

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SMITH-GREEN COMMUNITY SCHOOLS

WHITLEY COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
03/09/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jodi L. Royer Radee Boyle Jodi L. Royer	07-01-15 to 04-10-17 04-11-17 to 06-11-17 06-12-17 to 12-31-18
Superintendent of Schools	Galen D. Mast Daniel M. Hile	07-01-15 to 06-30-17 07-01-17 to 06-30-20
President of the School Board	Luther A. Gross Dean A. Geiger	07-01-15 to 12-31-16 01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SMITH-GREEN COMMUNITY SCHOOLS, WHITLEY COUNTY, INDIANA

This report is supplemental to our audit report of the Smith-Green Community Schools (School Corporation), for the period from July 1, 2015 to June 30, 2017. 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

February 19, 2018

SMITH-GREEN COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2017-001

Subject: Title I Grants to Local Educational Agencies - Allowable Costs/Cost Principles
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): 15-8625, 16-8625, 17-8625
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

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 Allowable Costs/Cost Principles compliance requirement.

Semi-Annual Certifications were maintained; however, the Semi-Annual Certifications were not signed by an employee or someone in a supervisory role as required.

Context

Internal control issues were systemic, occurring throughout the audit period, and enabled noncompliance with Allowable Costs/Cost Principles requirements.

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB A-87 Attachment B, section 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."

SMITH-GREEN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.430(i) states in part:

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

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

2 CFR 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed . . ."

Title I Fiscal Handbook 2015-2016, Basic Title I, Part A and D states in part: "Title I funded staff paid solely from Title I funds complete a Semi-Annual Certification twice a year. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions to ensure that Semi-Annual Certifications were signed by supervisors for all employees.

Effect

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

SMITH-GREEN COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2017-002

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 15-16, FY 16-17
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Reporting, Special Tests and Provisions - Verification of
Free and Reduced Price Applications (NSLP)
Audit Finding: Material Weakness

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 following compliance requirements: Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP).

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the School Food Authority (SFA) Verification Collection Reports were accurate prior to submission. One person prepared and submitted the reports. There was no segregation of duties, such as an oversight, review, or approval process.

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

There was no documentation of an oversight or review process over the School Corporation's performance of verifications of the free and reduced price eligibility of households selected from a sample of applications that were approved for free and reduced price meals.

Context

Internal control issues were systemic, occurring throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

SMITH-GREEN COMMUNITY SCHOOLS
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. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

CORRECTIVE ACTION PLAN

FINDING 2017-001 – Title I Grants to Local Educational Agencies – Allowable Costs/Cost Principles

Contact Person Responsible for Corrective Action: Jodi Royer
Contact Phone Number: (260) 693-2007

Views of Responsible Official: Smith-Green Community Schools agrees with the finding.

Description of Corrective Action Plan: During the audit period semi-annual certifications were prepared; however, were not reviewed and signed by a secondary person in a supervisory role. All semi-annual certifications will be reviewed and signed by the responsible supervisor going forward.

Anticipated Completion Date: February 19, 2018

FINDING 2017-002 – Child Nutrition Cluster – Internal Controls

Contact Person Responsible for Corrective Action: Jodi Royer
Contact Phone Number: (260) 693-2007

Views of Responsible Official: Smith-Green Community Schools agrees with the finding.

Description of Corrective Action Plan: The Food Service Manager will perform the Verification of Free and Reduced Price Applications, and will prepare the annual Verification Report. The Business Manager or Assistant to the Food Service Manager will review the verification process and results, as well as the Verification Report, and provide a signature as proof.

Anticipated Completion Date: February 19, 2018

Jodi Rong
(Signature)
Business Manager
(Title)
2/9/18
(Date)

"The mission of Smith-Green Community Schools is to provide a superior educational experience that ensures success for every student through excellence in teaching and learning."

Board of School Trustees: Mr. Dean Geiger • Mr. Luke Gross • Mr. Jeremy Hart • Mrs. Cathy Petrie • Mr. Nick Uecker
Superintendent: Mr. Daniel Hile

SMITH-GREEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at June 30, 2017, that were not related to a reimbursable grant fund.

Fund	Amount Overdrawn
Retirement/Severance Bond Debt Service	\$ 10,965
Construction	3,000

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

ADOPTION OF INTERNAL CONTROL STANDARDS

The School Corporation did not ensure that after June 30, 2016, the minimum level of internal control standards had been adopted and required personnel had received training on these standards. Each political subdivision must adopt these standards, train appropriate personnel, and implement policies and procedures consistent with the standards.

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

Smith-Green Community Schools

Superior Schools ... In a Supportive Community

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Indiana State Board of Accounts
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Room E 418
Indianapolis, IN 46204-2765

Official Response

To Whom It May Concern:

This letter serves as our official response for audit period July 1, 2015 through June 30, 2017.

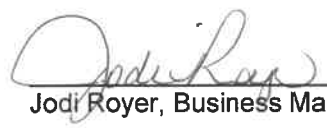
Audit Results and Comments Section:

1. **Overdrawn Cash Balances** - There were two funds with negative cash balances that are not considered reimbursable funds. The two funds were Fund 0250 (Pension Debt) and Fund 0700 (Construction). Fund 0250 had a negative balance of \$10,965 because the last bond payment was made in January, 2017; however, as is customary, property taxes were not fully received until December, 2017. Fund 0700 shows a negative cash balance of \$3,000 because construction invoices were paid by Smith-Green Schools and reimbursement from bond money held at US Bank had not been received prior to the end of the audit period.
2. **Adoption of Internal Control Standards** - Smith-Green Community Schools failed to follow IC 5-11-1-27. Smith-Green administrators will ensure that internal control standards be adopted by the School Board of Trustees and that all required personnel receive training.

Federal Award Findings Section:

1. **Finding 2017-001** - Subject: Title I Finding: Material Weakness, Other Matters. Please refer to the Corrective Action Plan, which is part of the Audit Report.
2. **Finding 2017-002** - Subject: Child Nutrition Cluster Finding: Material Weakness. Please refer to the Corrective Action Plan, which is part of the Audit Report.


Daniel Hile, Superintendent


Jodi Royer, Business Manager

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Superintendent: Mr. Daniel Hile

SMITH-GREEN COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2018, with Jodi L. Royer, Treasurer; Daniel M. Hile, Superintendent of Schools; and Cathy L. Petrie, School Board member.