

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ELWOOD COMMUNITY SCHOOL CORPORATION

MADISON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
09/24/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2014-002 - Internal Control Over Receipting	5
Finding 2014-003 - Allowable Costs	5-6
Finding 2014-004 - Cash Management	7
Corrective Action Plan.....	8-12
Audit Results and Comments:	
Annual Financial Report	13
Collective Bargaining Agreements	13
Accounting for Prepaid Food Receipts	13
Compensation.....	14
Textbook Rental Fees	14
Educational Fees	14
Exit Conference	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Joa Griffith	07-01-12 to 12-31-15
Superintendent of Schools	Glenn Nelson Thomas Austin (Interim) Dr. Tim Smith Thomas Austin (Interim) Dr. Christopher E. Daughtry	07-01-10 to 01-09-13 01-10-13 to 06-30-13 07-01-13 to 01-02-15 01-03-15 to 06-30-15 07-01-15 to 06-30-18
President of the School Board	Robert Savage Richard Herndon Stephanie Hoel Robert Savage	07-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15



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 ELWOOD COMMUNITY SCHOOL
CORPORATION, MADISON COUNTY, INDIANA

This report is supplemental to our audit report of the Elwood Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. 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 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, incorporated within this report, was not verified for accuracy.

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

August 10, 2015

ELWOOD COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 Treasurer prepared and submitted the SEFA through the Gateway system. However, there was no additional oversight, review, or approval process of the SEFA information to ensure the accuracy of the information. The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted that total expenditures for FY 2014 were understated by \$73,219. These errors were due to incorrect amounts being reported for the Child Nutrition Cluster programs and a transfer of Adult Education - Basic Grants to States funds being included as new federal funds on the SEFA. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

ELWOOD COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-002 - INTERNAL CONTROL OVER RECEIPTING

We noted deficiencies in the internal control system of the School Corporation related to receipt transactions. One of the controls over the collection of monies is to issue a receipt at the time the funds are received to ensure that all monies collected are accounted for prior to depositing them. The School Corporation does not issue receipts at the time of collection of monies, but receipts the monies at the time the deposit is made. There is no other control in place to ensure that monies collected are accounted for prior to be deposited.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FINDING 2014-003 - ALLOWABLE COSTS

Federal Agency: U.S. Department of Education

Federal Program: Title I Grants to Local Educational Agencies and

ARRA - Title I Grants to Local Educational Agencies, Recovery Act

CFDA Number: 84.010 and 84.389

Federal Award Number and Year (or Other Identifying Number): 12-5280, 13-5250, 14-5280, and 5280

Pass-Through Entity: Indiana Department of Education

ELWOOD COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Allowable Costs compliance requirements that have a direct and material effect on the programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. The School Corporation failed to maintain the necessary documentation relating to time and effort logs. Time and effort logs should be maintained for employees that don't work exclusively with the Title I program to help ensure that payments for their services were properly allocated between federal and non-federal funds. In addition, of the employees that were tested that were paid exclusively from Title I funds, 16 did not have the semi-annual certifications as required.

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

- "(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
- (a) More than one federal award,
 - (b) A Federal award and a non-federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases,
or
 - (e) An unallowable activity and a direct or indirect cost activity. . . ."

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

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

The failure to establish internal controls has enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that School Corporation management establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs compliance requirements. We also recommended that the School Corporation comply with the Allowable Costs requirements by preparing the semiannual certifications for all applicable employees and schools.

ELWOOD COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2014-004 - CASH MANAGEMENT

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program,
and Summer Food Service Program for Children
CFDA Number: 10.553, 10.555, and 10.559
Federal Award Number and Year (or Other Identifying Number): FY 12-13 and FY 13-14
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Cash Management compliance requirements that have a direct and material effect on the programs. There were no procedures established to ensure that the School Lunch fund cash balances were maintained in compliance with the Cash Management requirements. The failure to establish an effective internal control system allowed noncompliance with the requirements.

The School Corporation Food Service Department maintains a cash balance in excess of federal regulations. The average 3 month expenditures of the School Corporation for the school lunch program for FY 2013 and FY 2014 were \$254,541 and \$241,932, respectively. The month-end cash balances for the 24-month audit period ranged from \$329,813 to \$468,522. This compliance requirement was not monitored by the School Lunch Director or by any other employee of the School Corporation.

