

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
KNOX COMMUNITY SCHOOL CORPORATION
STARKE COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
03/06/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherry Sue Fort	07-01-12 to 06-30-15
Superintendent of Schools	A.J. Gappa	07-01-12 to 06-30-15
President of the School Board	Harold Welter Mike Yankauskas William K. Bennett	01-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE KNOX COMMUNITY SCHOOL
CORPORATION, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the Knox 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 Finding, identified in the above referenced audit report, is 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 Finding, incorporated within this report, was not verified for accuracy.

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

January 22, 2015

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDING

FINDING 2014-001 - INTERNAL CONTROLS OVER THE CHILD NUTRITION CLUSTER

Federal Agency: Department of Education

Federal Programs: School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, and 10.559

Federal Award Numbers and Years: FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect on the programs. This includes the compliance requirements for Cash Management, Eligibility, and Reporting. 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. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Cash Management

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the School Lunch fund monthly cash balances were maintained in compliance with the Cash Management requirements.

Eligibility

Free and reduced meal applications are not reviewed by another employee prior to final determination of free, reduced, or paid status. Currently, the application information is entered into the food service software which automatically makes the determination dependent on the information entered into the software. There was no segregation of duties, such as an oversight, review, or approval process.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDING
(Continued)

Reporting

The monthly reimbursement report is prepared by the Food Service Director and submitted electronically to the Indiana Department of Education's website. This report is not verified by anyone prior to submission. There was no segregation of duties, such as an oversight, review, or approval process.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same 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 could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect on the programs.



Mr. A.J. Gappa, Superintendent

(574) 772-1601
FAX: (574) 772-1608
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January 16, 2015

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Sherry Fort
Contact Phone Number: 574-772-1604

Description of Corrective Action Plan:

Free and reduced application will be entered by a Food Service Treasurer and reviewed by Food Service Director. Application will be dated and initialed by each individual.

Federal and State reports will be complied by Food Service Director and reviewed by Food Service Treasurer.

Anticipated Completion Date: January 5, 2015

Sherry Sue Fort

(Signature)

Treasurer

(Title)

1-22-15

(Date)

KNOX COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

OFFICIAL BOND

The School Corporation Treasurer and Assistant Treasurer were not adequately bonded for the audit period. The original coverage period for the Treasurer's Bond #3-786-455 was January 1, 2012 to January 1, 2013; however, it was continued twice for the additional periods of January 1, 2013 to January 1, 2014, and January 1, 2014 to January 1, 2015. The original coverage period for the Assistant Treasurer's Bond #4-051-813 was October 20, 2011 to October 20, 2012; however, it was continued twice for the additional periods of October 20, 2012 to October 20, 2013, and October 20, 2013 to October 20, 2014.

The State Board of Accounts is of the audit position that a new bond should be obtained each year and continuation certificates should not be used in lieu of obtaining a new bond. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

KNOX COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 22, 2015, with William K. Bennett, President of the School Board; A.J. Gappa, Superintendent of Schools; and Sherry Sue Fort, Treasurer.