

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHERIDAN COMMUNITY SCHOOLS

HAMILTON COUNTY, INDIANA

July 1, 2014 to June 30, 2016



**FILED**  
07/31/2018



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robin Popejoy	07-01-14 to 06-30-19
Superintendent of Schools	Dr. David Mundy Dr. Doug Miller	07-01-14 to 06-30-17 07-01-17 to 06-30-19
President of the School Board	Todd Burtron James Hopkins Todd Roberts Todd Burtron	01-01-14 to 12-31-14 01-01-15 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Sheridan 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 that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

July 2, 2018

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

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

*Condition*

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to cash and investments and receipts.

The Director of Business independently prepared the bank reconciliation and posted, deposited, and reconciled receipts without any oversight, review, or approval process. The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

2. Monitoring of Controls: The School Corporation had no process to identify or communicate corrective actions to improve controls.

*Context*

The lack of controls was a systemic issue, 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.

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. . . ."

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

*Cause*

Management of the School Corporation had not established a proper system of internal control. An evaluation of the School Corporation's system of internal control had not been conducted. Management had not conducted a risk assessment related to the School Corporation's financial transactions and reporting.

*Effect*

The failure to establish controls could have enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, misstatements in a timely manner.

*Recommendation*

We recommended that the School Corporation's management establish and monitor a system of internal controls, including segregation of duties, related to financial transactions and reporting over the audit areas of cash and investments and receipts.

*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 immediately prior audit report. The prior audit finding number was 2014-002.

*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).

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. One employee prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

*Context*

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were overstated by \$274,474 and \$292,767 for the 2015 and 2016 fiscal years, respectively.
2. The Special Education Cluster (IDEA) expenditures were understated by \$215,503 and \$196,240 for the 2015 and 2016 fiscal years, respectively.
3. The Title I Grants to Local Educational Agencies expenditures were understated by \$48,398 and \$34,346 for the 2015 and 2016 fiscal years, respectively.
4. The Supporting Effective Instruction State Grants expenditures were understated by \$31,568 and \$23,068 for the 2015 and 2016 fiscal years, respectively.

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. . . ."

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. . . ."

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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, 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 related to the preparation of the SEFA.

*Views of Responsible Officials*

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

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-003***

Subject: Child Nutrition Cluster - Eligibility  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Number and Year (or Other Identifying Number): 3055  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Eligibility  
Audit Finding: Material Weakness

*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 Eligibility compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the proper eligibility determinations were made for students prior to providing benefits. Eligibility determinations were made by one employee without an oversight, review, or approval process.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period.

*Criteria*

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

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

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 would have ensured compliance with the Eligibility compliance requirement.

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Eligibility compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and Eligibility 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: 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): 14214-025-PN01, 14215-025-PN01,  
14216-023-PN01, 45715-025-PN01,  
45716-023-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

*Condition*

The School Corporation was a member school corporation of the Hamilton-Boone-Madison Special Services 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. During 2015-2016, 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 compliance requirements related to allowable costs/cost principles.

An effective internal control system, which would include segregation of duties, 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. In addition, there was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between the IDOE and each member school corporation of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements.

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The fiscal agent of the Cooperative was responsible for maintaining Semi-Annual Certifications for the Cooperative employees whose salaries were charged solely to a specific grant. For grants 14214-025-PN01, 14215-025-PN01, and 45716-025-PN01, the Semi-Annual Certifications listing the employees were maintained; however, they were not certified by the employee or an appropriate supervisor. There were also no personnel activity reports or equivalent documentation maintained for employees who were expected to work on multiple cost objectives.

For grants 14216-023-PN01 and 45716-023-PN01, the fiscal agent was not able to provide records that would support the activities performed by the employees charged to the grant.

*Context*

Of the three Semi-Annual Certifications required to be maintained during the period for all employees whose salaries were charged entirely to one federal fund, none were not certified by an appropriate supervisor. There were also six employees whose salaries were charged to more than one fund, but no personnel activity reports were maintained for those employees.

*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). . . ."

OMB Circular A-87, Attachment B, paragraph 8(h) states in part:

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed 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; . . .
- (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.

*Effect*

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

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Cooperative'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.

