

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, 2014 to June 30, 2016



FILED
07/12/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherry Sue Fort	07-01-14 to 06-30-17
Superintendent of Schools	A.J. Gappa (Vacant) Jim Dermody (interim)	07-01-14 to 04-20-17 04-21-17 to 04-25-17 04-26-17 to 06-30-17
President of the School Board	William K. Bennet Gary Dulin	01-01-14 to 12-31-16 01-01-17 to 12-31-17



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, 2014 to June 30, 2016. 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, incorporated within this report, was not verified for accuracy.

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

May 10, 2017

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001 - INTERNAL CONTROLS OVER THE CHILD NUTRITION CLUSTER

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 14/15, FY 15/16

Pass-Through Entity: Indiana Department of Education

Repeat Finding

This finding is a partial repeat of Finding 2014-001 from the immediate prior audit year.

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance related to the grant agreement and the Eligibility, Reporting, and Special Test and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Eligibility

There were no controls in place to ensure that the eligibility determinations for free and reduced price meals were accurate. The applications were entered into a software program that automatically determined eligibility. There was no oversight or review to ensure that the information entered into the software was accurate.

Reporting

There were no controls in place to ensure that the Annual Financial Report was accurate prior to submission.

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

There were no controls in place to ensure that the Verification Summary Report was accurate prior to submission.

Context

The lack of controls was a systemic issue. There were no controls throughout the audit period.

Criteria

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. . . ."

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 that segregated key functions.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. The lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2016-002 - ALLOWABLE COSTS/COST PRINCIPLES

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 14/15, FY 15/16

Pass-Through Entity: Indiana Department of Education

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 Allowable Costs/Cost Principles compliance requirement.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation had not designed or implemented adequate policies or procedures to ensure that all payroll disbursements were for allowable costs, or that semiannual certifications and/or time and effort records were maintained in compliance with program requirements.

The Food Service Director failed to maintain semiannual certifications and time and effort records for full-time and part-time employees paid from the School Lunch fund.

Context

This was a systemic problem. There was a lack of controls throughout the audit period. In addition, semiannual certifications and/or time and effort records were not maintained for any full-time or part-time employees throughout the audit period.

Criteria

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. . . ."

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). . . ."

OMB Circular A-87, Attachment B, section 8(h) states in part:

"Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . ."

- (3) Where employees are expected to work solely on a single Federal award or costobjective, 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:

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award . . ."

2 CFR Appendix B to Part 225, section 8(h) states in part:

"Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . .

- (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 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) 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 . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement 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, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles requirements. We also recommended that the School Corporation comply with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-003 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

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 14/15, FY 15/16

Pass-Through Entity: Indiana Department of Education

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 and Real Property Management compliance requirement.

The School Corporation had not designed or implemented adequate policies or procedures to ensure that equipment purchased with federal funds was properly recorded in compliance with program requirements.

The School Corporation failed to record the Elementary School cafeteria renovation project on its Capital Asset Record (property records). The cafeteria renovation project totaled \$1,975,000 and the School Lunch fund purchased equipment for \$129,261.

Context

This was a systemic problem. There were no controls over property records for equipment purchased with federal funds throughout the audit period. In addition, the School Corporation failed to record a material amount of equipment purchased with federal funds.

Criteria

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. . . ."

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). . . ."

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 3016.32(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, 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 property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, 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 CFR 200.313(d) states in part:

"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. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement 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, including segregation of duties, related to the grant agreement and the Equipment and Real Property Management requirements. We also recommended that the School Corporation 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.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-004 - REPORTING

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): SY 2013-2014, SY 2014-2015,
SY 2015-2016

Pass-Through Entity: Indiana Department of Education

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 compliance requirement.

There were no controls in place to ensure that the Annual Final Expenditure Reports were accurate prior to submission.

Context

This was a systemic problem. There was a lack of controls throughout the audit period.

Criteria

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. . . ."

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 that segregated key functions.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. The lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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



Sherry Sue Fort
Business Manager

(574) 772-1604
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E-MAIL: sfort@knox.k12.in.us

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2014-001

Fiscal year in which the finding initially occurred: FY 12-13, FY 13-14
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Indiana Department of Education
Contact Person Responsible for Corrective Action: Sherry Sue Fort
Contact Phone Number: 574-772-1604

Status of Audit Finding:

Federal and State information is gathered by the Food Service Director and reviewed by Food Service Treasurer.

Knox Community School is in the process of reviewing all internal controls and the Free and Reeducated application will be entered by Food Service Director and reviewed by Food Service Treasurer. Applications will be dated and initialed by each individual. This will be fully implemented for the 17-18 school (July1, 2017).

Corporation Treasurer

March 28, 2017

(Note of Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, Section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR \$200.511(b)



Sherry Sue Fort
Business Manager

(574) 772-1604
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E-MAIL: sfort@knox.k12.in.us

Finding 2016-003

Fiscal year in which the finding initially occurred: FY 15, FY 16

Pass-Through Entity: Indiana Department of Education

Education

Contact Person Responsible for Corrective Action: Sherry Sue Fort

Contact Phone Number: 574-772-1604

We concur with the finding:

Inventory of purchased kitchen equipment will be completed and recorded into the fixed asset report for the corporation.

Completion Date: October, 2017

Finding 2016-004

Fiscal year in which the finding initially occurred: FY 15, FY 16

Pass-Through Entity: Indiana Department of Education

Education

Contact Person Responsible for Corrective Action: Sherry Sue Fort

Contact Phone Number: 574-772-1604

We concur with the finding

Annual Final Expenditure Report will be complied by Treasurer and verified by Deputy Treasurer. Both individuals will initial and date report.

Completion Date: August, 2017

KNOX COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCE

The financial statement presented in the Financial Statement and Single Audit Report for the School Corporation included the Vocational Trades 15-16 fund that was overdrawn by \$17,388 as of June 30, 2016.

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)

KNOX COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 10, 2017, with Sherry Sue Fort, Treasurer; Jim Dermody, interim Superintendent of Schools; and Gary Dulin, President of the School Board.