

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PIKE COUNTY SCHOOL CORPORATION

PIKE COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
09/12/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2015-001	
Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2015-002	
Special Education_Grants to States - Procurement and Suspension and Debarment	5-7
Finding 2015-003	
Title I Grants to Local Educational Agencies - Special Tests and Provisions - Assessment System Security	7-8
Finding 2015-004	
Special Education_Grants to States - Matching, Level of Effort, Earmarking	9-10
Corrective Action Plan.....	11-14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Krista J. Halbrader Darlene Small Chelsea Yon	07-01-13 to 01-14-15 01-15-15 to 06-30-15 07-01-15 to 12-31-17
Superintendent of Schools	Suzanne Blake	07-01-13 to 06-30-18
President of the School Board	Jerry Grubb David Waltz	01-01-13 to 12-31-14 01-01-15 to 12-31-17



STATE OF INDIANA
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TO: THE OFFICIALS OF THE PIKE COUNTY SCHOOL CORPORATION, PIKE COUNTY, INDIANA

This report is supplemental to our audit report of the Pike County 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 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

July 20, 2017

PIKE COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Other Matters

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 School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards.

The SEFA presented for audit contained the following errors: Total federal expenditures were understated by \$730,137 in the 2013-2014 school year, and overstated by \$265,828 in the 2014-2015 school year, one federal program was omitted from the SEFA for 2013-2014, and four of the six program names were incorrect. 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. . . .

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:

PIKE COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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."

Cause

Management had not established a system of internal control that would ensure 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.

FINDING 2015-002

Subject: Special Education_Grants to States - Procurement and Suspension and Debarment

Federal Agency: Department of Education

Federal Program: Special Education_Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (or Other Identifying Numbers): 14213011PN01, 14214011PN01,
14215011PN01, 99914011TA01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

PIKE COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation was a member of the Exceptional Children's Co-op (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds.

Management of the School Corporation had not established an effective internal control system, to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The Cooperative's Director signed the Application and Assurance Plan as a Condition of Federal Assistance, which stated that the Cooperative would check subcontractors to ensure that they were not presently debarred; suspended; proposed for debarment; or declared ineligible or voluntarily excluded by any federal agency or by any department, agency, or political subdivision of the State of Indiana. However, the Cooperative did not have procedures in place to verify that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a contract with them.

Context

During the 2014-2015 school year, there were two contracts entered into that exceeded \$25,000. The Cooperative did not verify that the vendors were not suspended or debarred prior to awarding the contracts.

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 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls that would have ensured that the Cooperative complied with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

PIKE COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 question costs identified.

Recommendation

We recommended that the School Corporation's management establish controls and implement procedures to monitor the Cooperative to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment 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 2015-003

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions -
Assessment System Security
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): 13-6445, 14-6445, 15-6445
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Assessment System Security
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place to ensure that a written test security policy, describing the School Corporation's policies and procedures for ensuring the security of assessment testing, was developed and implemented.

On October 12, 2015, the School Board approved a document entitled, "Student Assessment," which stated, "The Superintendent shall develop and implement a plan which complies with the guidelines established by the Indiana Department of Education." However, no such plan had been developed or implemented.

Context

Assessment System Security policies and procedures were not developed and implemented during the 2014-2015 school year.

PIKE COUNTY SCHOOL CORPORATION
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 200.207(a) states in part: . . . The Federal awarding agency or pass-through entity may impose additional specific award conditions . . ."

Indiana Assessment Program Manual, Chapter 10, Part D states in part:

"Every school corporation . . . that administers tests under the Indiana Assessment System must have a locally developed written test security policy. The test security policy developed by the entity should:

- Specify that secured test material should not be delivered to school buildings more than one week (preferably less) in advance of the test administration;
- Specify that teachers and other school staff members are not allowed access to secure materials (except for the Examiner's Manual) more than 24 hours in advance of test administration; and
- Describe the entity's plan for ensuring the security of assessment materials during the testing and storage of all secure assessment materials before, during, and after testing. All test materials should be stored at a central location under lock and key."

Cause

Management had not developed a system of internal controls that would have ensured that a written test security policy was developed and implemented.

Effect

The failure to establish a system of internal controls that would have ensured that a written test security policy was developed and implemented, resulted in the School Corporation's noncompliance with the Special Tests and Provisions - Assessment System Security requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and to comply with the grant agreement and compliance requirement listed above.

Views of Responsible Officials

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

PIKE COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-004

Subject: Special Education_Grants to States - Matching, Level of Effort, Earmarking
Federal Agency: Department of Education
Federal Program: Special Education_Grants to States
CFDA Number: 84.027
Federal Award Numbers and Years (or Other Identifying Numbers): 14213011PN01, 14214011PN01,
14215011PN01, 99914011TA01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Matching, Level of Effort, Earmarking
Audit Finding: Material Weakness, a Scope Limitation which caused a Modified Opinion

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with the grant agreement and the Matching, Level of Effort, Earmarking compliance requirement.

