

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, 2016 to June 30, 2018



FILED
03/21/2019

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SCHEDULE OF OFFICIALS

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



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, 2016 to June 30, 2018. 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

February 14, 2019

SHERIDAN COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

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 2016-001.

Condition

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

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. . . ."

Cause

Management had not established a proper system of internal control that would have included proper segregation of duties.

Effect

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

SHERIDAN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 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 2018-002

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 2016-002.

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).

The School Corporation had established internal controls over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the School Corporation's SEFA; however, the controls were not effective.

Context

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were understated by \$44,856 and \$52,840 for the 2017 and 2018 fiscal years, respectively.
2. The Special Education Cluster (IDEA) expenditures were overstated by \$53,260 and \$18,976 for the 2017 and 2018 fiscal years, respectively.
3. The Title I Grants to Local Educational Agencies expenditures were understated by \$45,082 for the 2018 fiscal year.
4. The Supporting Effective Instruction State Grants expenditures were understated by \$5,000 and \$8,584 for the 2017 and 2018 fiscal years, respectively.

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

SHERIDAN 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. . . ."

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.

SHERIDAN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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.

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.

FINDING 2018-003

Subject: Child Nutrition Cluster - Eligibility and Reporting
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Eligibility, Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report in regard to eligibility. The prior audit finding number was 2016-003.

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 compliance requirements listed above.

SHERIDAN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Eligibility

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.

Reporting

A control process had not been established to ensure the Verification Summary Reports were accurate prior to submission. There was no documentation of an oversight or review process, or other compensating control, to ensure reports were completed and accurate prior to submission.

Context

The lack of controls was a systemic issue, which occurred 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 to ensure compliance with the grant agreement and the compliance requirements listed above.

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 compliance requirements listed above.

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 compliance requirements listed above.

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

Home of the Sheridan Blackhawks

24795 N Hinesley Road • Sheridan, Indiana 46069 • 317-758-4172

Dr. Doug Miller, Superintendent

FINDING 2018-001 – 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: February 14, 2019

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Dr. Doug Miller, Superintendent

FINDING 2018-002 –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: February 14, 2019

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Dr. Doug Miller, Superintendent

FINDING 2018-003 – CHILD NUTRITION CLUSTER – INTERNAL CONTROLS

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: February 14, 2019

SHERIDAN COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 14, 2019, with Robin Popejoy, Treasurer; Dr. Doug Miller, Superintendent of Schools; and Steven Dollahan, School Board member.