7 CFR section 210.14(a) states in part: "School food authorities shall maintain a nonprofit school food service. . . ."

7 CFR section 210.14(b) states: "*Net cash resources*. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR section 210.2 defines net cash resources as:

"*Net cash resources* means all monies, as determined in accordance with the State agency's established accounting system, that are available to or have accrued to a school food authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities."

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

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

The cash balance maintained by the School Corporation resulted in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resources. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal funding.

We recommended that management of the School Corporation implement procedures that would limit net cash resources to 3 months' average expenditures and to establish internal controls to ensure that its school food service program is operated as a nonprofit service.

Elwood Community School Corporation

1306 N. Anderson Street

Elwood, IN 46036

Ph: 765-552-9861

Fax: 765-552-8088

<http://www.elwood.k12.in.us>

Superintendent:

Dr. Chris Daughtry

Business Mgr/Treasurer:

Mrs. Joa Griffith



The Hope of Our Country

August 13, 2015

Corrective Action Plan

FINDING 2014-001

Preparation of the Schedule of Expenditure of Federal Awards (SEFA)

The SEFA report is the responsibility of the Corporation Treasurer. Limited staff does not permit for a 100% review for each documented entry. The SEFA is a very detailed and time consuming report.

Prior years, this report was completed during Audit and by the Audit Examiner with excessive time to complete. 2014 is the first year the SEFA report has been the responsibility to complete by the Corporation Treasurer of this District.

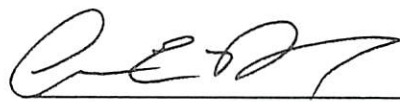
As explained during audit, one error being cited was due to receiving a physical check, instead of a credit, on a return purchase, which caused a double receipt of funds for the Federal Grant mentioned.

Having one year of experience in completing the SEFA report, future reports will be completed with more detailed documentation should an error correction appear as an error in the receipting in process.



Mrs. Joa Griffith

Business Manager/Corporation Treasurer



Dr. Chris Daughtry

Superintendent

Elwood Community School Corporation

1306 N. Anderson Street
Elwood, IN 46036
Ph: 765-552-9861
Fax: 765-552-8088
<http://www.elwood.k12.in.us>

Superintendent:
Dr. Chris Daughtry

Business Mgr/Treasurer:
Mrs. Joa Griffith



The Hope of Our Country
10
August 3, 2015

Corrective Action Plan

FINDING 2014-002 Internal Control Over Receipting

During the 2010-2012 Audit the suggested solution, from the Field Examiner, was to create a tracking sheet to be completed at the time funds were collected. A tracking sheet was developed immediately and put into place for documenting funds received. The tracking sheet documents the person receiving the funds, the date the funds are received; the amount received and if the funds are cash or check. The funds are then kept in the corporation safe until taken to the banking institution for deposit.

The Corporation Treasurer matches each entry on the tracking sheet at the time of deposit to verify all funds received are accounted for.

A numbered receipt book is on hand to write a receipt to the individual should they request a receipt. Once the funds are deposited the receipt is recorded into the Districts financial software and a duplicate receipt is printed and mailed to the individual.

Maintaining an efficient work flow with limited computers that are licensed with our financial software, printing receipts on demand is not very feasible or productive. As this remains an Audit concern the District will secure a stand alone computer solely dedicated to receipting in receipts and therefore, will not disrupt the current job function being performed by the employee receiving the funds.


Mrs. Joa Griffith
Business Manager/Corporation Treasurer


Dr. Chris Daughtry
Superintendent

Elwood Community School Corporation

1306 N. Anderson Street
Elwood, IN 46036
Ph: 765-552-9861
Fax: 765-552-8088
<http://www.elwood.k12.in.us>

Superintendent:
Dr. Chris Daughtry

Business Mgr/Treasurer:
Mrs. Joa Griffith



The Hope of Our Country

¹⁰
August 7, 2015

Corrective Action Plan


FINDING 2014-003 Allowable Costs
Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010

Federal Finding 2014-003 indicates that the School Corporation failed to maintain the necessary documentation relating to time and effort. It is important to note that this area has been reviewed in all previous audits as well as during an on-site review conducted by the Indiana Department of Education. At no time were issues raised with the current method of maintaining time and effort logs for personnel paid from split funding sources as identified in the approved application.

