

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

SUNMAN-DEARBORN COMMUNITY
SCHOOL CORPORATION
DEARBORN COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
08/31/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Charles Blake (deceased)	07-01-13 to 11-18-14
	Mary Ann Baines (interim)	11-19-14 to 01-08-15
	Mary Ann Baines	01-09-15 to 12-31-17
Superintendent of Schools	Dr. Jeffery Hendrix	07-01-13 to 06-30-14
	Dr. John Williams	07-01-14 to 06-30-15
	Dr. Andrew Jackson	07-01-15 to 06-30-20
President of the School Board	Jeff Lyness	01-01-13 to 12-31-14
	Michael Norman	01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Sunman-Dearborn Community 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 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.

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

July 31, 2017

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

**FINDING 2015-001 - INTERNAL CONTROLS OVER THE 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). The SEFA information entered into the Indiana Gateway for Governmental Units was prepared and submitted by the Treasurer.

The total federal awards expended were overstated on the SEFA in total \$494,686. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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."

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 § _____.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.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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."

Cause

Management had not established a system of internal controls that would have ensured proper reporting of federal expenditures on the SEFA.

Effect

Without a proper system of internal control in place, material misstatements of the SEFA remained undetected. The SEFA contained 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 - 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, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Reporting, Special Test and Provisions - Verification of Free and Reduced Price Applications (NSLP).

Cash Management

A control process had not been established to ensure that the School Lunch fund's net cash resources were limited to the average expenditures for three months.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Reporting

A control process had not been established to ensure the reimbursement reports, Annual Financial Report, and verification summary reports were accurate prior to submission. There was no segregation of duties, such as an oversight, review, or approval process.

Special Tests and Provisions - Verification of Free and Reduced Priced Applications (NSLP)

A control process had not been established to ensure the verification of free and reduced priced applications was performed in accordance with program requirements. There was no segregation of duties, such as an oversight, review, or approval process.

Context

The lack of controls over the compliance requirements listed above was a systemic problem throughout the entire 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 and would have ensured compliance with the listed requirements.

Effect

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements 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 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.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-003 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-052-PN01, 14214-052-PN01,
99914-052-TA01, 14215-052-PN01,
45714-052-PN01

Pass-Through Entity: Indiana Department of Education

Condition

Management of the School Corporation had not established an effective internal control system, which would have included oversight of the Fiscal Agent, as it relates to the following compliance requirements: Cash Management and Reporting.

Cash Management

The School Corporation designated a fiscal agent to receive and manage the Special Education programs. Management of the School Corporation had not implemented controls over the Fiscal Agent as it relates to the Cash Management compliance requirement. Reimbursement requests were prepared by the Fiscal Agent's Treasurer. There was no control in place to ensure that expenditures were paid prior to requesting reimbursement.

Reporting

The School Corporation designated a fiscal agent to manage the Special Education programs. Management of the School Corporation had not implemented controls over the fiscal agent as it relates to the Reporting compliance requirement. Grant reports were prepared and submitted by the Fiscal Agent's Treasurer. There was no control in place to ensure that the reports were accurate prior to submission.

Context

The lack of controls was a systemic problem over the requirements listed above during the entire 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 to provide oversight over duties performed by the Fiscal Agent to ensure compliance with the compliance requirements of the grant.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements 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 related to the grant agreement and 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 - REPORTING, SPECIAL TESTS AND PROVISIONS - COMPARABILITY

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): FY 2013, FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Reporting and Special Tests and Provisions - Comparability.

Reporting

Management of the School Corporation had not established an effective internal control system related to the Reporting compliance requirement. One employee was responsible for preparing and submitting required reports. There was no segregation of duties, such as an oversight, review, or approval process to ensure reports were accurate prior to submission.

Special Tests and Provisions - Comparability

Management of the School Corporation had not established an effective internal control system related to the Special Tests and Provisions - Comparability compliance requirement. One employee was responsible for preparing and submitting the comparability report. There was no segregation of duties, such as an oversight, review, or approval process, to ensure the reports were completed and accurate.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a systemic problem over the requirements listed above during the entire 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 and would have ensured compliance with the listed requirements.

