

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

GARRETT-KEYSER-BUTLER
COMMUNITY SCHOOL DISTRICT
DEKALB COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
01/18/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pamela S. Good	07-01-14 to 06-30-18
Superintendent of Schools	Dennis Stockdale (Vacant) Tonya K. Weaver	07-01-14 to 07-22-16 07-23-16 to 08-31-16 09-01-16 to 06-30-20
President of the School Board	Chris Hoeffel Terry Yarde Larry Getts, Jr.	07-01-14 to 12-31-14 01-01-15 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
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TO: THE OFFICIALS OF THE GARRETT-KEYSER-BUTLER COMMUNITY
SCHOOL DISTRICT, DEKALB COUNTY, INDIANA

This report is supplemental to our audit report of the Garrett-Keyser-Butler Community School District (School Corporation), for the period from July 1, 2014 to June 30, 2016. 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, was not verified for accuracy.

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

December 19, 2017

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

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).

Context

The SEFA contained the following errors:

1. The Special Education Cluster (IDEA) was omitted. This resulted in an understatement of federal expenditures of \$456,196 for fiscal year 2014-2015 and \$440,310 for fiscal year 2015-2016.
2. The Child Nutrition Cluster commodities were omitted. This resulted in an understatement of federal expenditures of \$68,618 for fiscal year 2014-2015 and \$65,406 for fiscal year 2015-2016.
3. The Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) was overstated by \$1,000 for fiscal year 2014-2015 and understated by \$1,000 for fiscal year 2015-2016.
4. The Head Start expenditures was overstated by \$36 for fiscal year 2014-2015 and \$6 for fiscal year 2015-2016.

Total federal expenditures were understated by \$523,778 in fiscal year 2014-2015 and \$506,710 in fiscal year 2015-2016. Audit adjustments were proposed, approved 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. . . ."

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
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 § __.310. . . ."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (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 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 *Context*.

Recommendation

We recommended that the School Corporation's management establish controls to prevent, or detect and correct, errors on the SEFA.

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2016-002

Subject: School Breakfast Program, National School Lunch Program - Cash Management
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 14-15, FY 15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Finding: Material Weakness

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Cash Management compliance requirement.

Although we found no instance of noncompliance with the Cash Management requirements relating to net cash resources, the School Corporation had not retained evidence that one individual was calculating a three month average of expenditures and another was approving the calculation.

Context

This was a systemic problem 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed a system of internal controls that segregated key functions.

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 requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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 requirement 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 2016-003

Subject: Child Nutrition Cluster - Procurement

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Finding: Material Weakness

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The School Corporation utilized an educational service center for Food Service bids. The educational service center administered the bidding process as well as verified that the vendors were not suspended or debarred. The educational service center made a recommendation to the School Corporation for the winning bids. However, there were no controls in place to ensure that the School Corporation and School Board formally approved the bids or awarded the contracts to the successful bidders. An oversight, review, or approval process had not been established.

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Context

This is a systemic problem for 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

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

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 requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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 requirement listed above.

Views of Responsible Officials

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

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

FINDING 2016-004

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles
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): 14213-046-PN01, 14214-046-PN01,
99914-046-TA01, 14215-046-PN01,
14216-044-PN01, 45715-046-PN01,
45716-044-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the Northeast Indiana Special Education Cooperative (Cooperative). The grant agreements for the federal programs were between the Indiana Department of Education (IDOE) and each member school of the Cooperative. The member schools of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a Fiscal Agent, who was responsible for the accounting records of the Cooperative. The Fiscal Agent of the Cooperative spent the federal money on behalf of the School Corporation and other member schools and was responsible for following the requirements related to Allowable Costs/Cost Principles compliance requirement.

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. Because the grant agreements are between the IDOE and each member of the Cooperative, each member school is ultimately responsible for ensuring compliance with the requirements. The Fiscal Agent had not implemented adequate controls to ensure that Semi-Annual Certifications prepared were properly signed by the Special Education Director.

Context

The Semi-Annual Certifications were not all properly signed by the Special Education Director.

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. . . ."

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-87, Attachment B, section 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 firsthand knowledge of the work performed by the employee."

2 CFR 200.430(h)(8)(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS) . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the Cooperative and the participating school corporations, in noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system allowed noncompliance with the compliance requirement and could have allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, review, 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 Allowable Costs/Cost Principles compliance requirement. We also recommended that the School Corporation monitor and have proper oversight of the Cooperative.

