

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
EDINBURGH COMMUNITY SCHOOL CORPORATION
JOHNSON COUNTY, INDIANA
July 1, 2013 to June 30, 2015



FILED
12/01/2017

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | Tamara Lewis | 07-01-13 to 06-30-18 |
| Superintendent of Schools | Dr. William A. Glentzer | 07-01-13 to 12-31-17 |
| President of the School Board | Justin Lollar Cathy Hamm Justin Lollar | 01-01-13 to 12-31-14 01-01-15 to 12-31-16 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 EDINBURGH COMMUNITY SCHOOL CORPORATION, JOHNSON COUNTY, INDIANA

This report is supplemental to our audit report of the Edinburgh Community School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describes the identified reportable instance of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

October 19, 2017

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001

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

Repeat Finding

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

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 receipts. There were several instances where one employee took daily collections, recorded receipts, and took the collections to the depository.
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 internal control system.

Context

The lack of internal controls was a systemic issue, occurring 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:

"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. . . ."

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 had not established a proper system of internal control over financial transactions and reporting as discussed in the Condition.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements or irregularities could have occurred and remained undetected.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the financial transactions and reporting as described above.

Views of Responsible Officials

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

FINDING 2015-002

Subject: Child Nutrition Cluster - Internal Controls

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 2014, 41-4215 FY 2015, FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Reporting, Special Tests and Provisions -
School Lunch Accounts, and Special Tests and Provisions - Paid Lunch
Equity

Audit Finding: Material Weakness

Repeat Finding

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

Condition

The School Corporation had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Reporting, Special Tests and Provisions - School Lunch Accounts, and Special Tests and Provisions - Paid Lunch Equity.

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cash Management

The School Corporation had not established adequate policies and procedures to ensure compliance with Cash Management requirements. There were no controls in place to ensure that the monthly balances (Net Cash Resources) were in compliance with the three months average expenditure requirements.

Eligibility

The School Corporation had not established adequate policies and procedures to ensure compliance with Eligibility requirements. There were no controls in place to ensure that the notice to parents and guardians for the determination of eligibility of children for free and reduced price meals included all of the required language. Additionally, documentation was not verifiable to insure that households were notified of their eligibility status after determination was performed by the School Corporation.

Reporting

The School Corporation had not established adequate policies and procedures to ensure compliance with Reporting requirements. There were no controls in place to ensure that the reports were accurate.

Special Tests and Provisions - School Lunch Accounts (National School Lunch Program only) and Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)

The School Corporation had not established adequate policies and procedures to ensure compliance with the Special Tests and Provisions - School Lunch Accounts and Special Tests and Provisions - Paid Lunch Equity requirements. For School Lunch Accounts, there were no procedures in place to ensure prepaid food accounts were properly posted to the ledger. For Paid Lunch Equity, there were no procedures in place to ensure that the calculations were accurate.

Context

Internal control issues were systemic, 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. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the requirements listed above.

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2015-003

Subject: Child Nutrition Cluster - Program Income

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 2014, 41-4215 FY 2015, FY 2015

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Qualified Opinion

Repeat Finding

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

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 Program Income compliance requirement.

Daily lunch prepayments were posted and reconciled to the students' prepaid food accounts. At the end of the month, the School Corporation generated a report of prepaid revenue collected and the value of the meals served and deducted from the student prepaid accounts. The net difference between the amount received and meals charged to the prepaid student accounts was recorded monthly to the School Lunch Prepaid Food fund. Due to the method of recordkeeping, the requirements for Program Income compliance requirement could not be verified for either year.

Context

The lack of controls was a systemic problem throughout the audit period. Records were not available to determine compliance with the compliance requirement for either year.

EDINBURGH COMMUNITY 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)(2) states:

"*Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Cause

The School Corporation had not developed a system of internal controls to verify that program income was recorded properly within the School Corporation's ledger.

Effect

The lack of recordkeeping and documentation available for audit prevented the determination of the School Corporation's compliance with the grant agreement and the Program Income compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the Program Income 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 2015-004

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
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 2014, 41-4215 FY 2015, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

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

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 Procurement and Suspension and Debarment compliance requirement.

The School Corporation requested quotes from vendors for the purchase of dairy and milk products. However, the School Corporation did not request quotes for meats, vegetables, and fruit. No contracts were signed with the successful vendors. Other than the dairy vendor, the School Corporation did not verify that the vendors were not suspended or debarred.

Context

The lack of controls and compliance with the Procurement and Suspension and Debarment compliance requirement as described in the Condition was a systemic problem 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. . . ."

7 CFR 3016.36(b) states in part:

"*Procurement standards:*

- (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . ."

Indiana Code 5-22-8-3 states in part:

"(a) This section applies only if the purchasing agent expects the purchase to be:

- (1) at least fifty thousand dollars (\$50,000); and
- (2) not more than one hundred fifty thousand dollars (\$150,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.

(c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes.

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line or class of supplies required. . . ."

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

The School Corporation had not developed a system of internal controls to ensure compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected, which 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 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.

