

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FRANKLIN COMMUNITY SCHOOL CORPORATION

JOHNSON COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
03/22/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Finding: Finding 2016-001 Child Nutrition Cluster - Program Income	4-5
Corrective Action Plan.....	6-7
Audit Result and Comment: Internal Controls over Bank Reconcilements	8
Exit Conference	9

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jeffery R. Mercer	07-01-14 to 12-31-18
Superintendent of Schools	Dr. David Clendening	07-01-14 to 06-30-19
President of the School Board	Darren G. Thompson William A. Maschmeyer Bryan D. Wertz Kristi Ott Danny Vaught	07-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



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TO: THE OFFICIALS OF THE FRANKLIN COMMUNITY SCHOOL
CORPORATION, JOHNSON COUNTY, INDIANA

This report is supplemental to our audit report of the Franklin Community School Corporation (School Corporation), for the period from July 1, 2014 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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 Finding, identified in the above referenced audit report, is 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 Finding, incorporated within this report, was not verified for accuracy.

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

February 27, 2018

FRANKLIN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDING

FINDING 2016-001

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): FY14-15, FY15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior finding number was 2014-005.

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. The School Corporation had not established a separate fund to account for prepaid amounts until December 2015. All monthly receipts from sales, as well as prepayments, for school year 2014-2015, were recorded directly in the School Lunch fund. The inability to distinguish prepaid amounts prevented the ability to test the School Corporation's compliance with the Program Income compliance requirement for school year 2014-2015. During the school year 2015-2016, the School Corporation implemented effective policies and procedures and established the Prepaid Food - Food Service fund to account for prepayments.

Context

The lack of controls was a systemic issue in school year 2014-2015 and until December 2015, of the school year 2015-2016, which prevented the determination of compliance with Program Income requirements for that 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 210.14(c) states:

"*Financial assurances.* The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

FRANKLIN COMMUNITY SCHOOL CORPORATION
FEDERAL FINDING
(Continued)

7 CFR 220.13(i) states in part:

"Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the Program Income requirements for the first school year of the audit period.

Effect

The failure to establish effective internal controls, which would have ensured that documentation was maintained and available for audit, prevented the determination of the School Corporation's compliance with the grant agreement and the Program Income compliance requirement for school years 2014-2015 and 2015-2016.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management maintain the internal control system implemented in December 2015 over 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.

CORRECTIVE ACTION PLAN

FINDING

Contact Person Responsible for Corrective Action:
Contact Phone Number:

2016-001
Jeffrey R. Mercer
(317) 738-5800

Views of Responsible Official:

While we concur with the original finding (2014-005), the timing of that corrective action made it impossible for us to correct the finding in the 2016 audit period. The requisite adjustments were made following our 2014 Audit and remain in place today.

Description of Corrective Action Plan:

Following our 2014 Audit Findings the following corrective actions were put in place and remain so today:

- ✓ On August 1, 2015, a report of current customer account balances was run for all student and adult accounts by school building. The total dollar amount for each building was transferred into newly created meal prepayment accounts established for each school.
- ✓ In addition, beginning August 1, 2015 all meal pre-payments are being posted and receipted into the separate clearing accounts for each school building.
- ✓ On a weekly basis, as the sales of meals are made, the amount of money equal to the dollars expended for meals and ala carte purchases are transferred from the "holding/clearing" account into the Food Service revenue accounts for each school.
- ✓ A new deposit worksheet has been developed and implemented to ensure that all sales are accurately receipted as recorded on the Meal Magic sales reports (the Z and Cash - Out reports). The sales reports are run by the individual school building cafeteria manager who then prepares the deposit worksheet and bank deposit slip. After the manager takes the deposit for the day to the bank, the deposit slip and worksheet are sent to the Food Service office. The worksheet is checked for accuracy by one of the FS office staff. This individual initials the worksheet. The deposit information is then entered/posted to the appropriate building revenue account in our financial program (Komputrol) by another FS office staff person. Another Meal Magic financial activity report is run for each building and compared to the receipt posting report as an additional check for accuracy. The receipts are then given to the Deputy Treasurer for review.

Anticipated Completion Date: February 27, 2018



(Signature)

Director of Finance

(Title)

2/27/18

(Date)

FRANKLIN COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

INTERNAL CONTROLS OVER BANK RECONCILEMENTS

Bank reconcilements were performed monthly by the Assistant Deputy Treasurer and reviewed/approved by the Deputy Treasurer. This process was not documented, nor could it be verified during our audit period.

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. . . ."

FRANKLIN COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2018, with Danny Vaught, President of the School Board; Dr. David Clendening, Superintendent of Schools; and Jeffery R. Mercer, Treasurer.