

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHELBYVILLE CENTRAL SCHOOLS

SHELBY COUNTY, INDIANA

July 1, 2015 to June 30, 2017



**FILED**  
05/23/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nathaniel Day (Vacant) Salli S. Rooks (interim)	07-01-15 to 03-23-18 03-24-18 to 03-25-18 03-26-18 to 06-30-18
Superintendent of Schools	David A. Adams	07-01-15 to 06-30-18
President of the School Board	David Finkel Gayle Wiley David Finkel Mike Warble	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

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TO: THE OFFICIALS OF THE SHELBYVILLE CENTRAL SCHOOLS, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the Shelbyville Central Schools (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/](http://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 Results and Comments 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 Results and Comments contained herein describe the identified reportable instances 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, incorporated within this report, was not verified for accuracy.

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

May 8, 2018

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS

***FINDING 2017-001***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of Finding 2015-001 from the immediately prior audit.

*Condition*

There were deficiencies in the internal control system of the School Corporation related to Financial Transactions and Reporting. The School Corporation had not separated incompatible activities related to Cash and Investments and Receipts.

*Cash and Investments*

The Treasurer was responsible for performing the monthly bank reconciliation. There was no documentation of a control in place to prevent, or detect and correct, errors.

*Receipts*

The Treasurer wrote receipts, posted receipts, took deposits to the bank, had access to the system to make adjustments, approved adjustments, and reconciled the bank accounts without a proper system of oversight, review, or approval.

*Context*

The lack of internal controls was systemic, occurring throughout the audit period.

*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. . . ."

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the School Corporation had not established a proper system of internal control.

*Effect*

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the Financial Transactions and Reporting.

*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: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2015-002 from the immediately prior audit.

*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). The Treasurer was the person solely responsible for preparing and submitting the SEFA. There was no segregation of duties documented, such as an oversight, review, approval process, or other compensating control.

*Context*

The lack of controls was a systemic problem throughout the audit period. The SEFA contained the following errors:

1. The Child Nutrition Cluster was understated by \$2,236,512.
2. The Child and Adult Care Food Program was understated by \$192,476.
3. The Supporting Effective Instruction State Grants program was overstated by \$11,553.
4. The English Language Acquisition State Grants program was understated by \$16,546.
5. All program names were incorrect and the CFDA numbers were omitted.

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

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

*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 that the School Corporation's management establish controls, including segregation of duties, related to the preparation of 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 2017-003**

Subject: Title I Grants to Local Educational Agencies - Internal Controls

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): 15-7365, 16-7365,

17-7365 Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Special Tests and Provisions - Comparability

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of Finding 2015-003 from the immediately prior audit.

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Cash Management and Special Tests and Provisions - Comparability compliance requirements.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Cash Management*

The School Corporation had one employee primarily responsible for monitoring that program costs were paid by the entity prior to requesting reimbursement. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.

*Special Tests and Provisions - Comparability*

The School Corporation had one employee primarily responsible for completing and submitting the required Comparability reports. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.

*Context*

The lack of internal controls was a systemic problem, occurring throughout the audit period.

*Criteria*

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 would ensure compliance with the Cash Management and Special Tests and Provisions - Comparability compliance requirements.

*Effect*

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements 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 related to the grant agreement and the Cash Management and Special Tests and Provisions - Comparability compliance requirements.

*Views of Responsible Officials*

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

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-004***

Subject: Title I Grants to Local Educational Agencies - Reporting  
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): 15-7365, 16-7365, 17-7365  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2015-003 from the immediately prior audit.

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. The School Corporation had one employee primarily responsible for completing and submitting required reports. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.

Reimbursement requests filed with the Indiana Department of Education were not supported by the School Corporation's records; therefore, the amounts requested for reimbursement could not be completely substantiated. It was the Treasurer's practice to request for reimbursement only a percentage of expenses. However, the percentage was not documented and fluctuated with each reimbursement request.

*Context*

The lack of controls and lack of documentation to support the reimbursement requests was systemic, occurring throughout the audit period.

*Criteria*

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). . . ."