**FINDING 2016-005**

Subject: Special Education Cluster (IDEA) - Cash Management

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): 14214-025-PN01, 14215-025-PN01,  
14216-023-PN01, 45715-025-PN01,  
45716-023-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Cash Management

Audit Findings: Material Weakness, Modified Opinion

*Condition*

The School Corporation was a member school corporation of the Hamilton-Boone-Madison Special Services 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. During 2015-2016, 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 compliance requirements related to cash management.

An effective internal control system, which would include segregation of duties, was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement. In addition, there was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between the IDOE and each member school corporation of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements.

The fiscal agent utilized its accounting software to generate a report which included paid checks as well as claims that were entered into the accounting software but not yet paid. This information was summarized in an Excel spreadsheet. The spreadsheet was then used to prepare the Requests for Reimbursement. The Requests for Reimbursement were reviewed by the Cooperative Director; however, the requesting of reimbursement for claims incurred but not paid was not identified as a potential problem.

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Context*

All five Requests for Reimbursement tested contained expenditures that were incurred but not yet paid.

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

2 CFR 200.305(b)(3) states in part: "Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met, when the Federal awarding agency sets a specific condition per § 200.207 Specific conditions, or when the non-Federal entity requests payment by reimbursement. . . ."

*Cause*

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Cash Management compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the Cooperative and, therefore, the School Corporation in noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within the internal control system allowed noncompliance with compliance requirement and could have 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*

The noncompliance identified in the sample selected for testing resulted in \$12,966 of expenditures being requested for reimbursement prior to being paid.

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the Cooperative's management establish controls, including segregation of duties, related to the grant agreement and Cash Management 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.

**FINDING 2016-006**

Subject: Special Education Cluster (IDEA) - Equipment and Real Property Management

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): 14214-025-PN01, 14215-025-PN01,  
14216-023-PN01, 45715-025-PN01,  
45716-023-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Equipment and Real Property Management

Audit Findings: Material Weakness, Other Matters

*Condition*

The School Corporation was a member school corporation of the Hamilton-Boone-Madison Special Services 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 had taken on the responsibility of tracking equipment acquisitions and disposals of equipment that was purchased with federal funds of the member school corporations of the Cooperative.

An effective internal control system, which would include segregation of duties, was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Equipment and Real Property Management compliance requirement. In addition, there was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between the IDOE and each member school corporation of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements.

A secretary of the Cooperative maintained an equipment inventory listing. The listing did not contain all the required information, such as acquisition cost, disposal date, and the sale price of the property, if sold.

*Context*

The equipment inventory listing did not contain the acquisition cost for any of the equipment listed.

SHERIDAN 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 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 80.32 states in part:

". . . (b) *States*. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section. . . .

(d) *Management requirements*. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. . . ."

2 CFR 200.313 states in part:

". . . (b) A state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures. Other non-Federal entities must follow paragraphs (c) through (e) of this section. . . .

(d) *Management requirements*. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. . . ."

*Cause*

Management of the School Corporation had not designed and implemented internal control procedures to ensure compliance with the Equipment and Real Property Management compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the Cooperative and, therefore, the School Corporation, in noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within the internal control system allowed noncompliance with compliance requirement and could have 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 Cooperative's management establish controls, including segregation of duties, related to the grant agreement and Equipment and Real Property Management 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.

**FINDING 2016-007**

Subject: Special Education Cluster (IDEA) - Reporting

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-025-PN01, 14215-025-PN01,  
14216-023-PN01, 45715-025-PN01,  
45716-023-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Condition*

The School Corporation was a member school of the Hamilton-Boone-Madison Special Services Cooperative (Cooperative). The grant agreements for the special education 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. During the audit period, the fiscal agent of the Cooperative and the Cooperative itself was responsible for submitting the proper reports on behalf of the School Corporation and following the compliance requirements related to Reporting.

An effective internal control system, which would include segregation of duties, was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. In addition, there was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between IDOE and each member school corporation of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements.

