

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SOUTH KNOX SCHOOL CORPORATION

KNOX COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
07/12/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lori Blann	07-01-13 to 05-06-16
	(Vacant)	05-07-16 to 05-08-16
	Tamara L. Asdell	05-09-16 to 12-31-17
Superintendent of Schools	Timothy A. Grove	07-01-13 to 12-31-17
President of the School Board	Dennis Carnahan	07-01-13 to 12-31-14
	Alicia Houchin	01-01-15 to 12-31-15
	Gary Holscher	01-01-16 to 12-31-17



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 SOUTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

This report is supplemental to our audit report of the South Knox School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2015. 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

May 24, 2017

SOUTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001 - CASH MANAGEMENT AND REPORTING

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 Number): FY 13/14, FY 14/15

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place to ensure compliance with the Cash Management requirement that the School Lunch fund monthly cash balances (Net Cash Resources) did not exceed the three months average expenditures.

An effective internal control system was not in place at the School Corporation to ensure that the monthly Sponsor Claims (claims for reimbursement) and SNP Annual Financial Reports were accurately prepared and submitted. There was no segregation of duties, such as an oversight, review, or approval process.

Context

This was a systemic problem within the School Breakfast Program and National School Lunch Program. Controls did not exist over the Cash Management and Reporting compliance requirements during 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. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Lunch fund monthly cash balances did not exceed the average expenditures for three months, or that required reports were accurately and completely prepared.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Cash Management and Reporting compliance requirements.

Questioned Costs

There were no questioned costs identified.

SOUTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Cash Management and Reporting 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 2015-002 - SPECIAL TESTS AND PROVISIONS - PAID LUNCH EQUITY

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program

CFDA Number: 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place to ensure that the weighted-average paid lunch price calculations were completed and that the paid lunch prices were established accordingly. The School Corporation did not perform the weighted-average paid lunch price calculation for either school year.

Context

This was a systemic problem within the National School Lunch program. The School Corporation was required to perform the weighted-average calculation for both school years in the audit period. The weighted-average paid lunch price calculation was not performed for either school year as required and it could not be determined if the paid lunch equity requirement was met for either school year.

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. . . ."

7 CFR 210.14(e) states in part:

"*Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

(1) *Calculation procedures.* Each school food authority shall:

(i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.

SOUTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (*i.e.*, the reimbursement difference);

(iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Effect

The failure to establish controls enabled material noncompliance to occur. 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 and implement procedures to comply with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity 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 2015-003 - 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 13/14, FY 14/15

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place to ensure that verification of free and reduced price applications was completed and that the supporting documentation of the verification process was retained and available for audit.

SOUTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The Verification Summary for the 2013-2014 school year indicated that four applications were verified, and, of those, two required a change in status. However, documentation indicating what actions were taken as a result of the verification was not available.

The Verification Summary for the 2014-2015 school year indicated that four applications were verified; however, documentation supporting the review process and which applications were actually verified was not available.

Context

There was no audit evidence available to determine if the verification process was properly conducted for either year.

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 200.333 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 that the School Corporation maintained and made available for audit the documentation necessary to support the verification of applications of students served under these federal programs.

Effect

The failure to establish a system of internal controls that would have ensured that records were retained and available for audit prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Questioned Costs

There were no question costs identified.

SOUTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation establish a system of internal controls over the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement and implement procedures that would ensure that records are retained and available for audit.

Views of Responsible Officials

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

FINDING 2015-004 - 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 Number): FY 13/14, FY 14/15

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 Eligibility compliance requirement. Eligibility for free or reduced price meals was not always determined correctly.

Context

Eligibility for 2 of 25 applications tested was determined incorrectly. One application was approved for free meals, but was only eligible for reduced meals. One application was approved for reduced meals, but was eligible for free meals.

Criteria

7 CFR 245.3(b) Eligibility standards and criteria states in part: "Each participating local educational agency and all participating schools under its jurisdiction must adhere to the eligibility criteria specified in this part. . . ."

7 CFR 245.6(c)(4) states:

"*Calculating income.* The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in §245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in §245.2, the children in that household must be approved for free or reduced price benefits, as applicable."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Eligibility compliance requirement.

SOUTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish effective internal controls over eligibility enabled material noncompliance to go undetected.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls and implement procedures to comply 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.

FINDING 2015-005 - 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 Number): 13-4325, 14-4325, 15-4325

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place to ensure compliance with the Reporting compliance requirement. The same person both prepared and submitted the Annual Expenditure Report with no review or approval process in place.

Context

This was a systemic problem within the Title I Grants to Local Educational Agencies program. Controls did not exist over the Annual Expenditure Report within the Reporting compliance requirement during 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. . . ."

Cause

Management had not developed a system of internal controls over the Annual Expenditure Report that would have ensured compliance with the Reporting compliance requirement.

SOUTH KNOX 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 Reporting compliance requirement.

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.

South Knox School Corporation

**6116 E St Rd 61
Vincennes, IN 47591
812-726-4440**

Timothy A. Grove, Superintendent

Corrective Action Plan

Finding 2015-001

Contact Person Responsible for Corrective Action: Tim Grove
Contact Phone Number: 812-726-4440

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Treasurer will maintain a spreadsheet monthly to monitor School Lunch fund cash balances to ensure cash balance does not exceed three-month average expenditures.

Food Service Director will prepare monthly sponsor claims and SNP Annual Financial Reports. Food Service Director's assistant will review monthly claims and annual reports. Copies of claims and annual reports will be forwarded to the central office.

Anticipated Completion Date: Immediate

Finding 2015-002

Contact Person Responsible for Corrective Action: Tim Grove
Contact Phone Number: 812-726-4440

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Treasurer and Food Service Director will work together to perform the Paid Lunch Equity calculations annually and to establish paid lunch prices as indicated by the formula.

Anticipated Completion Date: Immediate

Finding 2015-003

Contact Person Responsible for Corrective Action: Tim Grove
Contact Phone Number: 812-726-4440

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Information to support the School Lunch food program verification of eligibility will be retained for audit. A records folder will be created and maintained.

Anticipated Completion Date: Immediate

Finding 2015-004

Contact Person Responsible for Corrective Action: Tim Grove
Contact Phone Number: 812-726-4440

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Food Service Director will process all free/reduced applications for both schools. Food Service Director's Assistant will confirm eligibility.

Anticipated Completion Date: Immediate

Finding 2015-005

Contact Person Responsible for Corrective Action: Tim Grove
Contact Phone Number: 812-726-4440

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Treasurer will prepare the Annual Expenditure report. Superintendent will review and approve the report for submission by the Treasurer.

Anticipated Completion Date: Immediate


(Signature)

Superintendent
(Title)

May 24, 2017
(Date)

SOUTH KNOX SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

FUND SOURCES AND USES

The School Corporation expended monies from the Capital Projects fund for hotel and conference fees for the Maintenance Director, snow removal services and supplies, cleaning services and supplies, grounds maintenance and supplies, and other services and supplies used in the daily operation of facilities or equipment. These are not allowable expenditures for the Capital Projects fund as detailed in Indiana Code 20-40-8.

A similar comment appeared in prior Report B43307.

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

SOUTH KNOX SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2017, with Tamara L. Asdell, Treasurer; Timothy A. Grove, Superintendent of Schools; Gary Holscher, President of the School Board; and Michael D. Edwards, School Board member.