Views of Responsible Officials

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

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT

TRANSFORMING EDUCATION, IMPACTING LIVES

SUPERINTENDENT
Tonya K. Weaver



BOARD OF EDUCATION
Larry W. Getts, Jr. - President
Wayne E. Funk - Vice President
Dr. Danny E. Weimer - Secretary
Tamara L. Best - Member
Jerry A. Weller - Member

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Pamela Good

Contact Phone Number: 260-357-7004

Views of Responsible Official: The School Corporation will incorporate additional internal controls in the preparation of the SEFA to ensure accurate reporting of federal awards.

Description of Corrective Action Plan: The following errors resulted in the understatement of the SEFA by \$523,814 and \$506,716 for the 2014-2015 and 2015-2016 fiscal years, respectively:

1. The Special Ed COOP Program was originally omitted. This resulted in an understatement of federal expenditures of \$456,196 and \$440,310 for each fiscal year, respectively. The school district will contact DeKalb County Eastern (the LEA for the NEISEC) annually to retrieve these amounts to include on the annual report.
2. The National School Lunch Program originally omitted the commodities received. This resulted in an understatement of federal expenditures of \$68,618 and \$65,406 for each fiscal year, respectively. The Business Manager has obtained the location on the School and Nutrition website (Indiana Department of Education) and will include these amounts on the annual report.
3. The Improving Teacher Quality State Grants Program was overstated by \$1,000 and understated by \$1,000 for each fiscal year, respectively. The Business Manager will review these reports to ensure the amounts coincide with the correct year.

Anticipated Completion Date: The School Corporation has implemented the actions noted above and updated the current system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

FINDING 2016-002

Contact Person Responsible for Corrective Action: Pamela Good

Contact Phone Number: 260-357-7004

Views of Responsible Official: The School Corporation will incorporate additional internal controls in the preparation of the monthly Paid Equity Report.

Description of Corrective Action Plan: The Business Manager for the school corporation updates the Paid Equity Report monthly, which includes the fund balance of the School Lunch and Prepaid Accounts. This amount will be compared to the three-month total that is calculated from the annual report prepared by the Business Manager and reviewed by the School Lunch Director in June. The Paid Equity report will then be reviewed and signed and dated by the Business Manager and School Lunch Director monthly.

Anticipated Completion Date: This plan is in place and will be ongoing.

Excellence in Education, Strength in Character

FINDING 2016-003

Contact Person Responsible for Corrective Action: Pamela Good
Contact Phone Number: 260-357-7004

Views of Responsible Official: The School Corporation will incorporate additional internal controls regarding submission of the Region 8 bids to the School Board.

Description of Corrective Action Plan: The School Corporation procures bids through Region 8, an education service center. The bids will be reviewed by the School Lunch Director, and forwarded to the Business Manager. The bids will be presented to the School Board for approval, and then returned to Region 8.

Anticipated Completion Date: The School Lunch Director and Business Manager will implement this process immediately.


FINDING 2016-004

Contact Person Responsible for Corrective Action: Pamela Good
Contact Phone Number: 260-357-7004

Views of Responsible Official: The School Corporation has received acknowledgment that the LEA of NEISEC that a corrective action plan has been adopted and is going to be followed.

Description of Corrective Action Plan: A copy of the Corrective Action Plan from DeKalb County Eastern (the LEA for the NEISEC) states "Payroll records for each individual employee show funding allocation from IDEA part B grand and IDEA Preschool grant. NEISEC Director will print off and sign all Semi-Annual Certifications semi-annually."

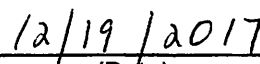
Anticipated Completion Date: A copy of the Corrective Action Plan has been obtained by the school corporation. The LEA states the plan is in place and ongoing.



(Signature)



(Title)



(Date)

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

A similar comment also appeared in prior Report B45200, entitled *OVERDRAWN CASH BALANCES*.

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at June 30, 2015, and June 30, 2016:

Fund	Amount Overdrawn June 30, 2015	Amount Overdrawn June 30, 2016
Construction	\$ -	\$ 75,983
Textbook Rental	117,305	11,667
GKB Clinic	-	6,344

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

GARRETT-KEYSER-BUTLER COMMUNITY SCHOOL DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on December 19, 2017, with Pamela S. Good, Treasurer; Tonya K. Weaver, Superintendent of Schools; and Larry Getts, Jr., President of the School Board.