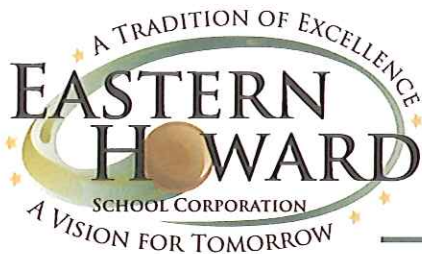

(Signature)
Business Mgr/Treasurer
Title
3/28/16
Date

EASTERN HOWARD SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

PREPAID LUNCH FUND

Prepaid lunch receipts were not placed in Fund 8400 Prepaid Lunch, a clearing account, but were instead accounted for within the School Lunch fund, fund 800. The entire amount of prepaid lunch receipts were recognized in the School Lunch fund, fund 800, at the time of receipt as revenue and not as applied from the clearing account as students consumed their individual account balances. As a result, the subsidiary records of Prepaid Lunch fund balances by student could not be reconciled to an overall balance on a routine basis as required.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for pre-paid items. (The School Administrator, September 2008)



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**AUDIT RESULT & COMMENT
OFFICIAL RESPONSE**

Prepaid Lunch Fund

Contact Person Responsible for Corrective Action: Teresa E. Vester, Corp. Treasurer
Contact Phone Number: 765-628-3391

Views of Responsible Official:

- ***We concur with findings.***

Description of Corrective Action Plan:

- ***A new process will be set up for all lunch funds to be transferred to the Corporation Account, including prepaid amounts, on a monthly basis. Prepaid lunch monies will be placed in the correct Fund 8400. We will be contacting State Board of Accounts, Ryan Preston, for assistance in understanding the process and getting accounts set up properly. There may also be opportunities in understanding the set up in our accounting software (Skyward).***

Anticipated Completion Date:

- ***Target Completion date is on or before June 30, 2016.***

(Signature)

Business Manager/Treasurer

(Title)

March 29, 2016

(Date)

EASTERN HOWARD SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 24, 2016, with Dr. Tracy Caddell, Superintendent of Schools; Teresa Vester, Treasurer; and Aimee Romero, School Board member.