The scope of the present interpretation is much broader than that provided in the past. It is our contention that had the program administrator(s) been aware of the need to broaden the scope of those staff members impacted by the need to maintain time and effort logs, compliance would have been met. The records to document this are readily available.

Corrective action will be instituted by preparing a monthly fund distribution report for each impacted employee. These will identify funding sources for all activities provided by the employee and, as such, can be compared to those described in the approved federal grant.

Those reports will then be signed by the employee and the supervising administrator and the superintendent. Semiannual certifications will continue to be maintained for applicable employees and schools.



Mrs. Joa Griffith
Business Manager/Corporation Treasurer



Dr. Chris Daughtry
Superintendent

Elwood Community School Corporation

1306 N. Anderson Street
Elwood, IN 46036
Ph: 765-552-9861
Fax: 765-552-8088
<http://www.elwood.k12.in.us>

Superintendent:
Dr. Chris Daughtry

Business Mgr/Treasurer:
Mrs. Joa Griffith



The Hope of Our Country

¹⁰
August 3, 2015

Corrective Action Plan

FINDING 2014-004

Federal Agency: United States Department of Agriculture
Federal Program: School Breakfast Program & National School Lunch Program
CFDA Number: 10.553 and 10.555
FY 2012-2013 and FY 2013-2014

Federal Finding 2014-004 states there were no procedures established to ensure that the School Lunch Fund cash balances were maintained in compliance with the Cash Management requirements.

During the school years of 2013 and 2014 the Food Service Department at Elwood Community School Corporation was building the cash reserve in order to purchase new equipment for 3 (three) schools in the District. New ovens, an ice machine and air curtain has since been purchased for all 3 (three) building and new tables for the intermediate school cafeteria have been ordered. The total expenditures for the upgraded cafeteria equipment was approximately \$130,000.00 leaving a cash reserve on June 30, 2015 of \$240,477.85 which falls within the guidelines.


Mrs. Joa Griffith
Business Manager/Corporation Treasurer


Dr. Chris Daughtry
Superintendent

ELWOOD COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

ANNUAL FINANCIAL REPORT

An Annual Financial Report for Fiscal Year 2014 was not filed electronically until October 30, 2014, which was 62 days after it was due.

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."

COLLECTIVE BARGAINING AGREEMENTS

The School Corporation failed to post the Teachers Collective Bargaining Agreement to their website within 14 days of reaching the agreement for the school years 2012-2013 and 2013-2014.

Indiana Code 20-29-6-19 states:

"Internet posting of collective bargaining agreement provisions Sec. 19. Not later than fourteen (14) business days after the parties have reached an agreement under this chapter, the school employer shall post the contract upon which the parties have agreed on the school employer's Internet web site."

ACCOUNTING FOR PREPAID FOOD RECEIPTS

Prepaid food receipts were not placed in Fund 8400 Prepaid Food, a clearing account, but were instead accounted for in the School Lunch fund, Fund 800. The entire amount of prepaid food receipts were recognized in the School Lunch fund, Fund 800 at the time of receipt as revenue and not as applied from the clearing account as students consumed their individual account balances. As a result, the subsidiary records of prepaid food fund balances by student could not be reconciled to an overall balance on a routine basis by officials as required.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614) series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (The School Administrator, September 2008)

ELWOOD COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

COMPENSATION

The School Corporation did not established a salary schedule for classified personnel. Without an up-to-date salary schedule, verification of the accuracy of the salaries paid to classified personnel was not able to be performed.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Schools, Chapter 9)

TEXTBOOK RENTAL FEES

The School Corporation charged a book rental fee for textbooks, but did not provide the calculations used to prepare the charges, except for the 4-8th grades. The price of all other books used by the corporation, were not presented for audit. Since we did not have the price of most books and we did not have the date of purchase of any books, it was impossible to determine if the textbook rental fees being charged were appropriate.

Indiana Code 20-26-12-2 states in part:

" . . . The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the textbooks.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of a textbook that has been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

EDUCATIONAL FEES

The School Corporation also charged educational fees. There was no documentation presented that indicated that the School Corporation Attorney had provided written guidance concerning whether the fees were appropriate in regards to Constitutional provisions.

Indiana Code 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate School Corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions."

ELWOOD COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2015, with Joa Griffith, Treasurer; Dr. Christopher E. Daughtry, Superintendent of Schools; and Robert Savage, President of the School Board.