

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ROCHESTER COMMUNITY SCHOOL CORPORATION

FULTON COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
02/19/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sheila Howe	07-01-14 to 09-26-14
	(Vacant)	09-27-14 to 11-23-14
	Sherie Breitenbach	11-24-14 to 11-13-15
	(Vacant)	11-14-15 to 01-17-16
	Valerie Gillespie	01-18-16 to 12-31-18
Superintendent of Schools	Jana K. Vance	07-01-14 to 12-31-18
President of the School Board	Thomas Schwenk	01-01-14 to 12-31-16
	John Bradley Weaver	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE ROCHESTER COMMUNITY SCHOOL
CORPORATION, FULTON COUNTY, INDIANA

This report is supplemental to our audit report of the Rochester Community School Corporation (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 Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

January 30, 2018

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediate prior audit regarding cash and investments and receipts. The prior audit finding number was 2014-002.

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 Cash and Investments, Receipts, and Payroll.

Cash and Investments

Bank reconcilements were not prepared for five months of the audit period. Reconcilements prepared for the other nineteen months did not consistently include evidence of a proper review or approval process.

Receipts

The Treasurer wrote receipts, posted receipts, prepared bank deposits, took deposits to the bank (secondary), made adjustments, approved adjustments, and reconciled the bank accounts without a proper system of oversight, review, or approval.

Payroll

Payroll Distribution Reports were not consistently reviewed by someone other than the Payroll Clerk who prepared them.

Context

The lack of adequate internal controls and noncompliance were systemic issues, which occurred throughout the audit period.

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.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Cause

The School Corporation had not established a proper system of internal control.

Effect

The failure to establish and properly implement controls enabled noncompliance related to bank reconciliations and could have enabled material misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation's management establish and document effective controls, including segregation of duties, to ensure that bank reconciliations were performed and to ensure that financial transactions were accurately reported in the financial statement.

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

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-001.

Condition

The School Corporation had not established or implemented an effective system of internal controls to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for government units financial reporting system, which is the source for the SEFA. One employee prepared and submitted the grant information without an oversight or review process to detect and correct errors before submission.

Context

The lack of internal controls was a systemic issue throughout the audit period. The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were overstated by \$266,638 for the 2014-2015 fiscal year and understated by \$216,767 for the 2015-2016 fiscal year.
2. The Title I Grants to Local Educational Agencies expenditures were understated by \$74,659 and \$246,888 for the 2014-2015 and 2015-2016 fiscal years, respectively.
3. The Rural Education expenditures were omitted for the 2014-2015 fiscal year.
4. Seven of the nine CFDA titles were incorrect or missing. Pass-Through Agencies and Identifying Numbers were not always correct or were missing.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

ROCHESTER COMMUNITY 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 § __.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 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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

The School Corporation 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*.

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 - 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): FY14-15, FY15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-003.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Cash Management compliance requirement. The School Corporation did not monitor the net cash resources of the School Lunch fund and failed to ensure that the amount did not exceed the three months average expenditures.

Context

The lack of controls and noncompliance were systemic problems. The net cash resources in the School Lunch fund exceeded the three months average expenditures for all 24 months of the audit period. The average excess balances were \$122,583 and \$80,498 for FY2015 and FY2016, respectively.

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). . . ."

7 CFR 210.14(b) states: "*Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction: . . .

(iv) Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management compliance requirement.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and 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 establish controls to ensure compliance and comply with the Cash Management 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 2016-004

Subject: Child Nutrition Cluster - Eligibility and Reporting
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): FY14-15, FY15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Eligibility, Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-003.

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Eligibility and Reporting compliance requirements.

Eligibility

The School Corporation had not designed or implemented adequate policies and procedures to ensure that free and reduced price meal applications were accurately evaluated for eligibility. The application information was entered into the food service software, which automatically made the eligibility determination dependent on the information entered. There was no oversight or review to ensure that the information entered into the food service software was accurate.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure that all of the required reports were accurately prepared and submitted. The food service director prepared and submitted the Annual Financial Reports without a proper system of oversight or review.