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.302(a) states:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Reporting compliance requirement.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or 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 and comply with the grant agreement and the Reporting 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 2017-005***

Subject: Special Education Cluster (IDEA) - Reporting

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): 14215-088-PN01, 14216-082-PN01,  
45715-088-PN01, 45716-081-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2015-004 from the immediately prior audit.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. The Treasurer was responsible for completing and submitting required reports. Quarterly Monitoring Reports for Proportionate Shares for Non-Public Schools and Final Financial Reports were not submitted during the audit period.

Reimbursement requests filed with the Indiana Department of Education were not supported by the School Corporation's records; therefore, the amounts requested for reimbursement could not be completely substantiated. It was the Treasurer's practice to request for reimbursement only a percentage of expenses. However, the percentage was not documented and fluctuated with each reimbursement request.

*Context*

The lack of internal controls and noncompliance issues were systemic, occurring throughout the audit period.

*Criteria*

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 200.302(a) states:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Reporting compliance requirement.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Reporting 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 2017-006***

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Special Tests and Provisions - School Food Accounts, Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of Finding 2015-005 from the immediately prior audit.

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Special Tests and Provisions - School Food Accounts, and Special Tests and Provisions - Paid Lunch Equity.

*Cash Management*

A control process had not been documented to ensure that the School Lunch fund's net cash resources were limited to three months average expenditures.

*Eligibility*

The School Corporation had not established an effective control over the determination of eligibility for free and reduced priced meals. The School Corporation contracted with an outside company whose employees determined eligibility during the audit period. There was no documentation of an oversight, review process, or other compensating control to ensure eligibility was properly determined.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Special Tests and Provisions - School Food Accounts*

A control process had not been established to ensure that federal reimbursement payments were promptly credited to the School Lunch fund. One person was primarily responsible for posting federal reimbursements. There was no documentation of an oversight, review process, or other compensating control.

*Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)*

A control process had not been established to ensure that the paid lunch equity calculations were accurate. The Food Service Director was responsible for compliance with paid lunch equity requirements. An oversight, review process, or other compensating control had not been established.

*Context*

The lack of controls was a systemic problem, occurring throughout the audit period.

*Criteria*

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 would ensure compliance with the requirements listed above.

*Effect*

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements 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 related to the grant agreement and compliance requirements listed above.

SHELBYVILLE CENTRAL SCHOOLS  
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 2017-007***

Subject: School Breakfast Program and National School Lunch Program - 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): FY 2016, FY 2017  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Program Income  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat of Finding 2015-006 from the immediately prior audit.

*Condition*

The School Corporation had not established an effective control to ensure program income was properly recorded in the financial records. All School Lunch collections were recorded in the School Corporation's Prepaid Food fund, with no distinction between sales and prepaid receipts. There were no transfers made from the Prepaid Food fund to the School Lunch fund. Due to the lack of distinction between prepaid receipts and actual sales, it could not be determined if the School Corporation was in compliance with the Program Income compliance requirement.

*Context*

The lack of controls and documentation to support compliance with the Program Income compliance requirement was systemic, occurring throughout the audit period.

*Criteria*

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). . . ."

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured that documentation was maintained to support compliance with the Program Income compliance requirement.

*Effect*

The failure to provide documentation to distinguish between sales and prepaid amounts prevented the determination of the School Corporation's compliance with the Program Income compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure that documentation be maintained to support compliance with the grant agreement and 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.

**FINDING 2017-008**

Subject: Child Nutrition Cluster - Reporting

Federal Agency: Department of Education

Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. The School Corporation contracted with a food service management company to operate its food service program. The food service management company was responsible for completing and submitting all required reports including the monthly sponsor claims, Annual Financial Reports, and Verification Summary Reports. There was no oversight, review, or approval by anyone at the School Corporation to ensure the accuracy of the reports.

The 2016-2017 Annual Financial Report did not agree with the School Corporation's financial records, and portions of the report were not complete.

The 2016-2017 Verification Summary Report could not be traced to supporting documentation. Documentation was not presented to support the total number of free and reduced price applications reported.

*Context*

Internal control and noncompliance issues were systemic, occurring throughout the audit period.

*Criteria*

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 200.302(a) states:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Reporting compliance requirement.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with 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 grant agreement and the Reporting 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 2017-009**

Subject: School Breakfast Program and National School Lunch Program -  
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 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Verification of  
Free and Reduced Price Applications (NSLP)

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of finding 2015-007 from the immediately prior audit.