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-005

Subject: Special Education Cluster (IDEA) - Cash Management and 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 Numbers): 14212-033-PN01, 14213-033-PN01,
14214-033-PN01, 14215-033-PN01,
99914-033-TA01, 45713-033-PN01,
45714-033-PN01, 45715-033-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting

Audit Finding: Material Weakness

Repeat Finding

This is not a repeat finding from the immediate prior audit period.

Condition

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the following compliance requirements: Cash Management and Reporting.

Context

The Treasurer prepared the cash reimbursement request from the financial ledger, reconciled the reports to the ledger, and retained those reports in the grant files; however, there was no segregation of duties relating to the cash reimbursement request for fiscal year 2014.

Additionally, the School Corporation did not have controls in place over reporting for the annual December 1 count of children with disabilities for the audit period to ensure that the count was accurate.

Criteria

OMB Circular A-133, Subpart C, section .300 states in par

"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 established a system of internal control that would have ensured oversight and review of the cash management requests and reporting.

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.

EDINBURGH COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

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



EDINBURGH COMMUNITY SCHOOL CORPORATION

202 South Keeley St.
Edinburgh, IN 46124

Phone: 812-526-2681

Fax: 812-526-0271

Board of School Trustees:

Mrs. Cathy Hamm
Mr. Guy Hardin
Mr. Justin Lollar
Mr. Curtis Rooks
Mrs. Kim Weddle

Dr. William A. Glentzer
Superintendent

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Tamara Lewis, Business Manager/Treasurer
Contact Phone Number: 812-526-2681

Description of Corrective Action Plan:

The School Corporation is a small governmental unit and shall use existing employees to ensure compliance with internal controls, including segregation of duties. The school will have receipts/deposits handled by two (2) central office staff to improve the internal control system.

FINDING 2015-002

Contact Person Responsible for Corrective Action: Tamara Lewis, Business Manager/Treasurer
Contact Phone Number: 812-526-2681

Description of Corrective Action Plan:

The School Corporation is a small governmental unit and shall use existing employees to ensure compliance requirements are followed in regards to establishing controls, including segregation of duties related to the compliance requirements. The school staff will implement internal controls including the review of reports by someone other than the preparer for compliance requirements for Cash Management, Eligibility, Reporting, Special Tests, and Provisions-School Lunch Accounts and Paid Lunch Equity.

FINDING 2015-003

Contact Person Responsible for Corrective Action: Tamara Lewis, Business Manager/Treasurer
Contact Phone Number: 812-526-2681

Description of Corrective Action Plan:

The School Corporation is a small governmental unit and shall use existing employees to ensure compliance requirements are followed in regards to establishing controls, including segregation of duties related to the compliance requirements. The school corporation will change it's method of recording prepaid accounts to a more transparent method.

FINDING 2015-004

Contact Person Responsible for Corrective Action: Tamara Lewis, Business Manager/Treasurer
Contact Phone Number: 812-526-2681

Description of Corrective Action Plan:

The School Corporation is a small governmental unit and shall use existing employees to ensure compliance requirements are followed in regards to establishing controls, including segregation of duties related to the compliance requirements. The school staff will review the procurement procedures and suspension and debarment requirement for vendors that meet the threshold.

FINDING 2015-005

Contact Person Responsible for Corrective Action: Angela Balsley, Director, Earlywood Educational Services

Tamara Lewis, Business Manager/Treasurer

Contact Phone Number: 812-526-2681

Description of Corrective Action Plan:

The School Corporation is a small governmental unit and shall use existing employees to ensure compliance requirements are followed in regards to establishing controls, including segregation of duties related to the compliance requirements. The school will have reports reviewed by two (2) staff members.

Anticipated Completion Date: October, 2017

EDINBURGH COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

STUDENT PREPAID LUNCH COLLECTIONS

Prepaid meal payments were receipted monthly into the School Lunch Prepaid Food fund; however, the total meal prepayments were netted with the total meal charges to the individual student accounts and the net difference was receipted to the School Lunch Prepaid Food fund. In most instances, the receipt amount for the net difference was a negative amount. All transactions recorded in the School Lunch Prepaid Food fund were posted to revenue. As of June 30, 2014, and June 30, 2015, respectively, the School Lunch Prepaid Food fund cash balance was \$13,551 and \$14,072, respectively. There was no evidence presented that officials balanced the School Lunch Prepaid Food fund cash balance with the total of the individual student meal accounts.

Fund 8400 - Prepaid Food is a trust account where monies are initially deposited on behalf of individual students. Monies are intended to remain in the trust account until they are spent on food purchases. Monies are to be transferred from Fund 8400 - Prepaid Food to Fund 800 - School Lunch to account for actual monies spent by students on food purchases.

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. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

EDINBURGH COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on October 19, 2017, with Dr. William A. Glentzer, Superintendent of Schools; Tamara Lewis, Treasurer; Carrie Brown, Deputy Treasurer; and Justin Lollar, President of the School Board.