

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

DANVILLE COMMUNITY SCHOOL CORPORATION

HENDRICKS COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
05/08/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kimberly Baker	07-01-16 to 06-30-19
Superintendent of Schools	Dr. Tracey Shafer	07-01-16 to 06-30-19
President of the School Board	Dr. Michael C. Beaty	07-01-16 to 06-30-19



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TO: THE OFFICIALS OF THE DANVILLE COMMUNITY SCHOOL
CORPORATION, HENDRICKS COUNTY, INDIANA

This report is supplemental to our audit report of the Danville Community 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/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

April 11, 2019

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

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

One employee was responsible for writing the receipts, recording them in the ledger, and preparing the daily deposits for the bank accounts. No control was identified, such as an oversight, review, or approval process over receipts.

Context

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

Criteria

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

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

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

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

Cause

Management of the School Corporation had not established a proper system of internal control related to financial transactions and reporting over receipts.

Effect

The failure to establish a system of internal controls could have enabled misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation establish a system of internal controls, including segregation of duties, related to financial transactions and reporting over receipts.

DANVILLE 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 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.

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 not established effective 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.

Context

The SEFA presented for audit contained the following errors:

1. The Federal expenditures were overstated for six programs.
2. The Federal expenditures were understated for five programs.

In total, the SEFA was understated by \$359,904.

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. . . .

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.
- (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.

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the School Corporation's management establish a system of internal 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: School Breakfast Program, National School Lunch Program - Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

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: Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

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 Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

There were no controls in place to ensure that the required Verification Summary Reports were completed and accurate prior to submission. One employee prepared the Verification Summary Report without any oversight, review, or approval process over the report.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

DANVILLE COMMUNITY SCHOOL CORPORATION
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). . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

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 Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Views of Responsible Officials

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

FINDING 2018-004

Subject: School Breakfast Program, National School Lunch Program - Eligibility
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 Requirement: Eligibility
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 determination of the application for free or reduced price meals was correct. An oversight, review, or approval process had not been established for online applications submitted. The School Corporation's food management system approved applications submitted online without any review from a member of the food service staff to ensure that applications submitted were accurate and that the system was correctly determining income eligibility.

Context

The lack of 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 to ensure compliance with the grant agreement and the Eligibility compliance requirement.

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 a system of internal controls to ensure compliance with the grant agreement and the 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.

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-005

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. 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 Procurement and Suspension and Debarment compliance requirement.

No controls were identified which would have ensured that the School Corporation was following procurement policies and procedures, or would prevent the School Corporation from conducting business with a vendor who was suspended or debarred.

The School Corporation did not retain supporting documentation for procurements from produce and bakery vendors in fiscal year 2016-2017, so we were unable to determine whether these items were in compliance with the procurement policy adopted by the School Corporation. There were 20 checks written to vendors, totaling \$47,033 during 2016-2017. Additionally, the School Corporation did not retain supporting documentation for the same vendors, so we were unable to determine whether the School Corporation verified that the vendors were not suspended or debarred from participation in federal awards.

Context

The lack of controls and noncompliance was isolated to two vendors during 2016-2017.

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). . . ."

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.318(i) states:

"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 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 the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

2 CFR 200.302(b)(3) states:

"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 documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Questioned Costs

There were no questioned costs identified.

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with 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 2018-006

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): 14215-119-PN01, 14216-119-PN01,
14217-119-PN01, 45716-119-PN01,
45717-119-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 requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

No controls were identified which would have prevented the School Corporation from conducting business with a vendor who was suspended or debarred from participation in federal programs. The School Corporation did not verify suspension or debarment for two vendors of the Special Education program.

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). . . ."

DANVILLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 the SAM Exclusions; or
- (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 a system of internal controls that would have ensured compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with 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.



CORRECTIVE ACTION PLAN

FINDING 2018-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Tom Johnson

Contact Phone Number: 317-745-2212

Views of Responsible Official:

We concur with Finding 2018-001

Description of Corrective Action Plan:

2018-001: The CFO will review and initial the monthly revenue report prior to closing out each month.

Anticipated Completion Date: In place as of 4/11/2019.

FINDING 2018-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Tom Johnson

Contact Phone Number: 317-745-2212

Views of Responsible Official:

We concur with finding 2018-002

Description of Corrective Action Plan:

We concur with Finding 2018-002 although the errors were corrected during the most recent reporting period.

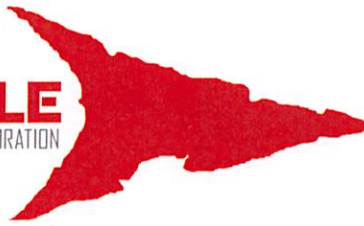
Anticipated Completion Date: This was corrected during the last audit period.

THE **DANVILLE** DIFFERENCE

Dr. Tracey R. Shafer, Superintendent

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FINDING 2018-003 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Stephanie Stuemke

Contact Phone Number: 317-745-0366

We concur with the finding 2018-003.

Views of Responsible Official:

We concur with Finding 2018-003

Description of Corrective Action Plan:

An internal control will be put in place for the Verification Summary Report prior to submission. The secretary to the food service director will be a second check to this report as well as all free and reduced meal applications.

Anticipated Completion Date: As of next due date of the Verification Summary Report in December 2019.

FINDING 2018-004 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Stephanie Stuemke

Contact Phone Number: 317-745-0366

We concur with the finding 2018-004.

Views of Responsible Official:

We concur with Finding 2018-004

Description of Corrective Action Plan:

A review of online applications will be put in place starting immediately. Any online applications will be printed, recalculated, and signed off on by both the food service director and the food service secretary for a second check. The internal control policy for free and reduced meal applications will be updated to reflect this change. Income guidelines entered into the meal eligibility program will be checked yearly in July and signed off on.

Anticipated Completion Date: Immediately



FINDING 2018-005 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Stephanie Stuemke

Contact Phone Number: 317-745-0366

We concur with the finding 2018-005 although it has since been corrected.

Views of Responsible Official:

We concur with Finding 2018-005.

Description of Corrective Action Plan:

All food items including bakery and produce are properly procured. This audit period was the first year of my employment so procurement has been properly done since this time.

Anticipated Completion Date: Already completed.

FINDING 2018-006 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Kelly Lacey

Contact Phone Number: 317-745-7487

Views of Responsible Official:

We concur with findings 2018-006.

Description of Corrective Action Plan:

We will require IEP therapy to provide a certification for the Occupational Therapist that the therapist has not been suspended or debarred. We will add a clause in both the Occupational Therapy contract and the Physical Therapy Contract stating that the therapist has not been suspended or debarred.

Anticipated Completion Date: By the beginning of the 19-20 school year.

THE **DANVILLE** DIFFERENCE

Dr. Tracey R. Shafer, Superintendent

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(Signature)

Tom Johnson

(Title)

Asst. Supt.

(Date)

4/11/19

THE **DANVILLE** DIFFERENCE

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DANVILLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

TRAINING AND CERTIFICATION ON INTERNAL CONTROL STANDARDS

The School Corporation failed to ensure that all personnel received training over the internal control standards adopted by the School Corporation.

The Assistant Superintendent of Financial Services certified on Indiana Gateway for Government Units financial reporting system on March 22, 2018, and August 29, 2018, that all applicable personnel had been trained; however, no documentation was available to support the certification.

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."

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

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

DANVILLE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 11, 2019, with Kimberly Baker, Treasurer; Dr. Tracey Shafer, Superintendent of Schools; Tom Johnson, Assistant Superintendent of Financial Services; Kelly Lacey, Special Education Director; and Dr. Michael C. Beaty, President of the School Board.