

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TRI-CREEK SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



**FILED**  
03/27/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dana Bogathy	07-01-16 to 06-30-19
Superintendent of Schools	Debra K. Howe Rod Gardin	07-01-16 to 06-30-18 07-01-18 to 06-30-19
President of the School Board	Douglas Ward Michelle Dumbsky	07-01-16 to 12-31-17 01-01-18 to 12-31-19



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TO: THE OFFICIALS OF THE TRI-CREEK SCHOOL CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Tri-Creek School Corporation (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 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/](http://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

March 12, 2019

TRI-CREEK SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2018-001***

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-001.

*Condition*

There were several deficiencies in the internal control system at the School Corporation related to financial transactions and reporting. There was a lack of segregation of duties as the School Corporation had not separated incompatible activities related to cash and investments.

The School Corporation did not have a proper system of internal controls in place to ensure that the accounting record balances were reconciled with the bank depository balances at least monthly as required by Indiana Code. Additional audit procedures were performed and determined that the Payroll Withholdings fund had not been reconciled and that payments to the health insurance provider had cleared the bank in June 2017; however, those transactions were not posted to the financial system for up to five months later. In addition, the record balance included \$100,000 as an investment balance that did not exist and caused the financial system balance to be overstated.

*Context*

The lack of internal controls and noncompliance were systemic issues throughout the audit period. The last documented reconciliation for the School Corporation was completed in December 2016. Reconciliations of record balances to depository balances were not completed for 18 out of 24 months of 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. . . .

TRI-CREEK SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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

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

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

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

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

*Cause*

Management of the School Corporation had not established a proper system of internal control that segregated key functions and would have ensured accurate monthly bank reconciliations and timely posting of transactions.

*Effect*

The failure to provide accurate and complete reconciliations of the depository account balances to the record balances prevented the detection of the untimely posting of disbursements and could have prevented the determination of whether or not the Cash and Investment balance (financial position) of the School Corporation was fairly presented.

*Recommendation*

We recommended that the School Corporation establish a system of internal controls to ensure that depository reconciliations will be accurately performed on a timely basis.

*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 2016-001.

TRI-CREEK SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Condition*

The School Corporation did not have an effective system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The federal grant information entered and submitted in the Indiana Gateway for Government Units financial reporting system was the source of the SEFA. An oversight or review process had been put in place; however, the control was found not to be effective due to the errors on the SEFA identified below.

*Context*

Due to the lack of effective internal controls, the following errors resulted in the understatement of the total federal awards expended on the SEFA by \$68,500 and \$69,745 as of June 30, 2017 and 2018, respectively:

1. The School Breakfast Program expenditures were overstated by \$5,388 as of June 30, 2017, and understated by \$9,436 as of June 30, 2018.
2. The National School Lunch Program expenditures were overstated by \$97,839 as of June 30, 2017, and understated by \$60,309 as of June 30, 2018.
3. The Special Education Grants to States expenditures were understated by \$635,977 as of June 30, 2017.
4. The Special Education Preschool Grants expenditures were overstated by \$308,975 as of June 30, 2017.
5. The Title I Grants to Local Educational Agencies expenditures were overstated by \$168,177 as of June 30, 2017.
6. The Career and Technical Education -- Basic Grants to States expenditures were overstated by \$9,049 as of June 30, 2017.
7. The English Language Acquisition State Grants expenditures were overstated by \$3,206 as of June 30, 2017.
8. The Supporting Effective Instruction State Grants expenditures were overstated by \$22,249 as of June 30, 2017.
9. The Homeland Security Grant Program expenditures were understated by \$47,406 as of June 30, 2017.

Audit adjustments were proposed, approved 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:

TRI-CREEK SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

"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. . . ."

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.

TRI-CREEK SCHOOL CORPORATION  
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 an effective 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 establish a system of internal controls to ensure that federal expenditures will be properly reported on 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 - Equipment  
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 16-17, FY 17-18  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Equipment and Real Property Management  
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 requirements related to the grant agreement and the equipment requirements.

The School Corporation did not have adequate policies and procedures to ensure that the equipment records were maintained in accordance with 2 CFR 200.313.

The School Corporation did not comply with the equipment requirements. The School Corporation contracted with a consulting firm to perform a physical inventory and compile a capital asset list. However, the list of equipment acquired with federal awards was determined to be incomplete. The inventory did not identify equipment purchased with federal awards, serial numbers or other identification numbers, or disposal dates. Additionally, a reconciled physical inventory was not provided for audit.

TRI-CREEK SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*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 200.313 states in part:

". . . (b) . . . 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:

- (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.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated. . . ."

(e) *Disposition.* When original or replacement equipment acquired under a Federal award is no longer needed for the original project or program or for other activities currently or previously supported by a Federal awarding agency, except as otherwise provided in Federal statutes, regulations, or Federal awarding agency disposition instructions, the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the Federal award. Disposition of the equipment will be made as follows, in accordance with Federal awarding agency disposition instructions:

- (1) Items of equipment with a current per unit fair market value of \$5,000 or less may be retained, sold or otherwise disposed of with no further obligation to the Federal awarding agency. . . ."

TRI-CREEK SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

The School Corporation's management had not developed or implemented a system of internal control that would have ensured compliance with the equipment requirements.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the equipment requirements 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 to ensure compliance and comply with the Equipment and Real Property Management compliance requirement.

*Views of Responsible Officials*

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



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## CORRECTIVE ACTION PLAN

### **FINDING 2018-001**

Contact Person Responsible for Corrective Action: Dana M. Bogathy, Treasurer  
Contact Phone Number: 219-696-6661

Views of Responsible Official: The district concurs with the finding.

