

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH KNOX SCHOOL CORPORATION

KNOX COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED

04/30/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Terri Roesler	07-01-14 to 06-30-18
Superintendent of Schools	Dr. Darrel L. Bobe	07-01-14 to 06-30-18
President of the School Board	Elaine Pepmeier	07-01-14 to 12-31-18



STATE OF INDIANA
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TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

This report is supplemental to our audit report of the North Knox 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

April 9, 2018

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

Subject: Child Nutrition Cluster - Reporting and Special Tests and Provisions -
Verification of Free and Reduced Price Applications (NSLP)
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 14-15, FY 15-16
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 Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

There was no segregation of duties, such as an oversight, review, or approval process or other compensating control over the verifications performed or the preparation of the School Food Authority (SFA) Verification Collections Reports that were filed. The School Lunch Director was in charge of all duties related to verification and reporting.

Context

The lack of controls was a systemic issue, which occurred 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. . . ."

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). . . ."

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management of the School Corporation had not developed a system of internal controls, including segregation of duties, that would have ensured that the School Corporation complied with the compliance requirements listed above.

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.

FINDING 2016-002

Subject: Child Nutrition Cluster - Equipment and Real Property Management
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 14-15, FY 15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Equipment and Real Property Management
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 Equipment and Real Property Management compliance requirement.

The School Corporation did not have controls in place to ensure that assets purchased for the food service programs were properly inventoried and included in the capital assets records of the School Corporation.

Context

The lack of controls and noncompliance were systemic problems throughout the audit period.

NORTH KNOX 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. . . ."

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). . . ."

7 CFR 3016.32(d) states in part:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. . . ."

2 CFR 200.313(d) states in part:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated. . . ."

Cause

Management of the School Corporation had not established an effective internal control system that would have ensured that the requirements related to the Equipment and Real Property Management compliance requirement were being met.

Effect

The failure to establish internal controls enabled noncompliance to go undetected. The failure to comply with the grant agreement and the compliance requirement 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 to ensure compliance and comply with the Equipment and Real Property Management 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 2016-003

Subject: Title I Grants to Local Educational Agencies - Special
Tests and Provisions - Assessment System Security

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): S010A120014, S010A140014,
S010A150014

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Assessment System Security

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 Special Tests and Provisions - Assessment System Security compliance requirement.

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

An effective internal control system was not in place to ensure that a written test security policy, describing the School Corporation's policies and procedures for ensuring the security of assessment testing, was developed and implemented.

The School Corporation had a written test security policy that detailed who was responsible for each area of assessment test security and integrity. However, it did not provide a description of the procedures or plan that were in place to meet the assessment system security requirements.

Context

This was a systemic issue 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. . . ."

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

Indiana Assessment Program Manual, Chapter 10, Section 9, Part D states in part:

"Locally developed written Test Security Policies should include, but not be limited to, the following:

A description of the entity's procedures/plan . . ."

Cause

Management of the School Corporation had not established an effective internal control system that would have ensured that the requirements over the Special Tests and Provisions - Assessment System Security were met.

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish internal controls enabled noncompliance to go undetected. The failure to comply with the grant agreement and the compliance requirement 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 to ensure compliance with the Special Tests and Provisions - Assessment System Security compliance requirement.

Views of Responsible Officials

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

NORTH KNOX SCHOOL CORPORATION

Board of School Trustees

Elaine Pepmeier
President

V. Max Nickless
Vice-President

James E. Franklin
Secretary

Jarrod M. Chattin
Member

L. Vaughn Huey
Member

Dr. Darrel L. Bobe
Superintendent

Terri L. Roesler
Business Manager / Treasurer

Debbie Utt
Payroll/Personnel

Allyson Bowers
Secretary / Transportation Director

Ethan Singleton
Technology Coordinator

Kevin Curtis
Director of Buildings & Grounds

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action:

The Food Services Supervisor verifies the NKSC Free and Reduced Price Applications (NSLP). New procedures have been put into place whereby the Food Service Director reviews and initials a percentage of the Free and Reduced Price Applications each year. The Building Principal or Corporation Treasurer will review the verifications and sign/initial all School Food Authority (SFA) Verification Collections Reports prior to their submission.

Anticipated Completion Date:

Effective immediately.

FINDING 2016-002

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action:

An inventory list of food service equipment was developed by the Corporation Treasurer and will be updated as new equipment is purchased. The Food Service Supervisor also maintains an inventory list for each kitchen. In addition, the Corporation Treasurer and Food Service Supervisor will review inventory sheets once a year to check for accuracy.

Anticipated Completion Date:

The Corporation Treasurer developed a Capital Asset list March 2018 of food service equipment. As additional equipment is purchased, those items will be included on the inventory list.

FINDING 2016-003

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Views of Responsible Official:


We concur with the finding.

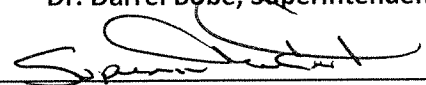
Description of Corrective Action:

The Curriculum Director will develop procedural guidelines to ensure the security of assessment testing. These procedures will be in addition to the existing Neola policy.

Anticipated Completion Date:


The Curriculum Director plans to have procedural guidelines development prior to the end of the 2017-18 school year. Once she has completed the guidelines, they will be presented to the Board of School Trustees for approval. The plan is to have the procedures in place prior to the start of the 2018-19 school year.



 Dr. Darrel Bobe, Superintendent


 Title
 3/30/18

 Date



 Terri Roesler, Treasurer
 Business Mgt/Treasurer

 Title
 3/29/18

 Date

NORTH KNOX SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2018, with Terri Roesler, Treasurer; Dr. Darrel L. Bobe, Superintendent of Schools; and Elaine Pepmeier, President of the School Board.