The fiscal agent utilized its accounting software to generate a report, which included paid checks as well as claims that were entered into the accounting software but not yet paid. This information was summarized in an Excel spreadsheet. The spreadsheet was then used to prepare the Requests for Reimbursement and the Quarterly Monitoring Reports for Proportionate Shares. The Requests for Reimbursement and the Quarterly Monitoring Reports for Proportionate Shares required expenses paid to be reported. The Requests for Reimbursement and the Quarterly Monitoring Reports for Proportionate Shares were reviewed by the Cooperative Director; however, the reporting of amounts incurred but not paid was not identified as a potential problem.

The Cooperative Director prepared the Final Report utilizing the final Excel spreadsheet maintained by the fiscal agent and then submitted the report without any review, approval, or other control to ensure its accuracy.

*Context*

The reporting of claims incurred but not yet paid 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:

SHERIDAN COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

(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 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meeting the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:  
. . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . .
- (3) 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 source documentation. . . ."

*Cause*

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Reporting compliance requirement.

*Effect*

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

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(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the Cooperative's management establish controls, including segregation of duties, related to the grant agreement and Reporting 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.

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*Dr. Doug Miller, Superintendent*

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***FINDING 2016-001 – FINANCIAL TRANSACTIONS AND REPORTING***

Contact Person Responsible for Corrective Action: Robin Popejoy  
Contact Phone Number: 317-758-4172

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

This finding included internal control procedure were not in place from the prior Audit. Those procedures were discussed and adjustments have been made.

Even though our Central Office is very small, procedures have been put in place for the office staff to be monitored by other members of the office.

Anticipated Completion Date: June 26, 2018

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**FINDING 2016-002 –PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person Responsible for Corrective Action: Robin Popejoy  
Contact Phone Number: 317-758-4172

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

This finding included internal control procedure were not in place from the prior Audit. Those procedures and errors were discussed and adjustments have been made to the SEFA by the Director of Business.

While the SEFA was prepared by the Director of Business, errors was still noted on the SEFA. The Director of Business understands the errors that were made and knows how to prevent them in the future.

Anticipated Completion Date: June 26, 2018

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***FINDING 2016-003 – ELIGIBILITY***

Contact Person Responsible for Corrective Action: Robin Popejoy  
Contact Phone Number: 317-758-4431

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

This finding included the lack of internal control review to ensure accuracy of compliance and requirements to the grant agreement for Eligibility for the School Breakfast and Lunch Programs.

Management has discussed with Food Service Director and a review will be conducted by another Food Service employee or Director of Business to ensure accuracy.

Anticipated Completion Date: June 26, 2018

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***FINDING 2016-004 – ALLOWABLE COSTS/COST PRINCIPLES***

Contact Person Responsible for Corrective Action: Robin Phelps  
Contact Phone Number: 317-758-3171

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Semi-annual reports will be maintained for all staff members who are paid fully from one of the grants and Personnel Activity Reports will be maintained each month for each staff member paid from more than one fund.

Anticipated Completion Date: April 25, 2017

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***FINDING 2016-005 – CASH MANAGEMENT***

Contact Person Responsible for Corrective Action: Robin Phelps  
Contact Phone Number: 317-758-3171

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

In the future, reimbursements will only be requested for expenditures on cash basis rather than an accrual basis.

Anticipated Completion Date: April 25, 2017

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***FINDING 2016-006 – EQUIPMENT AND REAL PROPERTY MANAGEMENT***

Contact Person Responsible for Corrective Action: Robin Phelps  
Contact Phone Number: 317-758-3171

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

In the future, the equipment inventory will be kept with all of the appropriate information including acquisition cost, disposal date, and sale price of property if sold.

Anticipated Completion Date: April 25, 2017

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## ***FINDING 2016-007 – REPORTING***

Contact Person Responsible for Corrective Action: Robin Phelps  
Contact Phone Number: 317-758-3171

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The quarterly monitoring reports will reflect expenditures on a cash basis rather than accrual basis. In addition, the non-public quarterly reports and the final grant reports will be reviewed by the Governing Board made up of representative from each district served by Hamilton-Boone-Madison Special Services Cooperative.

Anticipated Completion Date: April 25, 2017

SHERIDAN COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on July 2, 2018, with Robin Popejoy, Treasurer; Dr. Doug Miller, Superintendent of Schools; and Alan Lyon, Vice President of the School Board.