

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
SOUTHWEST SCHOOL CORPORATION
SULLIVAN COUNTY, INDIANA
July 1, 2013 to June 30, 2015



FILED
09/20/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Amy Kinnett	07-01-13 to 05-17-17
	(Vacant)	05-18-17 to 06-01-17
	Glenda D. Small (interim)	06-02-17 to 12-31-17
Superintendent of Schools	Chris Stitzle	07-01-13 to 06-30-18
President of the School Board	Grant Bryant	01-01-13 to 12-31-13
	Jerry Wilson	01-01-14 to 12-31-14
	Barbara Rotramel	01-01-15 to 12-31-15
	Kevin Arnett	01-01-16 to 12-31-16
	Mitzie Badger	01-01-17 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 SOUTHWEST SCHOOL CORPORATION, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the Southwest 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 Results and Comments 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 Results and Comments contained herein describe the identified reportable instances 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 Results and Comments, incorporated within this report, were not verified for accuracy.

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

August 17, 2017

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001

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

Repeat Finding

This is a repeat finding from the immediate prior year. The prior year finding number was 2013-001.

Condition

The School Corporation did not have an effective system of internal control in place to prevent, or detect and correct, material errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation relied on one employee to prepare and submit the SEFA.

Context

The SEFA contained the following errors:

1. Federal expenditures were understated in total by \$248,201 and \$217,190 for the school years 2013-2014 and 2014-2015, respectively.
2. Several CFDA Numbers, Program Names, Pass-Through Entities, or Pass-Through identifying numbers were incorrectly reported or missing.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

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. . . ."

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. . . .

SOUTHWEST SCHOOL CORPORATION
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."

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 *Context*.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to prevent, or detect and correct, errors on the SEFA.

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: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is not a repeat finding from the immediate prior year.

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. **Lack of Segregation of Duties:** The School Corporation had not separated incompatible activities related to cash and receipts. One person was solely responsible for the preparation of the bank reconciliations and for all aspects of the receipts process, including issuing receipts, depositing the funds, and reconciling the transactions in the records. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.
2. **Monitoring of Controls:** The School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the School Corporation to monitor and assess the quality of the system of internal control.

Context

The deficiencies in the internal control system were present throughout the audit period.

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:

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the School Corporation had not established a proper system of internal control related to cash and receipts.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Recommendation

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, over cash and receipts.

Views of Responsible Officials

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

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-003

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14212-024-PN01, 14213-024-PN01,
14214-024-PN01, 99914-024-PN01,
45713-024-PN01, 45714-024-PN01,
45715-024-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is not a repeat finding from the immediate prior year.

Condition

The School Corporation was a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grants. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

The School Corporation had not established an internal control system to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. The School Corporation failed to keep the necessary documentation relating to Circular A-87 for time and effort reporting. For those employees that were paid entirely from the Special Education program, the Cooperative did not submit Semi-Annual Certifications.

Context

There were no Semi-Annual Certifications completed during the audit period.

Criteria

OMB Circular A-87, Attachment B, item 8(h)(3) states:

"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."

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. . . ."

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured the School Corporation complied with the Allowable Costs/Cost Principles compliance requirement concerning time and effort reporting.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the Allowable Costs/Cost Principles 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 monitor the Cooperative to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles 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 2015-004

Subject: Special Education Cluster (IDEA) - Reporting

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants_

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Number): 14212-024-PN01, 14213-024-PN01,
14214-024-PN01, 99914-024-PN01,
45713-024-PN01, 45714-024-PN01,
45715-024-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Finding: Material Weakness

Repeat Finding

This is not a repeat finding from the immediate prior year.

Condition

The School Corporation was a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grants. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation had not established an effective internal control system their Special Education program related to the Reporting compliance requirement. Reimbursement Requests were prepared and filed by the Cooperative Treasurer with no oversight, review, approval process, or other compensating control.

Context

Controls did not exist over the Reporting compliance requirement for Reimbursement Requests for the 2013-2014 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. . . ."

Cause

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

Effect

The failure to establish an effective internal control system could have enabled noncompliance to occur. Noncompliance with 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 ensure the Cooperative's compliance with the Reporting requirements of the programs.