*Condition*

Management of the School Corporation had not established an effective internal control system to ensure compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement. The School Corporation contracted with a food service management company whose employees were responsible for verifying free and reduced price applications. There was no documentation that an oversight, review process, or other compensating control had been established to ensure the proper number of applications were verified for accuracy.

During the 2015-2016 school year, the School Corporation was required to verify 35 free and reduced price applications. According to the Verification Collection Report, only 20 households responded. The households that did not respond were not identified, so it could not be determined if the appropriate changes were made to eligibility. Of the 20 households that responded, income documentation was presented for only 12 of the households.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The School Corporation was required to conduct a second review of all free and reduced price applications during the 2015-2016 school year. The School completed the Second Review of Applications Report; however, there was no documentation of the second review on the applications to indicate a second review had been conducted.

One out of four verified applications selected for testing during the 2016-2017 school year was not appropriately changed from free to reduced price eligibility. The income information was not correctly entered into the system, so the applicant remained eligible for free lunches in error.

*Context*

The lack of controls and noncompliance were systemic issues, occurring throughout the audit period.

*Criteria*

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 245.6a states in part:

". . . (c) *Verification requirement*—

- (1) *General*. The local educational agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year. . . .
- (3) *Standard sample size*. Unless eligible for an alternative sample size under paragraph (d) of this section, the sample size for each local educational agency shall equal the lesser of:
  - (i) Three (3) percent of all applications approved by the local educational agency for the school year, as of October 1 of the school year, selected from error prone applications; or
  - (ii) 3,000 error prone applications approved by the local educational agency for the school year, as of October 1 of the school year.
  - (iii) Local educational agencies shall not exceed the standard sample size in paragraphs (c)(3)(i) or (c)(3)(ii) of this section, as applicable, and, unless eligible for one of the alternative sample sizes provided in paragraph (c)(4) of this section, the local educational agency shall not use a smaller sample size than those in paragraphs (c)(3)(i) or (c)(3)(ii) of this section, as applicable.

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

(iv) If the number of error-prone applications exceeds the required sample size, the local educational agency shall select the required sample at random, i.e., each application has an equal chance of being selected, from the total number of error-prone applications. . . .

(f) *Verification procedures and assistance for households . . .*

(7) *Eligibility changes.* Based on the verification activities, the local educational agency shall make appropriate modifications to the eligibility determinations made initially. The local educational agency must notify the household of any change. Households must be notified of any reduction in benefits in accordance with paragraph (j) of this section. Households with reduced benefits or that are longer eligible for free or reduced price meals must be notified of their right to reapply at any time with documentation of income or participation in one of the eligible programs in paragraph (a)(1) of this section. . . ."

7 CFR 245.11(c) states:

*"Local educational agency requirements.* Beginning July 1, 2014, and each July 1 thereafter, local educational agencies selected by the State agency to conduct a second review of applications must ensure that the initial eligibility determination for each application is reviewed for accuracy prior to notifying the household of the eligibility or ineligibility of the household for free and reduced price meals. The second review must be conducted by an individual or entity who did not make the initial determination. This individual or entity is not required to be an employee of the local educational agency but must be trained on how to make application determinations. All individuals or entities who conduct a second review of applications are subject to the disclosure requirements set forth in § 245.6(f) through (k)."

*Cause*

Management had not developed a system of internal controls that ensured compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with 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 grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

*Views of Responsible Officials*

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

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-010***

Subject: Child Nutrition Cluster - Equipment and Real Property Management  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program  
CFDA Numbers: 10.553, 10.555, 10.559  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Equipment and Real Property Management  
Audit Findings: Material Weakness, Modified Opinion

*Condition*

Management of the School Corporation had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the Equipment and Real Property Management compliance requirement. Equipment records were not maintained during the audit period and an inventory of equipment purchased had not been performed within the last two years.

*Context*

The lack of controls and noncompliance were systemic issues, occurring throughout the audit period.

*Criteria*

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 200.313(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.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

SHELBYVILLE CENTRAL SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management had not developed a system of internal controls that ensured compliance with the Equipment and Real Property Management compliance requirement.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with 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 grant agreement and 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.

