

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HAMILTON COMMUNITY SCHOOLS

STEBEN COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED

02/23/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mark Skinner	07-01-14 to 06-30-16
	(Vacant)	07-01-16 to 08-21-16
	Robin R. Byler	08-22-16 to 06-30-18
Superintendent of Schools	Jon Willman	07-01-12 to 06-30-16
	Dr. Nicole L. Singer	07-01-16 to 06-30-18
President of the School Board	Scott Lucas	07-01-12 to 09-12-16
	Robert Gaff (interim)	09-13-16 to 11-13-16
	Mark Gould	11-14-16 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE HAMILTON COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

This report is supplemental to our audit report of the Hamilton Community Schools (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 10, 2018

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2016-001

Subject: Internal Controls over Financial Transactions and Reporting - Payroll
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-002.

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not adequately separated incompatible activities related to payroll.

Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to payroll disbursements. The Payroll Clerk input, prepared, recorded, and remitted payroll disbursements without an adequate system of oversight or review. A process was not in place to ensure that employees were paid the correct rate of pay; that any adjustments or corrections made to employees' earnings records included supporting documentation and were approved; and that employees pay histories could not be deleted from the computer system without approval.

Context

The lack of internal controls was a systemic issue, occurring 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.

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

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

Cause

Management of the School Corporation had not implemented a proper system of internal control over financial transactions and reporting.

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

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

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to financial transactions and reporting.

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 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 presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were understated by \$3,376 for fiscal year 2014-2015 and \$11,427 for fiscal year 2015-2016.
2. The Title I Grants to Local Educational Agencies expenditures were overstated by \$14,875 for fiscal year 2014-2015.
3. The Special Education Cluster (IDEA) expenditures were understated by \$8,293 for fiscal year 2014-2015 and \$5,430 for fiscal year 2015-2016.
4. The Improving Teacher Quality State Grants expenditures were understated by \$6,352 for fiscal year 2014-2015.

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

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

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

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

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

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

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.

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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."

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.
- (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

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

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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, including segregation of duties, related to the SEFA.

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: Title I Grants to Local Educational Agencies - Allowable Costs/Cost Principles
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): 14-7610, 15-7610, 16-7610
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
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

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement that has a direct and material effect to the program.

Context

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting, specifically for payroll. There were no controls in place to ensure that only Title I employees were paid from the Title I Grants to Local Educational Agencies grant. The same person performed all activities of the payroll process. There was lack of evidence that payrolls prepared were adequately reviewed or approved by anyone other than the preparer. The School Corporation had not adequately separated incompatible activities related to payroll.

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. . . ."

HAMILTON COMMUNITY SCHOOLS
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). . . ."

Cause

The School Corporation had not designed or implemented 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 program.

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 2016-004

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate

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): 14-7610, 15-7610, 16-7610

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate

Audit Findings: Material Weakness, Other Matters

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

The School Corporation removed two students from the cohort due to being expelled, when in fact they were still enrolled.

Context

Of the 115 students listed on the 2015 and 2016 Graduation Cohort Status Report as mobile, 12 were tested. Of the 12 students tested, 2 students did not have the required supporting documentation to substantiate removing them from the cohort for mobility reasons.

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). . . ."

34 CFR 200.19(b) states in part:

"High schools—

- (1) *Graduation rate.* Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:
 - (i)(A) A State must calculate a 'four-year adjusted cohort graduation rate,' defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . . .
 - (ii) The term 'adjusted cohort' means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (A) The term 'students who transfer into the cohort' means students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.
 - (B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.
 - (1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. . . .
- (2) *Transitional graduation rate.*
- (i) Prior to the deadline in paragraph (b)(4)(ii)(A) of this section, a State must calculate graduation rate as defined in paragraph (b)(1) of this section or use, on a transitional basis—
 - (A) A graduation rate that measures the percentage of students from the beginning of high school how graduate with a regular high school diploma in the standard number of years; or. . . .
 - (ii) For a transitional graduation rate calculated under paragraph (b)(2)(i) of this section—
 - (A) 'Regular high school diploma' has the same meaning as in paragraph (b)(1)(iv) of this section;
 - (B) 'Standard number of years' means four years unless a high school begins after ninth grade, in which case the standard number of years is the number of grades in the school; and
 - (C) A dropout may not be counted as a transfer. . . ."

Cause

The School Corporation had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate 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 2016-005

Subject: Special Education Cluster (IDEA) - Internal Controls

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 corporation of the Cooperative. The member school corporations 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 school corporations and was responsible for following the requirements related to the 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 were between the IDOE and each member of the Cooperative, each member school corporation was 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 of the Cooperative.

