

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

PRAIRIE HEIGHTS COMMUNITY
SCHOOL CORPORATION
LAGRANGE COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
04/12/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Karen S. Eagleson	07-01-14 to 06-30-18
Superintendent of Schools	Jeff Reed	07-01-14 to 06-30-18
President of the School Board	Robert Ledgerwood	07-01-14 to 12-31-18



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TO: THE OFFICIALS OF THE PRAIRIE HEIGHTS COMMUNITY SCHOOL
CORPORATION, LAGRANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Prairie Heights 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 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.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

February 27, 2018

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

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

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

Context

The SEFA contained the following errors:

1. The Special Education Cluster (IDEA) was omitted. This resulted in an understatement of federal expenditures of \$336,888 for fiscal year 2014-2015 and \$318,769 for fiscal year 2015-2016.
2. The Title I Grants to Local Educational Agencies federal expenditures were understated by \$180,493 for fiscal year 2015-2016.
3. The Child Nutrition Cluster federal expenditures, including commodities, were understated by \$50,709 for fiscal year 2014-2015 and \$49,463 for fiscal year 2015-2016.
4. The Rural Education federal expenditures were omitted. This resulted in an understatement of federal expenditures of \$27,283 for fiscal year 2014-2015 and \$56,409 for fiscal year 2015-2016.

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

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. . . ."

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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*.

Recommendation

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

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2016-002

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): 14213-046-PN01, 14214-046-PN01,
14215-046-PN01, 99914-046-TA01,
14216-046-PN01, 45715-046-PN01,
45716-044-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the Northeast Indiana Special Education Cooperative (Cooperative). The grant agreements for the federal programs were between the Indiana Department of Education (IDOE) and each member school corporation of the Cooperative. The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide Special Education services to those in need. The Cooperative designated a Fiscal Agent, who was responsible for the accounting records of the Cooperative. The Fiscal Agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations and was responsible for following the compliance requirements related to Allowable Costs/Cost Principles compliance requirement.

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. Because the grant agreements were between the IDOE and each member of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements. The Fiscal Agent had not implemented adequate controls to ensure that Semi-Annual Certifications or other documentation of personnel expenses prepared were properly signed by the Special Education Director.

Context

The Semi-Annual Certifications were not all properly signed by the Special Education Director.

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. . . ."

PRAIRIE HEIGHTS COMMUNITY 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). . . ."

OMB Circular A-87, Attachment B, section 8h(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."

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. . . ."

Cause

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation in noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system allowed noncompliance with the compliance requirement and could have allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, review, and approvals over the activities of the programs.

PRAIRIE HEIGHTS 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 Allowable Costs/Cost Principles compliance requirement. We also recommended that the School Corporation monitor and have proper oversight of the Cooperative.

Views of Responsible Officials

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



Prairie Heights Community School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Karen Eagleson
Contact Phone Number: 260-351-2067

Views of Responsible Official: The School Corporation will incorporate additional internal controls in the preparation of the SEFA to ensure accurate reporting of federal awards.

Description of Corrective Action Plan: The errors on the SEFA presented for audit will be corrected as follows:

1. The Child Nutrition Cluster expenditures, including commodities, were understated. The CFO has obtained the location on the IDOE School and Nutrition website and will include these amounts on the annual report.
2. The Special Education Cluster expenditures were omitted. The school district will contact DeKalb County Eastern, the LEA for the Co-op, to obtain the amounts and will include these amounts on the annual report.
3. The Rural Education expenditures were omitted. The Business Manager will review grants and will include these amounts on the annual report.
4. Title I expenditures were understated. The Business Manager will review grants and will include these amounts on the annual report.

Anticipated Completion Date: The School Corporation has implemented the actions noted above to ensure accurate reporting of federal awards on future Schedule of Expenditures of Federal Awards (SEFA).

FINDING 2016-002

Contact Person Responsible for Corrective Action: Karen Eagleson
Contact Phone Number: 260-351-2067

Views of Responsible Official: The School Corporation has been made aware that the LEA of NEISEC has a corrective action plan.

Description of Corrective Action Plan: A copy of the Corrective Action Plan from DeKalb County Eastern, the LEA for the NEISEC, states "Payroll records for each individual employee show funding allocation from IDEA part B grant and IDEA Preschool grant. NEISEC Director will print and sign all Semi-Annual Certifications semi-annually."

Anticipated Completion Date: The LEA states the plan is in place and ongoing.

Karen S. Eagleson
(Signature)

CFD
(Title)

2-6-2018
(Date)

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 27, 2018, with Karen S. Eagleson, Treasurer; Jeff Reed, Superintendent of Schools; and Robert Ledgerwood, President of the School Board.