Views of Responsible Officials

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

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-005

Subject: Special Education Cluster (IDEA) - Procurement and Suspension and Debarment
Federal Agency: Department of Education
Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants
CFDA Numbers: 84.027, 84.173
Federal Award Numbers and Years (or Other Identifying Number): 14213-024-PN01, 14214-024-PN01,
14215-024-PN01, 45714-024-PN01,
45715-024-PN01

Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is not a repeat finding from the immediate prior year.

Condition

The School Corporation was a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The School Corporation 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

The School Corporation did not verify that vendors were not suspended or debarred prior to awarding the contracts with 100 percent of applicable vendors for the 2014-2015 school year.

Criteria

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."

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 the School Corporation complied with the Procurement and Suspension and Debarment requirements.

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 and implement procedures to monitor the Cooperative to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment 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 2015-006

Subject: Internal Controls over 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): FY13-14, FY14-15

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Special Tests and Provisions - Verification of Free and
Reduced Price Applications (NSLP), Special Tests and Provisions - School
Food Accounts

Audit Findings: Material Weakness

Repeat Finding

This is not a repeat finding from the immediate prior year.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

Cash Management (School Breakfast Program and National School Lunch Program)

The School Corporation did not have effective procedures in place to ensure that the food service account balance (net cash resources) did not exceed three months average expenditures.

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

The Food Service Director determined eligibility for free and reduced lunches and was also responsible for verification of those applications. There was no evidence that the work was reviewed or approved by anyone other than the Food Service Director.

Special Tests and Provisions - School Food Accounts (School Breakfast Program and National School Lunch Program)

Proper controls were not in place related to the school food accounts. There was no evidence that Management of the School Corporation monitored or reviewed the school food accounts to ensure its nonprofit school food service is in accordance with state requirements.

Context

Internal control issues were not present throughout the audit period. There were no internal controls in place over Cash Management, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), and Special Tests and Provisions - School Food Accounts.

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 included segregating 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.

SOUTHWEST 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 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 2015-007

Subject: School Breakfast Program and National School Lunch Program - 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 Numbers): FY13-14, FY14-15
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is not a repeat finding from the immediate prior year.

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.

The former Food Service Director filed the required monthly Sponsor Claim (claims for reimbursement) and the NSLP Annual Financial Reports with the Indiana Department of Education. There was no evidence of oversight, review process, or other compensating control to ensure the reports were accurate and complete.

The NSLP Annual Financial Reports filed for the school years 2013-2014 and 2014-2015 did not agree with the School Corporation's financial records in several categories.

The totals of eligible students by classification were overstated in the eligibility information section of the monthly Sponsor Claim (claims for reimbursement). The total paid children classification was overstated by 22 students and the total free children classification was overstated by 13 students, when compared to the School Corporation's lists of paid, free, and reduced students for school year 2014-2015. The eligibility information section of the Sponsor Claim (claims for reimbursements) provided information about the total number of qualifying students in the School Corporation. Errors in this section did not affect the reimbursement amount, which is based on actual meals served.

Context

Both of the NSLP Annual Financial Reports filed during the audit period contained errors.

The monthly Sponsor Claim (claims for reimbursement) during the 2014-2015 year contained errors in the eligibility information section.

SOUTHWEST 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. . . ."

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . ."

Cause

Management had not developed a system of internal controls over the NSLP Annual Financial Report and Sponsor Claim (claims for reimbursement) that would have ensured compliance with the Reporting compliance requirement.

Effect

The failure to establish internal controls enabled material noncompliance to remain 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 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.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-008

Subject: National School Lunch Program - 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): FY13-14, FY14-15
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is not a repeat finding from the immediate prior year.

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to Special Tests and Provisions - Paid Lunch Equity compliance requirement and the grant agreement.

The School Corporation did not have documentation that the weighted average price calculations had been completed by the former the Food Service Director for either school year.

Context

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 presented for audit for either school year as required.

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.

SOUTHWEST 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 and followed an effective system of internal controls that would have ensured that the Special Tests and Provisions - Paid Lunch Equity requirements were met.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement and 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 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.