Context

The lack of internal controls was a systemic issue 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). . . ."

Cause

The School Corporation had not developed a system of internal controls that would have segregated key functions related to the Eligibility and Reporting compliance requirements.

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. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the 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 to ensure compliance with the Eligibility and Reporting compliance requirements.

ROCHESTER COMMUNITY SCHOOL CORPORATION
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 2016-005

Subject: Child Nutrition Cluster - Special Tests and Provisions - Verification
of Free and Reduced Price Applications (NSLP)

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): FY14-15, FY15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Verification of
Free and Reduced Price Applications (NSLP)

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-003.

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Priced Applications (NSLP) compliance requirement.

The Food Service Director performed the verifications of free and reduced price meal applications and made the determination of whether or not a change in eligibility was necessary without a proper system of oversight or review. In addition, one of the four school lunch applications selected for verification in the fall of 2015 was verified incorrectly.

Context

The lack of controls and noncompliance were systemic problems. One of the four applications selected for verification was incorrectly verified.

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. . . ."

ROCHESTER COMMUNITY SCHOOL CORPORATION
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). . . ."

7 CFR 245.6a(c) states in part: "Verification requirement-(1) General. The local educational agency must verify eligibility of children in a sample of household applications approved for free and reduced meal benefits for that school year. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and 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 establish controls to ensure compliance and comply with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) 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 2016-006

Subject: Child Nutrition Cluster - 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 Numbers): FY14-15, FY15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Modified Opinion

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 Program Income compliance requirement.

It could not be determined if the School Corporation complied with requirements for accounting of program income generated from the operation of the food service programs. The School Corporation established a single fund, the School Lunch fund, to account for all activity of the food service programs. The School Corporation also maintained individual accounts for students who prepaid for meals. When prepaid funds were received, they were receipted into the School Lunch fund as revenue without distinction from program income generated by the food service programs. Due to the method of recordkeeping, it could not be verified whether the School Corporation met the requirements for the Program Income compliance requirement.

Context

The lack of controls was a systemic issue throughout the audit period. The procedures for collecting and recording program income prevented the determination of the School Corporation's compliance with the Program Income compliance requirement.

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). . . ."

7 CFR 210.14(c) states:

"*Financial assurances.* The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 220.13(i) states in part: "Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and be supported by documentation."

Cause

Management had not developed a system of internal controls that would have enabled a determination on the School Corporation's compliance with the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system which would have ensured that program income was properly identified prevented the determination of the School Corporation's compliance with the Program Income compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation establish controls to enable the determination on the School Corporations compliance with the Program Income 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 2016-007

Subject: Special Education Cluster (IDEA) - Suspension and Debarment

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): FY13, FY14, FY15, FY16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Modified Opinion

Condition

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

The School Corporation did not perform any procedures to ensure compliance with requirements regarding verification that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

This was a systemic issue, which occurred throughout the audit period. No verification procedures were performed for any of the contracted vendors paid from the grants.

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). . . ."

2 CRF 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 would have ensured compliance with the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

Effect

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

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Suspension and Debarment requirements of 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.



Rochester Community School Corporation

690 Zebra Lane • P.O. Box 108

Rochester, Indiana 46975-0108

Phone: 574-223-2159 • Fax: 574-223-4909

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Valerie Gillespie, Business Manager

Contact Phone Number: (574) 223-2159 ex 5006

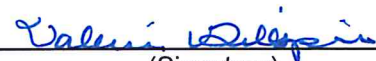
We concur with the finding. During the Audit Period (July 1, 2014-June 30, 2016), Rochester Community School Corporation experienced a turnover in the Administration Office that was historically higher than previous years. As a result, through this transitional period, effective controls were not maintained.