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal controls 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 Controls 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 in part:

"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

2 CFR 200.430(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. . . ."

HAMILTON COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

Management of the Cooperative and the participating school corporations had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

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 Allowable Costs/Cost Principles 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 management of the Cooperative and the participating school corporations establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. We also recommended that the Cooperative and the participating school corporations 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.

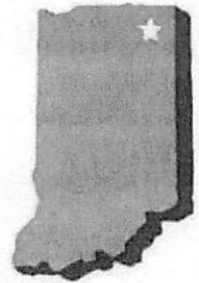
Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742

Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

Office of the Superintendent
Phone: (260) 488-2513
FAX: (260) 488-2348

Hamilton Junior-Senior High School
Phone: (260) 488-2161
FAX: (260) 488-3149



Indiana State Board of Accounts
302 West Washington St.
Room E418
Indianapolis, IN 46204-2765

Re: Corrective Action Plan

Contact Person(s) Responsible for Corrective Action: Mrs. Robin R. Byler 260-488-2513
Dr. Nicole L. Singer 260-488-2513

This letter serves as the official response to the results and comments listed in the audit report for the years July 1, 2014 through and including June 30, 2016. Please understand that the personnel responsible for the finances audited, herein, are no longer employed at the corporation and the current officials assumed responsibilities July 1, 2016 or after. Additionally, this corrective action plan is based on a *draft* copy of the findings. The corporation respectfully requests the opportunity to address different or additional findings, if any, after the report is finalized.

FINDING 2016-001

Upon arrival to the corporation in July 1, 2016, the superintendent was alerted to abnormalities with payroll processes. The corporation paid for a partial external audit and alerted the State Board of Accounts to the activities. Internal controls were implemented within Central Office. The superintendent, building administration, and area directors verify time sheets and submit them to the deputy treasurer. The deputy treasurer enters payroll into the system and the superintendent checks payroll before submission to the bank. The deputy treasurer and treasurer work together to ensure employees are charged to the correct payroll distribution; post payroll; and pay taxes and prewritten claims such as insurance, Valic, and retirement on time.

Anticipated Completion Date: Continued and ongoing. Parties named above will provide notes and/or initials as proof of review.

FINDING 2016-002

The treasurer and superintendent along with the Directors of Food Service and Title I will work together to compile a list of federal awards each fiscal year. The treasurer will prepare the Schedule of Expenditures of Federal Awards as required at the end of each fiscal year. The superintendent and aforementioned directors will review to ensure amounts have been reported

HCS Corrective Action I

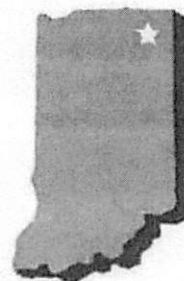
Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742

Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

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FAX: (260) 488-2348

Hamilton Junior-Senior High School
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FAX: (260) 488-3149



correctly and supporting documentation accompanies the Schedule prior to submission in Gateway.

Anticipated Completion Date: Continued and ongoing. Parties named above will provide notes and/or initials as proof of review.

FINDING 2016-003

The superintendent and elementary principal verify time sheets and submit them to the deputy treasurer. The deputy treasurer enters payroll into the system and the superintendent checks payroll before submission to the bank. The deputy treasurer and treasurer work together to ensure employees are charged to the correct payroll distribution; post payroll; and pay taxes and prewritten claims such as insurance, Valic, and retirement on time. Once all payroll and claims have been posted, the treasurer runs the expenditure reports. The superintendent submits the claim for reimbursement on the Title I website and the treasurer verifies it was submitted timely and accurately.

Anticipated Completion Date: Continued and ongoing. Parties named above will provide notes and/or initials as proof of review.

FINDING 2016-004

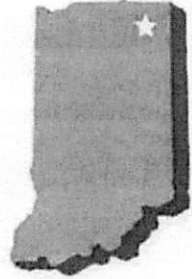
Two students were suspended for 1 day from the elementary school. Elementary building secretary would withdraw the student from PowerSchool and not list them as suspended, only withdrawn. Secretary would then re-enroll said student the day they came back from suspension. This created a glitch in the reporting. The current administration has since rectified this issue by reporting suspensions and expulsions properly in PowerSchool. The building level secretaries enter the information and the Corporation secretary in charge of state reporting then verifies all information is correctly input before reports are filed with the state. The superintendent also verifies said information.

Anticipated Completion Date: Continued and ongoing. Parties above will provide notes and/or initials on state reports as proof of review.