#### Description of Corrective Action Plan:

The district will work with their software provider, Skyward, Inc., to reconcile the district funds as the district has had discrepancies since the conversion to this software provider. Once reconciled, the district will implement an internal control system that will ensure a timely monthly reconciliation with dual controls. The Deputy Treasurer will reconcile monthly and submit the month end paperwork to the Treasurer for review and approval. The reconciliation will be uploaded to the Gateway system in accordance to the State Board of Accounts procedures on a monthly basis.

Anticipated Completion Date: April 15, 2019

Dana M. Bogathy

Business Manager  
(Title)

3/11/19

(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2018-002**

Contact Person Responsible for Corrective Action: Dana M. Bogathy, Treasurer  
Contact Phone Number: 219-696-6661

Views of Responsible Official: The district concurs with the finding for the audit period ending June 30, 2018. The 2017-2018 SEFA was reviewed through a dual control process between the Treasurer and Deputy Treasurer, once the Deputy Treasurer was hired, but changes that were noted through the internal control process were not revised in the Gateway system.

#### Description of Corrective Action Plan:

The district will have the Deputy Treasurer prepare the Schedule of Expenditure of Federal Awards and the Treasurer will review it prior to submission by indication of signature on draft forms. The Deputy will enter the SEFA in Gateway and the Treasurer will submit the report after the review process is complete.

Anticipated Completion Date: Effective with the 2018-2019 Annual Financial Report submission.

Dana M. Bogathy

Business Manager  
(Title)

3/11/19  
(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2018-003**

Contact Person Responsible for Corrective Action: Martha Silverthorn, Food Service Director  
Contact Phone Number: 219-696-6661

Views of Responsible Official: The district concurs with the finding.

#### Description of Corrective Action Plan:

The district will implement an effective asset control system that will list items purchased with Federal funds, serial numbers, and other information as required. An inventory of all items will be completed at least once every two years as required.

Anticipated Completion Date: October 31, 2019

*Dana McBozaly*

*Business Manager*  
(Title)

*3/11/19*

(Date)

TRI-CREEK SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The same comment appeared in the prior Reports B45934 and B49368.

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at June 30, 2017 and 2018:

Fund	Amount Overdrawn as of June 30,	
	2017	2018
Early Intervention 16-17	\$ -	\$ 5,325
Kart Donations - LHS	-	438
Foundation Grants 12/13	-	387
Foundation Grants 13/14	-	560
Local IASP - Build a Story	37	37
High Ability 14-15	388	388
High Ability 15-16	570	570
NESP Grant 14-15	300	300
NESP Grant 15-16	178	178
Title I 14-15	5,119	5,119
Title I 16-17	121,777	26,027
Title II Part A eLearning Conference 14/15	8,066	8,066
Title II e-Learning Conference 15/16	12,558	12,558
Title III FY 15	3,770	3,770
Title III FY 16	1,540	1,540
Secured Schools FY 2017	33,213	33,213
Food Service Clearing	155,612	201,765

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)

**TRAINING ON INTERNAL CONTROL STANDARDS**

Training over internal control standards was not provided to the School Board members as required by Indiana Code 5-11-1-27(g).

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TRI-CREEK SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

***PAYMENTS ON BEHALF OF THE HOLDING CORPORATIONS***

The School Corporation processed claims and made payments to vendors for the various construction projects on behalf of the Holding Corporations, and were later reimbursed. The Holding Corporations, although they were created to benefit the School Corporation, are legally separate entities. Therefore, the Holding Corporations would be responsible for the financial activity of the construction projects. The Holding Corporations funds were initially reported as part of the School Corporation's financial statement. Adjustments were proposed, accepted by management, and made to the financial statement.

A fund, as used in the manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. The funds established by law for Indiana school corporations are: General Fund, Debt Service Fund, Capital Projects Fund, School Transportation Fund, Special Education Preschool Fund, School Lunch Fund, Textbook Rental Fund, Repair and Replacement Fund, Self-Insurance Fund and Levy Excess Fund. Tax Levies, subject to limitations, may be established for the General, Debt Service, Capital Projects Fund, Special Education Preschool Fund, School Transportation and School Bus Replacement Funds. No tax levies may be established for the School Lunch Fund or the Textbook Rental Fund as these funds are designed to be self-sustaining. Under certain conditions, a Construction Fund and other Special Funds may be established. (Accounting and Uniform Compliance Guidelines for Indiana Public School Corporations, Chapter 4)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Indiana Public School Corporations, Chapter 1)

Each school shall be required to report financial information on a financial statement. The financial statement shall be presented on a fund basis format. All financial information of the entity shall be included on the financial statement even if the activity has not been included in the financial records of the entity. The financial statement shall be referred to as the Statement of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis. This statement shall present each fund separately. However, if the school chooses to do so, similar types of funds, such as payroll clearing funds and tax distribution funds, can be combined and presented as one fund on the statement. Funds that are established by statute or local resolution and funds that account for grant activity may not be combined and presented in one fund. The statement shall present the beginning balance, total receipts, total disbursements, total other financing sources and uses, and ending balance for each fund. All activity related to a certain fund should be accounted for in that fund. For example, property tax receipts designated for the General Fund should be included in the General Fund. All funds of the reporting entity shall be presented on the statement with no distinction of the type of fund. The statement will include the funds of the reporting entity only. No funds from outside organizations associated with the entity shall be included. The financial information for both years of the audit period shall be included on one statement. The orientation of this statement should be set to landscape. An example of the required format for the financial statement is documented in Appendix A. (Accounting and Financial Reporting Regulation Manual, Part III)

TRI-CREEK SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2019, with Dana Bogathy, Treasurer; Rod Gardin, Superintendent of Schools; Michelle Dumbsky, President of the School Board; Aaron Prybylla, Deputy Treasurer; and Martha Silverthorn, Director of Food Service.