Description of Corrective Action Plan:

As the Business Manager as of January 1, 2016, many of the necessary improvements to internal controls have been addressed and rectified to-date. Bank Reconcilements are completed by the Business Manager/Treasurer, and reviewed by the Superintendent for accuracy. Additionally, the Business Manager/Treasurer prepares the deposit, and enters the receipts into the Financial Software. Upon completion, the Deputy Treasurer confirms the prepared deposit & confirms accuracy of receipts entered. Upon full and final verification, the Deputy Treasurer delivers the deposit to the Financial Institution.

The Payroll & Benefits Coordinator has implemented steps to ensure that Payroll Distribution Reports are consistently distributed to Administrators & Supervisors.

Anticipated Completion Date: August 2016



(Signature)

Business Manager
(Title)

January 30th, 2018
(Date)



Rochester Community School Corporation

690 Zebra Lane • P.O. Box 108

Rochester, Indiana 46975-0108

Phone: 574-223-2159 • Fax: 574-223-4909

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Valerie Gillespie, Business Manager

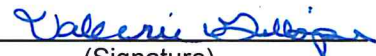
Contact Phone Number: (574) 223-2159 ex 5006

We concur with the finding. During the Audit Period (July 1, 2014-June 30, 2016), Rochester Community School Corporation experienced a turnover in the Administration Office that was historically higher than previous years. As a result, through this transitional period, effective controls were not maintained.

Description of Corrective Action Plan:

In order to eliminate the opportunity for erroneous reporting, all aspects of the Schedule of Expenditures of Federal Awards (SEFA) will be reviewed by the Department and/or Administrator responsible for the respective grant. Once accuracy is confirmed, the respective Administrator will sign off on the SEFA, and the Business Manager will maintain supporting documents. Upon completion, and before submission, the SEFA will be reviewed by the Superintendent to not only ensure that reporting is complete and accurate, but that documents proving accuracy & verification are maintained.

Anticipated Completion Date: March 2018



(Signature)

Business Manager
(Title)

January 30th, 2018
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Kathy Wilkinson
Contact Phone Number: 574-223-2159 Ext.5004

Views of Responsible Official:
We concur with the findings

Description of Corrective Action Plan: The Food Service Director will receive monthly lunchroom reports from Business Manager. The report will include revenue and expenditures. The Food Service Director will continue to use these figures to ensure the amount don't exceed three months average expenditures. The Food Service Director will look at each school on a monthly bases to determine how to spend the excess funds. Food Service Director will implement a plan for equipment and refurbishing of cafeterias to IDOE for approval. Anticipated Date of Completion 2-28-2018

Food Service Director

1-30-2018



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CORRECTIVE ACTION PLAN

FINDING 2016-004

Contact Person Responsible for Corrective Action: Kathy Wilkinson

Contact Phone Number: 574-223-2159 Ext.5004

Views of Responsible Official:

We concur with the findings

Description of Corrective Action Plan: The Food Service Director will receive Free and Reduced applications. The Director will input the information into the food service software. The Business Manager will review ten percent of the applications verifying the information and results are accurate and will sign the applications. Anticipated Date of Completion 7-1-2016

A handwritten signature in black ink that reads "Kathy Wilkinson". The signature is written in a cursive style and is positioned above a horizontal line.

Food Service Director

1-30-2018



Rochester Community School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2016-005

Contact Person Responsible for Corrective Action: Kathy Wilkinson

Contact Phone Number: 574-223-2159 Ext.5004

Views of Responsible Official:

We concur with the findings.

