

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

SUNMAN-DEARBORN COMMUNITY
SCHOOL CORPORATION
DEARBORN COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
02/01/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2017-001	
Preparation of the Schedule of Expenditures of Federal Awards	4-6
Finding 2017-002	
Special Education Cluster (IDEA) - Procurement and Suspension and Debarment	6-8
Finding 2017-003	
Child Nutrition Cluster - Reporting, Program Income	8-10
Corrective Action Plan.....	11-12
Exit Conference.....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mary Ann Baines	01-09-15 to 12-31-18
Superintendent of Schools	Dr. Andrew Jackson	07-01-15 to 06-30-19
President of the School Board	Michael Norman	01-01-15 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 SUNMAN-DEARBORN COMMUNITY
SCHOOL CORPORATION, DEARBORN COUNTY, INDIANA

This report is supplemental to our audit report of the Sunman-Dearborn Community School Corporation (School Corporation), for the period from July 1, 2015 to June 30, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

December 12, 2018

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

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. The prior audit finding number was 2015-001.

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).

Due to the lack of controls, the SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were overstated by \$2,189,914.
2. The Special Education Cluster (IDEA) expenditures were understated by \$730,134.

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

Context

The lack of controls and noncompliance were systemic issues 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. . . .

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. . . ."

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

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 related to the preparation of the SEFA.

SUNMAN-DEARBORN 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 2017-002

Subject: Special Education Cluster (IDEA) - Procurement and 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): 14216-052-PN01, 14217-052-PN01;
45716-052-PN01, 45717-052-PN01
Pass Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The School Corporation was a participating member school of a Special Education Cooperative (Cooperative). The School Corporation designated a fiscal agent from the Cooperative to receive and manage the funding of the special education programs. The School Corporation relied on the Cooperative to comply with the procurement and suspension and debarment requirements; however, because the grant agreements were between the Indiana Department of Education and each member school of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

Procurement

The School Corporation had not established effective controls to ensure that proper procurement procedures were followed by the Cooperative. They did not have internal controls in place to ensure that the purchasing methods used by the Cooperative complied with their procurement procedures and applicable state, local, and federal requirements. Additionally, the School Corporation did not have internal controls in place to ensure that the Cooperative properly documented the history of their procurements, including the rationale for method of procurement, selection of contract type, basis for contractor selection, and the basis for the contract price.

The Cooperative contracted for personal services with different vendors, including several with yearly contracts that exceeded the \$3,500 threshold for small purchases. The Cooperative did not obtain price or rate quotations from an adequate number of qualified sources as required for the contracts that were anticipated to be over the \$3,500 threshold.

Suspension and Debarment

The School Corporation did not have internal controls in place to ensure contracted vendors that exceeded \$25,000 in the aggregate were not suspended or debarred from participation in the federal program.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The Cooperative entered into one contract with a vendor that exceeded \$25,000. They did not perform any procedures to verify that the vendor was not suspended or debarred from participation in the federal program prior to the contract.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period.

Criteria

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 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part. . . .

- (i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. . . ."

2 CFR 200.320 states in part:

"The non-Federal entity must use one of the following methods of procurement. . . .

- (b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. . . ."

2 CFR 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 SAM Exclusions; or

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 or implemented a system of internal controls that would have ensured that the School Corporation complied with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain 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's management establish controls related to the grant agreement and 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.

FINDING 2017-003

Subject: Child Nutrition Cluster - Reporting, 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): FY16, FY17
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Reporting, Program Income
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit regarding Reporting. The prior audit finding number was 2015-002.

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 Reporting and Program Income compliance requirements.

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Reporting

One employee completed and submitted all required reports, including the monthly sponsor claims, Annual Financial Reports, and Verification Summary Reports. There was no oversight, review, or approval to ensure the accuracy of the reports prior to submission.

Program Income

The School Corporation had not established controls to ensure that receipts generated from the cafeteria sales were properly recorded. One employee transferred sales from the Pre-Paid Lunch fund to the School Lunch fund without an oversight, review, or approval process in place to ensure that the amount transferred was accurate.

