

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
PIONEER REGIONAL SCHOOL CORPORATION  
CASS COUNTY, INDIANA  
July 1, 2013 to June 30, 2015



**FILED**  
07/25/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melissa J. Hardy	07-01-13 to 12-31-17
Superintendent of Schools	Dr. David L. Bess	07-01-13 to 06-30-17
President of the School Board	Michael W. Englert	07-01-13 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE PIONEER REGIONAL SCHOOL  
CORPORATION, CASS COUNTY, INDIANA

This report is supplemental to our audit report of the Pioneer Regional School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2015. 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 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, incorporated within this report, was not verified for accuracy.

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

May 15, 2017

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

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). One employee prepared the SEFA without controls to ensure its accuracy before submission.

The SEFA contained the following errors:

1. The Child Nutrition Cluster omitted commodities of \$35,547 and \$32,860 for the years ended June 30, 2014 and 2015, respectively.
2. The Special Education Cluster (IDEA) was understated by \$198,411 and \$3,194, for the years ended June 30, 2014 and 2015, respectively.
3. The Title 1 Grants to Local Educational Agencies was understated by \$56,709 for the year ended June 30, 2015.
4. The Improving Teacher Quality State Grants was understated by \$8,478 for the year ended June 30, 2015.
5. The English Language Acquisition State Grants was understated by \$1,761 for the year ended June 30, 2015.
6. The SEFA included state grants in error.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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 in part:

"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 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 sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. . . ."

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-002 - FINANCIAL TRANSACTIONS AND REPORTING**

*Condition*

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts, vendor disbursements, and payroll disbursements. The Treasurer received collections, prepared the deposit slip, made the deposit, and recorded the receipts. Vendor disbursements were independently prepared by the Treasurer and payroll disbursements were independently prepared by the Payroll Clerk. There was no segregation of duties, such as an oversight, review, or approval process.

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2015-003 - INTERNAL CONTROLS OVER THE CHILD NUTRITION CLUSTER***

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 Numbers): FY 14, FY 15

Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Cash Management, Equipment and Real Property Management, Eligibility, Program Income, and Reporting.

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Activities Allowed or Unallowed*

There were no controls in place to that ensure that payroll disbursements were for allowable activities.

*Cash Management*

There were no controls in place to ensure that the balance in the School Lunch fund, which is the net cash resources, did not exceed the three months average expenditures.

*Equipment and Real Property Management*

There were no controls in place to ensure that Equipment purchased with school lunch funds was properly accounted for.

*Eligibility*

There were no controls in place to ensure that the eligibility determination for free and reduced price meals was accurate. One employee processed the applications for free and reduced price meals, which included entering the data and determining eligibility.

*Program Income*

There were no controls in place to ensure that Program Income was properly recorded. Additionally, there were no controls to ensure that the Prepaid School Lunch fund was reconciled to the subsidiary student accounts.

*Reporting*

There were no controls in place to ensure that the Sponsor Claim (claim for reimbursement) or the Annual Financial Report were accurate prior to submission.

*Context*

This is not an isolated incident. There were no controls throughout the audit period.

*Criteria*

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. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

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

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2015-004 - ALLOWABLE COSTS/COST PRINCIPLES***

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 Numbers): FY 14, FY 15

Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

The School Corporation had not designed or implemented adequate policies or procedures to ensure that all payroll disbursements were for allowable costs and that Semi-Annual Certifications and Personnel Activity Reports were completed and maintained in compliance with program requirements.

*Context*

This was a systemic problem. There were no controls over payroll disbursements to ensure compliance with Allowable Costs/Cost Principles requirements. In addition, Semi-Annual Certifications and Personnel Activity Reports were not maintained for any full or part-time employees throughout the audit period.

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Criteria*

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. . . ."

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. 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. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. We also recommended that the School Corporation comply with the Allowable Costs/Cost Principles compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2015-005 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

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 Numbers): FY 14, FY 15

Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The School Corporation was part of a three-school consortium which rotated the responsibility for bidding amongst three schools. The consortium had no contract detailing the responsibilities of each school. The School Corporation had no controls to ensure that procurement procedures were properly performed. In addition, the School Corporation did not have procedures in place to ensure that vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs. The School Corporation was not aware of the requirement to verify that vendors were not suspended or debarred prior to awarding the contracts and, therefore, did not perform a verification or obtain certifications that the vendors were not suspended or debarred.

*Context*

This was a systemic problem which occurred throughout the audit period.

*Criteria*

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. . . ."

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. We also recommended that the School Corporation comply with the Procurement and Suspension and Debarment compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

***FINDING 2015-006 - CASH MANAGEMENT AND REPORTING***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 13-0775, 14-0775, 15-0775

Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Cash Management and Reporting compliance requirements.