The School Corporation was a member of a Special Education Cooperative (Cooperative). The Treasurer independently prepared the Level of Effort - Maintenance of Effort (MOE) calculation worksheets and submitted them to the Cooperative during the audit period. The documentation to support the MOE calculations was not retained and available for audit. There was no evidence of an oversight, review, or approval process to ensure the accuracy of the MOE calculations.

Context

It could not be determined whether the MOE calculations were performed correctly for either year of the audit period due to supporting documentation not being retained and available for audit. There was no evidence of an oversight, review, or approval process 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. . . ."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

Cause

Management of the School Corporation had not developed a system of internal controls, including segregation of duties, that would have ensured that the documentation to support the MOE calculations were retained and available for audit.

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 Matching, Level of Effort, Earmarking requirements.

PIKE COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation establish a system of internal controls, including segregation of duties, over the Matching, Level of Effort, Earmarking requirements 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.



Pike County School Corporation

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Board of Education
David Waltz, President
Chris Satterfield, Vice President
Ron Sharp, Secretary
Chris McKinney, Member
Steve Potter, Member

Suzanne Blake, Superintendent

CORRECTIVE ACTION PLAN

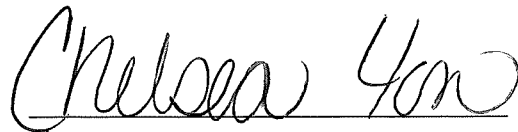
FINDING 2015-001

Contact Person Responsible for Corrective Action: Chelsea Yon, Treasurer
Contact Phone Number: 812-354-8731

Description of Corrective Action Plan: Audit adjustments were proposed, accepted by the school, and made to the Schedule of Expenditures of Federal Awards (SEFA). As a result, the SEFA reported in the audit report are correct in relation to the financial reports.

The Treasurer will run expenditure history and revenue history reports for Federal awards and will follow the internal control manual guidelines for proper review and approval before submission of the SEFA report. The internal control manual was adopted by the Pike County School Corporation Board of Trustees on June 13, 2017.

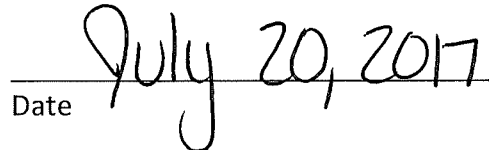
Anticipated Completion Date: July 20, 2017



Signature



Title



Date



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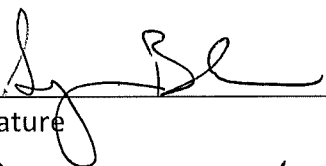
CORRECTIVE ACTION PLAN


FINDING 2015-002

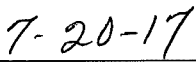
Contact Person Responsible for Corrective Action: Suzanne Blake, Superintendent
Contact Phone Number: 812-354-8731

Description of Corrective Action Plan: As a Board Member of The Exceptional Children's Co-Operative the Superintendent will insure that all subcontractors are not presently debarred, suspended, proposed debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency or political subdivision of the State of Indiana before contracts are signed.

Anticipated Completion Date: July 20, 2017



Signature


Title


Date



Pike County School Corporation

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Board of Education
David Waltz, President
Chris Satterfield, Vice President
Ron Sharp, Secretary
Chris McKinney, Member
Steve Potter, Member

Suzanne Blake, Superintendent

CORRECTIVE ACTION PLAN


FINDING 2015-003

Contact Person Responsible for Corrective Action: Suzanne Blake, Superintendent
Contact Phone Number: 812-354-8731

Description of Corrective Action Plan: A written test security policy will be submitted to the Pike County School Board of Trustees for approval. The policy will specify when test materials will be delivered to the school buildings, when teachers or school staff may have access to the testing materials, and how/where test materials will be stored before, during and after testing.

The internal control manual was adopted by the Pike County School Corporation Board of Trustees on June 13, 2017. The guidelines include oversight of state and federal grant funds.

Anticipated Completion Date: September 12, 2017



Signature

Superintendent

Title

7-20-17

Date



Pike County School Corporation

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Board of Education
David Waltz, President
Chris Satterfield, Vice President
Ron Sharp, Secretary
Chris McKinney, Member
Steve Potter, Member

Suzanne Blake, Superintendent

CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Chelsea Yon, Treasurer
Contact Phone Number: 812-354-8731

Description of Corrective Action Plan: The Treasurer will prepare the Level of Effort – Maintenance of Effort (MOE) and submit to The Exceptional Children’s Co-Operative for submission. The Superintendent will review the calculation worksheets and supporting documentation and sign as verification. Copies of all supporting documentation and calculation worksheets will be kept by the Treasurer and Superintendent.

The internal control manual was adopted by the Pike County School Corporation Board of Trustees on June 13, 2017. The manual contains guidelines for the segregation of duties over the Matching, Level of Effort, Earmarking requirements ensuring records are retained and available for audit.

Anticipated Completion Date: July 20, 2017

Chelsea Yon
Signature

Treasurer
Title

July 20, 2017
Date

PIKE COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2017, with Chelsea Yon, Treasurer; Suzanne Blake, Superintendent of Schools; Chris A. Satterfield, Vice President of the School Board; and David Waltz, President of the School Board.