

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SOUTH ADAMS SCHOOLS

ADAMS COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
08/16/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Rebecca Biberstein	01-01-14 to 12-31-17
Superintendent of Schools	Scott Litwiller	07-01-14 to 06-30-19
President of the School Board	Arlene Amstutz	01-01-14 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SOUTH ADAMS SCHOOLS, ADAMS COUNTY, INDIANA

This report is supplemental to our audit report of the South Adams Schools (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 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.

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

June 20, 2017

SOUTH ADAMS SCHOOLS
FEDERAL FINDINGS

FINDING 2016-001

Subject: Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

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 SEFA presented for audit contained the following errors:

1. National School Lunch Program - commodities were not included resulting in an understatement in the amount of \$47,153 for FY 14-15 and \$53,905 for FY 15-16.
2. The Child Nutrition Cluster expenditures were overstated by \$231,756 for FY 14-15 and \$238,269 for FY 15-16.
3. The Special Education Cluster (IDEA) expenditures were understated by \$267,380 for FY 14-15 and \$82,533 for FY 15-16.
4. The Title I Grants to Local Educational Agencies expenditures were overstated by \$470 for FY 15-16.
5. The Migrant Education_State Grant Program expenditures were understated by \$10,951 for FY 14-15.
6. The Rural Education expenditures were overstated by \$19,684 for FY 15-16.
7. The English Language Acquisition State Grants expenditures were overstated by \$6,710 for FY 14-15 and understated by \$346 for FY 15-16.
8. \$265,332 was reported for FY 14-15 for a non-existent grant resulting in an overstatement.

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. . . .

SOUTH ADAMS SCHOOLS
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. . . . "

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 § .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.
- (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."

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

SOUTH ADAMS SCHOOLS
FEDERAL FINDINGS
(Continued)

§ 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 the 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.

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 *Condition*.

Views of Responsible Officials

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

SOUTH ADAMS SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2016-002

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 14-15, FY 15-16
Pass-Through Entity: Indiana Department of Education
Subject: Internal Control over the Child Nutrition Cluster
Compliance Requirements: Cash Management, Reporting
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management and Reporting.

Cash Management

The School Corporation had not established a control to ensure that the food service balance (Net Cash Resources) did not exceed the three months average expenditures.

Reporting

The Food Service Director prepared and submitted the Annual Financial Reports (AFR); however, there was no control in place to ensure that the AFRs were correct.

Context

Internal control issues were systematic, occurring 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 section 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). . . ."

SOUTH ADAMS SCHOOLS
FEDERAL FINDINGS
(Continued)

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. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the 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 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 2016-003

Federal Agency: Department of Education

Federal Program: Migrant Education_State Grant Program

CFDA Number: 84.011

Federal Award Numbers and Years (or Other Identifying Numbers): 38212-012-PN01, 38213-012-PN01,
38214-008-PN01, 38215-003-PN01

Pass-Through Entity: Indiana Department of Education

Subject: Allowable Costs/Cost Principles

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the following compliance requirement: Allowable Costs/Cost Principles.

The School Corporation had not implemented adequate controls to ensure that Semi-Annual Certifications and Personnel Activity Reports or Documentation of Personnel Expenses were prepared.

Context

The School Corporation was not aware that specific forms were required for employees paid from the program funds.

SOUTH ADAMS SCHOOLS
FEDERAL FINDINGS
(Continued)

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 section 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 item 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. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

SOUTH ADAMS SCHOOLS
FEDERAL FINDINGS
(Continued)

- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

The School Corporation was not aware of this compliance requirement during the audit period.

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 of the grant agreement or the Allowable Costs/Cost Principles requirements that have a direct and material effect to the program could have resulted in the loss of federal fund to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and requirements pertaining to Allowable Costs/Cost Principles to ensure that all Allowable Costs/Cost Principles requirements were complied with in.

Views of Responsible Officials

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



South Adams School

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Scott Litwiler
Superintendent

Annette Schwantz
Administrative Assistant

Rebecca Biberstein
Treasurer

Pam Hawbaker
Grants Clerk

CORRECTIVE ACTION PLAN

AUDIT PERIOD: JULY 1, 2014 – JUNE 30, 2016

Contact Person Responsible for Corrective Action: Rebecca Biberstein(treasurer)
Contact Information: (260) 589-3133, bbiberstein@southadams.k12.in.us

FINDING 2016 -001

South Adams Schools will correct the Gateway Annual Report immediately by creating instructions detailing how to complete the Federal Awards report accurately. The treasurer will execute the reports and the grants manager will review and sign off. The treasurer will then complete the Gateway reporting for submission prior to the due date.

FINDING 2016 -002

South Adams Schools has established (effective 6/1/17) controls to verify the food service balance is less than or equal to the three month average expenses. The grants manager will review the report monthly and document the balance and the average three month expenses, this will be signed by the food service director and the grants manager.

FINDING 2016 -003

South Adams Schools began in 2016 to have Semi-Annual Certifications for staff designated 100% migrant. The director and grant manager will review all staff (effective 6/1/17) and determine what documentation will be needed. Staff working 100% migrant will have a Semi-Annual Certification, staff working outside of there school contract will have time sheets for their migrant work and staff working multiple funds will have Time and Effort Logs. This will be overseen by the director and reviewed by the grant manager.

Scott Litwiler

Superintendent

6-12-17

Date

Rebecca Biberstein

Treasurer

6-12-17

Date

SOUTH ADAMS SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on June 20, 2017, with Scott Litwiller, Superintendent of Schools; Rebecca Biberstein, Treasurer; Arlene Amstutz, President of the School Board; and John Mann, Board member.