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

There were no controls in place to ensure that monthly Reimbursement Forms (Forms) were accurate and included only expenses that had already been paid before submission. There were also no controls to ensure that the Annual Final Expenditure Reports (Annual Reports) were accurate prior to submission.

The School Corporation submitted monthly Forms and Annual Reports as required by the Indiana Department of Education. Some monthly Reports included expenditures that had not been paid prior to the request for reimbursement. The expenditures reported on the monthly Forms and the Annual Reports did not agree with the School Corporation's financial records.

*Context*

These were systemic problems. There was a lack of controls throughout the audit period. The expenditures reported on the monthly Forms could not be verified with the records for all five of the Forms tested. Four of the five monthly Forms tested also included expenses that had not been paid prior to the request for reimbursement. The expenditures reported on both Annual Reports could not be verified to the financial records.

*Criteria*

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. . . ."

34 CFR 80.20(b) states in part:

"The financial management system 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.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlay or expenditures, and income. . . .
- (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. . . ."

34 CFR 80.21(d) states in part: "*Reimbursement.* Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. . . ."

PIONEER REGIONAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could have resulted in the loss of federal funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements. We also recommended that the School Corporation comply with the Cash Management and Reporting compliance requirements.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



## **PIONEER REGIONAL SCHOOL CORPORATION**

**Melissa J Hardy, Corporation Treasurer/Business Affairs Manager**

**413 South Chicago Street PO Box 577**

**Royal Center, IN 46978**

**Phone: 574-643-2605 Fax: 574-643-9977**

**[hardym@pioneer.k12.in.us](mailto:hardym@pioneer.k12.in.us)**

### **CORRECTIVE ACTION PLAN**

#### ***FINDING 2015-001***

Contact Person Responsible for Corrective Action: Melissa J Hardy

Contact Phone Number: 574-643-2605

**The School Corporation will implement procedures that ensure that internal controls are in place to prevent, detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA) report.**

Anticipated Completion Date: May 15, 2017

#### ***FINDING 2015-002***

Contact Person Responsible for Corrective Action: Melissa J Hardy

Contact Phone Number: 574-643-2605

**The School Corporation will implement procedures to ensure that controls over duties have as much segregation as possible. Pioneer School Corporation is a small school and it isn't feasible to hire employees to cover all assigned duties to this office.**

Anticipated Completion Date: May 15, 2017

#### ***FINDING 2015-003***

Contact Person Responsible for Corrective Action: Melissa J Hardy

Contact Phone Number: 574-643-2605

**The School Corporation will implement corrective procedures to ensure there is an effective internal control in place in order to ensure compliance related controls over grant management. The School Corporation will implement procedures to ensure that controls over duties have as much segregation as possible. Pioneer School Corporation is a small school and it isn't feasible to hire more employees. We will begin to require time and effort logs from these employees.**

Anticipated Completion Date: May 15, 2017

**FINDING 2015-004**

Contact Person Responsible for Corrective Action: Melissa J Hardy  
Contact Phone Number: 574-643-2605

**The School Corporation will implement corrective procedures to ensure there is an effective internal control in place in order to ensure compliance related controls over grant management.**

Anticipated Completion Date: May 15, 2017

**FINDING 2015-005**

Contact Person Responsible for Corrective Action: Melissa J Hardy  
Contact Phone Number: 574-643-2605

**The School Corporation will implement corrective procedures to ensure there is an effective internal control in place in order to ensure compliance related controls over grant management.**

Anticipated Completion Date: May 15, 2017

**FINDING 2015-006**

Contact Person Responsible for Corrective Action: Melissa J Hardy  
Contact Phone Number: 574-643-2605

**The School Corporation will implement corrective procedures to ensure there is an effective internal control in place in order to ensure compliance related controls over grant management. Pioneer School Corporation is a small school and it isn't feasible to hire more employees but we will have employees review each other's work and document that this is done. The School Corporation will implement procedures to ensure that controls are in place to ensure the reimbursements requests are and financial reports are accurate. The School Corporation will pay expenses prior to requesting reimbursements.**

Anticipated Completion Date: May 15, 2017



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**Melissa J Hardy**  
**Pioneer Regional School Corporation Treasurer**

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**May 15, 2017**  
Date

PIONEER REGIONAL SCHOOL CORPORATION  
AUDIT RESULT AND COMMENT

***COMPENSATION AND BENEFITS***

The School Corporation did not present an approved salary ordinance or salary schedule. Certified employees had signed contracts which were approved by the School Board. New noncertified employees were approved by the School Board, but their pay information was not provided. Per the Treasurer, new employees were paid based on the position for which the rate of pay had been the same since 2009.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public Schools, Chapter 1)

PIONEER REGIONAL SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on May 15, 2017, with Melissa J. Hardy, Treasurer; Michael W. Englert, President of the School Board; Brad Swartzell, School Board member; Steve Felker, School Board member; and Lisa A. Kesling, School Board member.