FINDING 2016-005

Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742



Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

Office of the Superintendent
Phone: (260) 488-2513
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FAX: (260) 488-3149

Payroll records for each individual employee show funding allocation from IDEA Part B Grant and IDEA Preschool grant. The NEISEC Director will print off and sign all Semi-Annual Certifications semi-annually.

Anticipated Completion Date: Twice, annually. The NEISEC Director will sign off on the certification logs as proof of review.

A handwritten signature in black ink, appearing to read "Nicole L. Singer", written over a horizontal line.

Dr. Nicole L. Singer
Superintendent

A handwritten signature in black ink, appearing to read "Robin R. Byler", written over a horizontal line.

Mrs. Robin R. Byler
Treasurer

HAMILTON COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

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.

Fund	Amount Overdrawn June 30, 2015
School Lunch	\$ 51,023
Textbook Rental	37,258
Extracurricular Activities	3,476

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)

CAPITAL ASSETS

There were no capital asset records being maintained during the audit period.

Every unit must have a capital assets policy that details the threshold at which an item is considered to be a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PUBLIC RECORDS RETENTION

The Deputy Treasurer over Payroll resigned on July 29, 2016, and the payroll history for the Deputy Treasurer was not available for audit. The current Superintendent of Schools states the payroll history file was deleted from the accounting software system.

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

1. The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
2. The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

HAMILTON COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

SUPPORTING SCHEDULES

The Schedule of Payables and Receivables and the Schedule of Capital Assets presented in the Annual Financial Report were not accurate and did not have supporting documentation for verification. The Schedules will not be included in the Other Information - Unaudited section of the State Board of Accounts Audit Report.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SUPPORTING DOCUMENTATION

The School Corporation's payroll reports had unexplained adjustments. There was lack of supporting documentation for these adjustments.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indian Public School Corporations, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

There were several notices from at least three tax agencies all involving payroll withholdings. The agencies include the Internal Revenue Service, the Indiana Department of Revenue, and the Ohio Department of Taxation.

For the Internal Revenue Service, there were notices stating penalties and notices stating overpayments. The net difference during the audit period resulted in an overpayment. Most of these notices were received after the audit period, but applied to periods within the audit period, primarily June 30, 2016. There was one notice noted as received for a period subsequent to the audit period. The current administration states this happened during the process of dealing with all the corrections which had to be made. The condition of the records surrounding payroll withholdings was the primary issue.

HAMILTON COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

For the Indiana Department of Revenue, there were two penalty notices which were later removed. For the Ohio Department of Taxation, there was a penalty notice due, but was reversed after the current administration addressed the issue. There was a late filing penalty still due of \$226.90.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Hamilton Community Schools

903 SOUTH WAYNE STREET HAMILTON, IN 46742

Hamilton Elementary School
Phone: (260) 488-2101
Fax: (260) 488-3634

Office of the Superintendent
Phone: (260) 488-2513
FAX: (260) 488-2348

Hamilton Junior-Senior High School
Phone: (260) 488-2161
FAX: (260) 488-3149



January 12, 2018

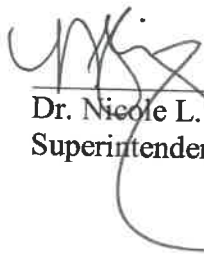
Indiana State Board of Accounts
302 West Washington St.
Room E418
Indianapolis, IN 46204-2765

Re: Official's Response to Audit Comments

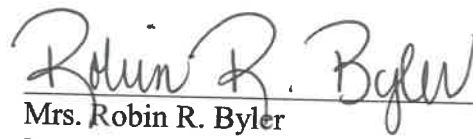
To: Mr. Paul E. Joyce, CPA
State Examiner

This letter serves as the official response to the comments listed in the audit report for the years July 1, 2014 through and including June 30, 2016. Please understand that the personnel responsible for the finances audited, herein, are no longer employed at the corporation and the current officials assumed responsibilities July 1, 2016 or after.

Within the first month and a half of employment, the current superintendent was alerted to several abnormalities in the payroll department. She conducted a thorough investigation and ascertained there were issues to address. The superintendent promptly addressed these issues by alerting the State Board of Accounts, implementing more stringent internal controls, employed financial consultants to ensure the discrepancies found were rectified in the proper manner, and sought an external audit.



Dr. Nicole L. Singer
Superintendent



Mrs. Robin R. Byler
Treasurer

HAMILTON COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 10, 2018, with Robin R. Byler, Treasurer; Dr. Nicole L. Singer, Superintendent of Schools; and Lee M. Stoy, School Board member.