SOUTHWEST SCHOOL CORPORATION

P.O. Box 510 – 1502 N. Section St., Sullivan, Indiana 47882-1225
Phone: 812-268-6311 Fax: 812-268-6312



CHRIS STITZLE, Superintendent
JON STUCKEY, Assistant Superintendent, Transp. Dir.
DARLENE SMALL, Treasurer-Bookkeeper
TRACY VANDERGRIF, Payroll Clerk, Personnel
BRIAN IRWIN, Technology Coordinator

BOARD OF SCHOOL TRUSTEES
MITZIE BADGER
JON BOBBITT
GRANT BRYANT
BARBARA ROTRAMEL
JERRY D. WILSON

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Federal expenditure reports will be obtained and verified by Treasurer and Superintendent for each school year reported. Each grant will be identified by corresponding CFDA and program identifying information as required by SEFA reporting.

Anticipated Completion Date: July 2018

FINDING 2015-002

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Any incoming items for deposit are received by Central Office personnel – Superintendent, Assistant Superintendent, Treasurer, Deputy Treasurer and Administrative Assistant and are forwarded to the Treasurer who makes out deposit and posts the ledger. Deposits are reviewed with supporting documentation and initialed by the Deputy Treasurer or Superintendent and deposited in a timely manner by Central Office personnel/employees. Receipts will be maintained with supporting documentation for audit purposes.

Bank reconciliations will be prepared monthly by the Treasurer and provided to the Board and Superintendent for review.

Anticipated Completion Date: June 30, 2017

FINDING 2015-003

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Management of the Southwest School Corporation will work with the Greene-Sullivan Special Education Cooperative to establish internal controls that will ensure the Cooperative is in compliance with "Allowable Costs/Cost Principals" compliance requirements concerning time and effort reporting.

Anticipated Completion Date: August 17, 2017

FINDING 2015-004

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Management of the Southwest School Corporation will work with the Greene-Sullivan Special Education Cooperative to establish internal controls that will ensure the Cooperative is in compliance with the Reporting compliance requirement concerning reimbursement requests.

Anticipated Completion Date: August 17, 2017

FINDING 2015-005

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Management of the Southwest School Corporation will work with the Greene-Sullivan Special Education Cooperative to establish internal controls that will ensure the Cooperative is in compliance with Procurement and Suspension and Debarment requirement concerning the approval of contracts only after verifying the vendors were not suspended or debarred.

Anticipated Completion Date: August 17, 2017

FINDING 2015-006

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Prepaid food balances have been established in a separate "prepaid" lunch account. Food Service Director will monitor the cash balance. This should reflect a more accurate food service account balance for comparison with the three-month average expenditures. This process will be reviewed by the Superintendent or Treasurer.

A secondary verification will be reviewed and approved by the Superintendent or Assistant Superintendent for the monthly free and reduced application.

Monthly food reports will be reviewed by the Superintendent or Assistant Superintendent for comparison of expenditures and revenue and non-profit food service compliance.

Anticipated Completion Date: June 30, 2017

FINDING 2015-007

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

The Food Service Director will prepare all reports. The Superintendent or Deputy Treasurer will check to insure accurate reporting for all federal food service funding and compliance requirements.

Anticipated Completion Date: September 2017

FINDING 2015-008

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

School lunch prices will be established in accordance with grant program requirements. The Food Service Director will use the lunch price equity tool to determine if the Southwest School Corporation is complaint. The Superintendent or Deputy Treasurer will check the calculations to insure accuracy.

Anticipated Completion Date: June 2019



(Signature)

Superintendent

SOUTHWEST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for audit contained numerous instances of noncompliance with the accounting system prescribed by the Indiana State Board of Accounts.

Identified noncompliance included:

1. Receipts and disbursements not recorded in the ledger in the proper accounting period:
 - a. Three payments made to American Express for January, February, and May 2015 in the amount of \$21,244, were not recorded in the ledger as disbursements. The amounts were carried as reconciling items on the bank reconciliation at June 30, 2015.
 - b. Twenty-three Non-Sufficient-Funds (NSF) checks received from parents in 2007 through 2013 were carried as reconciling items on the bank reconciliation at June 30, 2015. These are checks written to the schools, but returned by the banks for insufficient funds.
 - c. Credit card and bank fees carried as reconciling items on monthly depository reconciliations throughout the audit period and not posted to the ledger.
2. Reconciling items in the net amount of (\$1,934) were carried on the bank reconciliations without sufficient documentation to determine source and resolution.
3. Contractual vendor disbursements of \$625,184 and \$887,848 for the fiscal years ending June 30, 2014, and June 30, 2015, respectively, were recorded under a salary line item.
4. Purchases made on credit cards totaling \$589 did not include supporting documentation to support the purchase. The purpose for these purchases could not be verified due to the lack of supporting documentation attached to the credit card claims.
5. Errors and corrections made when posting a receipt for an insurance settlement inflated both receipts and disbursements in the Payroll Withholdings fund in the ledger by \$1,276,982 for FY13-14.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public Schools Corporations, Chapter 1)

SOUTHWEST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

CREDIT CARDS

The School Corporation's credit card policy did not designate an employee or official as custodian of the credit cards. A custodian would have been responsible for maintaining an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, and the date the card is issued and returned.