Effect

The failure to establish controls could have enabled material noncompliance to go undetected. Noncompliance with the compliance requirements 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 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.



Sunman-Dearborn Community Schools
1 Trojan Place, Suite B
St. Leon, IN 47012

Dr. Andrew Jackson
Superintendent

Ms. Cindy Morton
Director of Support Services

Ms. Mary Ann Baines
Director of Financial Operations

CORRECTIVE ACTION PLAN

FINDING 2015-001 - Internal Controls over the preparation of the Schedule of Expenditures of Federal Awards

Contact Person: Mary Ann Baines
Title: Director of Financial Operations/Treasurer
Contact Phone Number: 812-623-2291 Ext. 10907

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding.

CORRECTIVE ACTION PLAN - Beginning with the 2016-17 Annual Financial Report (Gateway) which consists of the SEFA, all of the expenditures will be submitted and reviewed by two different parties. Upon review both parties will sign off on the report and then report will be submitted.

FINDING 2015-002 - Internal Controls over the Child Nutrition Cluster

Contact Person: Mary Ann Baines
Title: Director of Financial Operations/Treasurer
Contact Phone Number: 812-623-2291 Ext. 10907

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding.

CORRECTIVE ACTION PLAN - Effective quarter ending June 30, 2017 the Director of Financial Operations (DOF)/Treasurer will review quarterly the cash balance in the School Lunch and Breakfast program. The cash balance will be reviewed with the Director of Food Service (DFS) and both parties will sign off on the quarterly cash balance to ensure our net cash resources are limited to the average expenditure for three months. Both parties will initial.

Effective with the May 2016 School Lunch and Breakfast reimbursement claim, the Food Services Administrative Assistant prepares the claim. She then forwards to the DFS for review and approval. After approval from DFS the claim is then submitted to the state by the Food Service Administrative Assistant. Both parties will initial.

Effective with the 2016-17 Annual Financial Report, the Food Service Administrative Assistant provides the Director of Food and Nutrition Services with the expenditures and receipts for the fiscal year. The DFS reviews the reports and prepares the Annual Financial Report. The DFS then provides the AFR to the Director of Financial Operations to review and compare to prior submissions, after review the Director

of Financial Operations signs off on and the DFS submits the Annual Financial Report. All parties will initial.

Effective with the 2017-18 school year the free and reduced applications (after completed by the principals) will be forwarded to each school's food service manager. The food service manager will enter the application into the system, initial and forward the application on to the DFS. The DFS will then check the system to make sure the application was entered correctly and initial.

Effective with the 2017-18 school year the verification process, included but not limited to the verification selection process, preparation of letters to the selected applicants, verification of the applications, and verification or change of the free/reduced status of the students in the system, will be reviewed by both the food service bookkeeper and the Director of Food Services.

FINDING 2015-003 - Cash Management and Reporting

Contact Person: Mary Ann Baines
Title: Director of Financial Operations/Treasurer
Contact Phone Number: 812-623-2291 Ext. 10907

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding.

CORRECTIVE ACTION PLAN - Beginning in September 2016 a document has been presented at each of the monthly ROD Board meetings. The document lists each fund and includes the fund balance and cash balance. Beginning in March 2017 the date of availability and reporting information was added to the document. The superintendent reviews and signs each month. Copies of all grant applications, revisions, reimbursement requests and final reports are received and filed.

FINDING 2015-004 - Reporting, Special Tests and Provisions-Comparability

Contact Person: Mary Ann Baines
Title: Director of Financial Operations/Treasurer
Contact Phone number: 812-623-2291 Ext. 10907

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding.

CORRECTIVE ACTION PLAN - Beginning with the 2017-18 Title I grant the Annual Financial Report will be reviewed by the Title I Coordinator prior to submission by the DFO. Beginning with the 2017-18 Title I grant the Superintendent will review the Comparability report prior to submission by the Title I Grant Coordinator.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on July 31, 2017, with Mary Ann Baines, Treasurer; Dr. Andrew Jackson, Superintendent of Schools; Michael Norman, President of the School Board; Cindy Morton, Director of Support Services; and Cheryl Erhart, Director of Food and Nutrition Services.