

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
JAY COUNTY SCHOOL CORPORATION
JAY COUNTY, INDIANA
July 1, 2014 to June 30, 2016



FILED
05/18/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2016-001	
Preparation of the Schedule of Expenditures of Federal Awards	4-6
Finding 2016-002	
Special Education - Grants to States - Suspension and Debarment.....	6-8
Corrective Action Plan.....	9-11
Exit Conference.....	12

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Business Manager/Treasurer	Bradley T. DeRome	07-01-14 to 07-25-16
	Violet Current (interim)	07-26-16 to 10-30-16
	Bradley T. DeRome	10-31-16 to 06-30-18
Superintendent of Schools	Dr. Timothy D. Long	07-01-14 to 07-25-16
	Bradley T. DeRome (interim)	07-26-16 to 10-30-16
	Jeremy Gulley	10-31-16 to 06-30-18
President of the School Board	Michael A. Masters	07-01-14 to 12-31-15
	Kristi Betts	01-01-16 to 12-31-17
	Phil Ford	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 JAY COUNTY SCHOOL CORPORATION, JAY COUNTY, INDIANA

This report is supplemental to our audit report of the Jay County 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 19, 2018

JAY COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

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

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-001.

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). Although the School Corporation had procedures in place to provide for a review and approval of information reported on the SEFA, the controls were not effective.

Context

The following grants were incorrectly reported on the SEFA:

1. The Child Nutrition Cluster - School Breakfast Program (CFDA #10.553) was reported as part of the National School Lunch Program (CFDA #10.555), which resulted in an understatement in the amount of \$135,858 and \$202,745 for fiscal year 2015 and fiscal year 2016, respectively.
2. The Child Nutrition Cluster - National School Lunch Program (CFDA #10.555) included the School Breakfast Program (CFDA #10.533) and the Summer Food Service Program (CFDA #10.559). This resulted in a total overstatement in the amount of \$176,912 and \$743,457 for fiscal year 2015 and fiscal year 2016, respectively.
3. The Child Nutrition Cluster - National School Lunch Program (CFDA #10.555) commodities were reported incorrectly as passed through to subrecipients, which resulted in an overstatement of \$109,790 and \$105,929 for fiscal year 2015 and fiscal year 2016, respectively.
4. The Child Nutrition Cluster - National School Lunch Program (CFDA #10.555) Catalog of Federal Domestic Assistance Number (CFDA #) was incorrectly reported as CFDA #10.553.
5. The Child Nutrition Cluster - Summer Food Service Program for Children (CFDA #10.559) was reported as part of the National School Lunch Program (CFDA #10.555), which resulted in an understatement in the amount of \$41,880 and \$47,704 for fiscal year 2015 and fiscal year 2016, respectively.
6. The Child Nutrition Discretionary Grants Limited Availability (CFDA #10.579) was not reported in the amount of \$13,000 for fiscal year 2016.
7. The English Language State Grants (CFDA #84.365) was incorrectly reported as passed through to subrecipients and was overstated by \$8,946 for fiscal year 2015.
8. The Rural Education (CFDA #84.358) Catalog of Federal Domestic Assistance Number (CFDA #) was incorrectly reported as CFDA #84.359.
9. Multiple program titles were not reported correctly.

JAY COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . ."

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.

JAY COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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* section above.

Recommendation

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

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 - Grants to States - Suspension and Debarment

Federal Agency: Department of Education

Federal Program: Special Education - Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-031-PN01, 14214-031-PN01,
14215-031-PN01, 14216-029-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

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 Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

The School Corporation did not perform any procedures to ensure compliance with requirements regarding verification that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

This was a systemic issue, which occurred throughout the audit period. No verification procedures were performed for any of the contracted vendors paid from the grants.

JAY COUNTY 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). . . ."

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:

1. Checking SAM Exclusions; or
2. Collecting a certification from that person; or
3. Adding a clause or condition to the covered transaction with that person."

Cause

The School Corporation had not designed or implemented internal control procedures to ensure compliance with the Suspension and Debarment compliance requirement.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected, which 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, including segregation of duties, related to the grant agreement and the compliance requirement listed above.

JAY COUNTY 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.