Context

The lack of internal controls was a systemic issue throughout the audit period.

Criteria

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 Reporting and Program Income 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 grant agreement and the Reporting and Program Income compliance requirements.

SUNMAN-DEARBORN 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.



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

Dr. Andrew Jackson
Superintendent

Ms. Cindy Morton
Director of Support Services

Ms. Mary Ann Baines
Director of Financial Operations

CORRECTIVE ACTION PLAN

FINDING 2017-001

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

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding.

CORRECTIVE ACTION PLAN - Beginning with the 2016-17 Annual Financial Report (Gateway) which consists of the SEFA, all of the expenditures were submitted and reviewed by two different parties. Upon review both parties did sign off on the report and then the report was submitted. Beginning with the 2017-18 Annual Financial Report (Gateway) which consists of the SEFA, all of the revenues reported for the Child Nutrition Cluster only consist of the federal receipts, not all receipts. On the Special Education Cluster I was given corrections to make for the 2015-16 (2016 AFR) from our previous audit. I had them marked off as corrected, however, they were not corrected. They have been corrected. The report will continue to be reviewed by two parties and signed off on.

FINDING 2017-002

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

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding.

CORRECTIVE ACTION PLAN - Documentation of price/rate quotations obtained from an adequate number of qualified vendors for purchases anticipated to be over the \$3,500 threshold for small purchases will be maintained at the ROD Cooperative.

The following internal control procedure has been established to verify a vendor that exceeds \$25,000 has not been suspended or debarred: For each vendor that exceeds \$25,000, the ROD cooperative will do a search on the SAM Federal registry to verify the selected vendor has not been suspended or debarred. The director will also sign the printed registry search verifying the vendor has not been suspended or debarred.

FINDING 2017-003

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

VIEWS OF RESPONSIBLE OFFICIAL: We concur with the finding, however we disagree that it is considered a repeat finding, due to the timeline of the first finding, with the exception of the Program Income finding.

CORRECTIVE ACTION PLAN - This was corrected when it was brought to our attention at the last audit. We made the changes effective with the May 2016 School Lunch and Breakfast reimbursement claim. However, 15-16 and 16-17 were in the past and it was impossible to go back and correct. The Food Services Administrative Assistant prepares the claim. She then forwards to the DFS for review and approval. After approval from DFS the claim is then submitted to the state by the Food Service Administrative Assistant. Both parties do initial.

This was corrected when it was brought to our attention at the last audit. We made changes effective with the 2016-17 Annual Financial Report. However, 15-16 was in the past and it was impossible to go back and correct. The Food Service Administrative Assistant provides the Director of Food and Nutrition Services with the expenditures and receipts for the fiscal year. The DFS reviews the reports and prepares the Annual Financial Report. The DFS then provides the AFR to the Director of Financial Operations to review and compare to prior submissions, after review the Director of Financial Operations signs off on and the DFS submits the Annual Financial Report. All parties will initial.

The verification summary report will be prepared by the DFS, she will then send it to the Food Services Administrative Assistant for review. After review and confirmation of information the Food Services Administrative Assistant will send the DFS an email stating she has reviewed and then DFS will submit the Verification Summary report. The Food Services Administrative Assistant went back to July 1, 2017 and reviewed, confirmed and signed off on the Verification Summary reports up to current.

The program income finding will be reviewed and approved beginning with the 2017-18 school year. Although the 2017-18 program year has concluded, all of the transactions between the pre-paid lunch and the school lunch fund will be reviewed by the Director of Food and Nutrition Services. If any errors are found, they will be corrected in the 2018-19 school year. Effective immediately the Food Service Administrative Assistant will forward the reports to the DFS each month to review all transfers between the pre-paid lunch and school lunch fund. After review, the DFS will sign off on the transfers.

Mary Ann Baines, Treasurer Signature

Mary Ann Baines, Printed Name

12-12-18, Date

SUNMAN-DEARBORN COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2018, with Mary Ann Baines, Treasurer; Dr. Andrew Jackson, Superintendent of Schools; and Michael Norman, President of the School Board.