

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
SOUTH SPENCER COUNTY SCHOOL CORPORATION
SPENCER COUNTY, INDIANA
July 1, 2015 to June 30, 2017



FILED
04/10/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melissa S. Davis	07-01-15 to 12-31-18
Superintendent of Schools	Mike Robinson Richard Rutherford	07-01-15 to 06-30-16 07-01-16 to 06-30-18
President of the School Board	Steve Haaff Matt Bunner Scott Richard Matt Bunner	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



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 SOUTH SPENCER COUNTY SCHOOL CORPORATION, SPENCER COUNTY, INDIANA

This report is supplemental to our audit report of the South Spencer County School Corporation (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 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

March 22, 2018

SOUTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

Subject: School Breakfast Program and National School Lunch Program - Cash Management and School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children - Reporting

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): FY 15/16, FY 16/17

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting

Audit Finding: Material Weakness

Repeat Finding

This is a repeat of finding from the immediate prior audit. The prior audit finding was 2015-002.

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: Cash Management and Reporting.

Cash Management (School Breakfast Program and National School Program)

An effective internal control system was not in place to ensure that the balance in the School Lunch fund, which is the net cash resources, did not exceed the three months average expenditures.

Reporting (School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children)

An effective internal control system was not in place to ensure that the monthly Sponsor Claims (claims for reimbursement), Annual Financial Reports, and School Food Authority (SFA) Verification Collection Reports were accurately prepared and submitted. There was no segregation of duties, such as an oversight, review, or approval process.

Context

This was a systemic problem within the School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children. Controls did not exist over the compliance requirements listed above during 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. . . ."

SOUTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

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 Corporations' 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 2017-002

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
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): FY 15/16, FY 16/17
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

SOUTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is a repeat of finding from the immediate prior audit. The prior audit finding was 2015-003.

Condition

An effective internal control system was not in place to ensure that contracts were entered into with the successful bidders and that suspension and debarment verifications were completed.

During the audit period, the School Corporation did verify that 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 the vendors, but did not verify that vendors under other covered transactions were not suspended or debarred.

Context

This was a systemic problem throughout the audit period. There was no evidence that the School Corporation verified that vendors, except those they entered into contracts for, were not suspended and debarred prior to entering into a covered transaction.

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). . . ."

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."

SOUTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Procurement and Suspension and Debarment requirements.

Effect

The failure to establish an effective system of internal controls enabled material noncompliance to go undetected. Noncompliance with the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no question costs identified.

Recommendation

We recommended that the School Corporation comply with the Procurement and Suspension and Debarment requirements.

Views of Responsible Officials

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

Richard Rutherford - Superintendent
richard.rutherford@sspencer.k12.in.us

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Richard Rutherford
Contact Phone Number: 812-649-2591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Going forward the Food Service Director will provide the Corporation Treasurer with monthly meals served reports for each school. The Corporation Treasurer will ensure that the numbers submitted for claims reimbursement and the actual amount received from the Indiana Department of Education are accurate. As of March 9, 2018, all claim reports for the 2017/18 school year have been reviewed and are maintained in the corporation office.

Review of the Annual Financial Report prior to submission will be conducted by the Corporation Treasurer. The balance of the School Lunch fund will be done by the Corporation Treasurer to ensure that it does not exceed a three month average of expenditures.

The Corporation Treasurer will ask to see the School Food Authority Verification Collection Reports for review of appropriate documentation and signatures as part of the end of the month procedures in October, November and December.

Anticipated Completion Date: Immediately

FINDING 2017-002

Contact Person Responsible for Corrective Action: Richard Rutherford
Contact Phone Number: 812-649-2591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Food Service Director has verified vendors with a contractual agreement for the current 2017/18 school year and will retain proof either by collecting a certification from that vendor or person; or by keeping a copy of the result found on the SAM Exclusions website.

Effective July 1, 2018, the 2018/19 school year, the Cafeteria Fund will be maintained by the corporation office. All vendors will be verified prior to utilization by either the Food Service Director or the Corporation Treasurer. No payment will be made without documentation of exclusion. Verification will be kept at the corporation office.

Anticipated Completion Date: Immediately


(Signature)


(Title)


(Date)

SOUTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

SCHOOL LUNCH ACCOUNT

Each school within the School Corporation employs a Cafeteria Manager. The Cafeteria Manager at each school is responsible for receipting the collections from the cafeterias, preparing the deposit ticket, and making the deposit to the bank. Each Cafeteria Manager submits the deposit tickets from their respective school to the Food Services Director, who maintains exclusive control over the accounting of the School Lunch collections and disbursements in a separate Extracurricular Account (ECA).

The Food Services Director is also responsible for recording the receipts in the ECA ledger, issuing checks to vendors, and reconciling the bank account balance to the ledger balance. Neither the School Lunch Extracurricular Account Ledger nor the bank reconciliations were reviewed or approved to ensure that they were complete and accurate.

A Schedule of Receipts, Disbursements, and Balances, was prepared by the Food Service Director based on bank statement transactions, without taking into account in-transit items. This schedule was used by the School Corporation Treasurer to report the School Lunch fund on the Indiana Department of Education biennial form 9 which is used to generate the Financial Statement.

The following errors were detected during review of the school lunch account bank and School Lunch ECA Ledger:

1. Checks were not recorded in the ledger for the proper amounts or for the proper check number.
2. Checks were written out of sequence.
3. Adjustments to the ECA ledger were made without supporting documentation.
4. Mathematical errors were made when calculating monthly and year to date totals.
5. Deposit entries contained dates after the end of the fiscal year and/or incorrect dates. Some examples of incorrect dates noted in the records were 11/06/2051, 09/27/2116, and 10/25/2278. There were nine such entries in the fiscal year 2016 ledgers and the same nine entries plus an additional six entries appeared in the fiscal year 2017 ledgers.
6. The beginning balance for fiscal year 2017 was \$5,289 greater than the ending balance for fiscal year 2016.
7. Beginning balances, receipts, disbursements, and ending balances in the ECA Ledger did not agree with the amounts compiled by the Food Service Director for inclusion in the financial statements. The amounts compiled by the Food Service Director were verified during the audit and were materially correct.

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)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SOUTH SPENCER COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 22, 2018, with Melissa S. Davis, Treasurer; Richard Rutherford, Superintendent of Schools; Scott Richard, School Board member; and Barbara L. Tuley, School Board member.