Prior to spring of 2015, the School Corporation had one American Express Card issued in the School Corporation's name and the Treasurer maintained custody. In the spring of 2015, the card was replaced by three new American Express cards issued in the name of the former Treasurer, Superintendent of Schools, and Assistant Superintendent of Schools, who each maintained custody of one card. These new cards were opened without prior knowledge or approval of the School Board. The former Treasurer also opened a Staples credit card account without prior approval or knowledge of the Superintendent of Schools or the School Board.

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.
5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.

SOUTHWEST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PREPAID SCHOOL LUNCH ACCOUNTS

All transactions related to prepaid food were accounted for in the School Lunch fund instead of the clearing account established for prepaid food. There was no audit evidence presented to indicate that the subsidiary records by student were reconciled to the prepaid food balance during the audit period.

Our opinion is that money a student puts into their individual meal account should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (School Bulletin and Uniform Compliance Guidelines, September 2015)

PROMOTIONAL EXPENSES

Promotional expenses such as awards, food for employees, and catering for appreciation luncheons, were purchased during the audit period. A budget was established for promotional expenses in the General fund for calendar year 2014 in the amount of \$1,500 and 2015 in the amount of \$3,874. During the 2015 calendar year, promotional expenses exceeded the \$3,000 maximum statutory amount for the School Corporation. Promotional expenses included those that were posted to budget line items other than the promotional expense budget line item in the General fund.

Indiana Code 20-26-5-4(a) states in part:

"In carrying out the school purposes of a school corporation, the governing body acting on the school corporation's behalf has the following specific powers: . . .

- (3) To appropriate from the school corporation's general fund an amount, not to exceed the greater of three thousand dollars (\$3,000) per budget year or one dollar (\$1) per pupil, not to exceed twelve thousand five hundred dollars (\$12,500), based on the school corporation's ADM of the previous year (as defined in IC 20-43-1-7) to promote the best interests of the school corporation through:
 - (A) the purchase of meals, decorations, memorabilia, or awards;
 - (B) provision for expenses incurred in interviewing job applicants; or
 - (C) developing relations with other governmental units. . . ."

SOUTHWEST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

DEPOSITS

Our testing of textbook rental receipts at Sullivan High School found eight instances where cash receipts were not deposited in the same form as the collections. Our testing revealed cash collections were used to cash personal checks on five occasions.

Our testing of textbook rental receipts at Sullivan Elementary School found seven instances where cash receipts were not always deposited in the same form as the collections. In four instances, cash collections were used to cash personal checks.

The Extracurricular Treasurers of both Sullivan High School and Sullivan Elementary School acknowledged that they had cashed personal checks during the audit period.

The test of cafeteria receipts at Sullivan High School found collections were not accurately classified as cash or checks. We noted numerous instances in which payments by check were classified as cash by the cafeteria staff when they entered payments into the cash register.

The receipt, to be properly issued, shall show the date, the name of the person from whom the money was received, the payment type, the activity fund for which it was received, the amount and the source of the receipt. (Accounting and Uniform Guidance Compliance Manual for Extra-Curricular Accounts, Chapter 2)

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payors. (Accounting and Uniform Guidance Compliance Manual for Extra-Curricular Accounts, Chapter 7)

Officials and employees are required to use prescribed and approved forms in the manner prescribed. (Accounting and Uniform Guidance Compliance Manual for Indiana Public School Corporations, Chapter 1)

SOUTHWEST SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on August 17, 2017, with Mitzie Badger, President of the School Board; Grant Bryant, School Board member; Barbara Rotramel, School Board member, Chris Stitzle, Superintendent of Schools; Jon Stuckey, Assistant Superintendent of Schools; Glenda D. Small, Interim Treasurer; and Tracy Vandergriff, Payroll Manager/Deputy Treasurer.