The Jay School Corporation
1976 W. Tyson Road - P.O. Box 1239 - Portland, IN 47371
Phone: 260-726-9341 Fax: 260-726-4959

Date: April 17, 2018

To: State Board of Accounts

Corrective Action Plan

Finding 2016-001 – Internal Controls over the preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Brad DeRome, Business Manager / Treasurer

Contact Phone Number : 260-726-9341

Subject: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Audit Finding: Material Weakness, Non Compliance - Repeat Finding

Description of Corrective Action Plan

Each year a list of all federal awards will be compiled with the assistance of the Deputy Treasurer, Special Ed Director, Food Service Director, Superintendent, and the Title 1 Coordinator.

The Business Manager will prepare the Schedule of Expenditures for Federal Awards with the assistance of the Deputy Treasurer as required at the end of each fiscal year. The Deputy Treasurer will be provided with the list of all federal awards for the fiscal year and will review all of the documentation supporting the Schedule's content for accuracy and completeness prior to the Schedule's submission. The data from the Federal Awards, such as Federal Lunch funds, will be broken out in the various sub section components of lunch funds for data entry and uploaded into the Gateway system, rather than loaded as "total" Federal Lunch funds.

At present time, this required Schedule of Expenditures of Federal Awards is a " Gateway " on line report through the State of Indiana web portal. The Business Manager will seek the instructions, requirements, and deadlines for this on – line report process.

The goal is to have the reports compiled on a timely basis and entered into the Gateway System with accuracy for no audit findings or comments.

The State of Indiana DLGF, and State Board of Accounts should also share in the goal of improving the communication of the required timely instructions for the preparation, entry, and compilation of the said reports included in this action plan during the upcoming new audit period.

With the actual State Board of Accounts on site audit and field work completed 3 years after the last audit, this puts the client entity behind in terms of correcting any errors that may have been discovered with the present audit. The example is that the SEFA has now been uploaded into the Gateway System for subsequent time periods after this current audit is complete. This makes the error correction and compliance very difficult from a practical standpoint.

Anticipated Completion Date: June 1, 2018

Bradley T DeRome

Bradley T. DeRome, Business Manager / Treasurer

Date 4-19-2018

Corrective Action Plan

Finding 2016-002 – Federal Award Findings / Questioned Costs –Compliance Requirements (Special Education Federal Program)

Contact Person Responsible for Corrective Action: Brad DeRome, Business Manager / Treasurer

Contact Phone Number : 260-726-9341

Subject: Suspension and Debarment- Vendors paid from Special Ed Federal Program

Audit Finding: Material Weakness

Description of Corrective Action Plan

Each year as new Special Ed vendors or current Special Ed vendors whom are expected to be paid through the Special Ed Federal Program funds, will be fully reviewed, vetted, and examined for proper licensing, suspension, and debarment history before entering into a new contract.

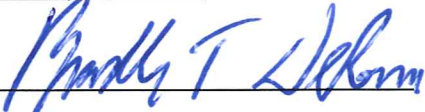
The Business Manager with the assistance of the Special Ed Director will review the current and or prospective Special Ed contract vendors for compliance before we enter into a new contract.

The goal is to provide internal control assurance that these specific vendors were not suspended or debarred from participation in federal programs before entering into a contract.

The corrective action plan will include that before we enter into a covered transaction from described Special Ed vendor that we will verify that the person with whom we intend to do business is not excluded or disqualified. The compliance check is completed by checking the current SAM Exclusions, collecting a certification from that person, or adding a clause to the covered transaction contract with that person.

With the actual State Board of Accounts on site audit and field work completed 3 years after the last audit, this puts the client entity behind in terms of correcting any errors that may have been discovered with the present audit. The example is that we will review current Special Ed vendors in these federal programs for compliance with these specific items for suspension and debarment. Since almost 2 years have now elapsed since the current audit period, this makes the error correction and compliance very difficult from a practical standpoint.

Anticipated Completion Date: June 1, 2018

_____ 

Bradley T. DeRome, Business Manager / Treasurer

Date _____ 

JAY COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 19, 2018, with Bradley T. DeRome, Business Manager/Treasurer; Violet Current, Deputy Treasurer; Jeremy Gulley, Superintendent of Schools; and Kristi Betts, Vice President of the School Board.