Description of Corrective Action Plan: The Food Service Director will select applications in accordance with NSLP. The director will proceed to Direct Certification website and verify through direct verification. The applications that are not verified through Direct Certification will be sent letters to obtain income documentation. The director will input the income information received into the food service software. The Business Manager will review all the information and sign the verification part as well as the director. Anticipated Date of Completion 7-1-2016

Food Service Director

1-30-2018



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CORRECTIVE ACTION PLAN

FINDING 2016-006

Contact Person Responsible for Corrective Action: Kathy Wilkinson

Contact Phone Number: 574-223-2159 Ext.5004

Views of Responsible Official:

We concur with the findings

Description of Corrective Action Plan: The Food Service Director and Business Manager have established a separate account for prepaid. Since establishing a separate account reporting is more accurate and transparent. A transfer from prepaid to student lunches is done monthly. Anticipated Date of Completion 7-1-2016

Food Service Director

1-30-2018



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CORRECTIVE ACTION PLAN

FINDING 2016-007

Contact Person Responsible for Corrective Action: Valerie Gillespie, Business Manager
Contact Phone Number: (574) 223-2159 ex 5006

We concur with the finding. During the Audit Period (July 1, 2014-June 30, 2016), Rochester Community School Corporation experienced a turnover in the Administration Office that was historically higher than previous years. As a result, through this transitional period, effective controls were not maintained.

Description of Corrective Action Plan:

Purchasing procurement and consortium associations that the School Corporation utilizes comply with the Suspension and Debarment requirements. To ensure compliance at the district level for required grants, the School Corporation will ensure that all vendors utilized for goods and/or services are not prohibited per Federal requirements by incorporating required practices into school policy. To ensure vendors are not suspended or debarred, proof of eligibility will be obtained and included with purchasing documents maintained by the School Corporation.

Anticipated Completion Date: May 2018

Valerie Gillespie
(Signature)

Business Manager
(Title)

January 30th, 2018
(Date)

ROCHESTER COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE - SELF-INSURANCE FUND

At June 30, 2016 the Self-Insurance fund had a negative cash balance of \$319,413 due to the timing of General fund transfers of the School Corporation's share of health and dental insurance. The transfers (via a correcting entry) for the months of February through June 2016 were not made until August 31, 2016. This correcting entry re-established the Self-Insurance fund with a positive cash balance.

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)

CONDITION OF RECORDS - MONTHLY RECONCILEMENTS

Monthly bank reconcilements were not performed for the months of February 2016 through July 2016. At the conclusion of August 2016 the Treasurer reconciled all seven months together. Numerous errors were found including:

1. Various revenues directly deposited into the School Corporation's bank accounts were not posted to the records during February through June 2016. These included Federal Reimbursements on QSB debt, Ivy Tech rental and cleaning fees, Heartland prepaid lunch fees, interest earned, and miscellaneous other sources totaling \$125,539.
2. Transfers for health and dental insurance were properly disbursed from various funds but the corresponding receipts of \$665,235 did not get posted to the Self-Insurance fund during the months of February through June 2016. The transfers were properly made between the banks.
3. On February 26, 2016, a check was written for a negative \$2,345, the credit balance on a vendor statement.
4. On January 13, 2016, a direct withdrawal of \$17,600 for Affordable Care Act was made from the bank account but not posted to the ledger. At June 30, 2016 this payment had not been posted to the School Corporation's ledger.

Adjustments due to undetected and uncorrected errors of \$769,432 were made to the June 30, 2016 reconciliation. After these adjustments, an unidentified excess of \$47,306 remained in the School Corporation's bank accounts.

ROCHESTER COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

PREPAID SCHOOL LUNCH FUND

A similar comment also appeared in prior Report B45156.

In 2013, the School Corporation discontinued a Prepaid Food Fund which was a "control" fund for student prepaid lunch and breakfast accounts. Receipts from students who prepaid for food were receipted directly into the School Lunch fund instead of a clearing account that should have been established for prepaid food sales.

In June of 2016, the School Corporation re-established the Prepaid Food Fund.

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Administrator and Uniform Compliance Guidelines, Vol. 211)

ROCHESTER COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 30, 2018, with Valerie Gillespie, Treasurer; Jana K. Vance, Superintendent of Schools; John Bradley Weaver, President of the School Board; and Stacey Carvey-Schoenhals, Board member.