# Shelbyville Central Schools

803 St. Joseph St. • Shelbyville, IN 46176  
317-392-2505 • 317-392-5737 fax • www.shelbycs.org

## CORRECTIVE ACTION PLAN

### ***FINDING 2017-001***

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: We have updated our procedures to have someone responsible for receiving the money and preparing the paperwork. This is given to the next person to write up the deposit and take to the bank. The receipts are entered into our software program and posted. At the end of the month, the bank statement is reconciled by multiple people.

Anticipated Completion Date: March 2018

### ***FINDING 2017-002***

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Shelbyville Central Schools will establish controls that will comply with all applicable grant laws and regulations. The Grant Coordinator will provide the documentation needed to set accounts up according to the grant. New procedures will be put into place whereas the Business Manager will work with the Grant Coordinator and/or another person in the Central Office to review documentation prior to the grant schedule being submitted on Gateway.

Anticipated Completion Date: The previous audit was completed immediately prior to this one. During the audit we were notified of this finding and new procedures were implemented to make sure that we were compliant. Also, when the new Business Manager takes over in July 2018 these procedures will be discussed with him for future compliance.

### ***FINDING 2017-003***

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: We have established controls where there are multiple people involved with the setting up of accounts within the grants. The grant coordinator will provide the approved grant amounts so that appropriations can be set up accordingly. Reporting will be handled through joint effort of multiple staff members. We will set up so that there are multiple people reviewing all reports, including the Comparability Report and submitting all of the reports. Multiple people will review and sign off on all of the reports, including the Comparability Report prior to being submitted. Shelbyville Central Schools intends to comply with all applicable grant laws and regulations.

Anticipated Completion Date: The previous audit was completed immediately prior to this one. During the audit we were notified of this finding and new procedures were implemented to make sure that we were compliant.

***FINDING 2017-004***

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Reimbursements will be filed within a timely manner and supported by a monthly expenditure amount. We will set up so that multiple people reviewing all reports prior to submission.

Anticipated Completion Date: During the audit we were informed of this finding and this was implemented at that time.

***FINDING 2017-005***

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Reimbursements will be filed within a timely manner and supported by monthly expenditures. We will set up so that multiple people reviewing all reports prior to submission.

Anticipated Completion Date: During the audit we were informed of this finding and the corrections were put in to place at that time.

***FINDING 2017-006***

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Shelbyville Central Schools will set up controls whereas the School Lunch Manager and Business Manager will work together to make sure the net cash expenditures will be set up to be compliant. Monitoring will be put in to place within the buildings to ensure that eligibility is being properly determined for free and reduced meals. The Business Manager will review and approve the reports provided by Chartwells prior to submission. Multiple people will be involved in the oversight of federal reimbursements and handling of funds. The Business Manager and the School Lunch Manager will work together to ensure that paid lunch equity is accurate.

Anticipated Completion Date: This audit was conducted immediately prior to the previous audit. Once these findings were reported we worked to develop a plan for our new Business Manager and our School Lunch Manager. Shelbyville Central Schools will begin setting up the new controls and processes once the new Business Manager is hired and will begin implementation in the 2018-19 school year.

**FINDING 2017-007**

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The current program allows for balancing between what the cashiers deposit and what is reported in the system. The online program where parents pay in to their child's account is balanced back to the bank statement by someone in the Central Office. This is verified during the final bank reconciliation. Sales figures will be obtained from the school lunch software and posted to the school lunch fund. Controls will be implemented during the 2018-19 school year with the new Business Manager and Cafeteria Manager.

Anticipated Completion Date: This audit was conducted immediately prior to the previous audit. Corrections have been put in to place with the new software programs being used by Chartwells. Additional corrections will be discussed with the new Business Manager and implemented during the 2018-19 school year.

**FINDING 2017-008**

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Shelbyville Central Schools Business Manager will work with the Chartwells School Lunch Manager to insure that they are providing supporting documents for all required reports and work together to verify that supporting documents are maintained and accurate. Documentation will be maintained and verified to support the number of free and reduced applications that are reported.

Anticipated Completion Date: August 2018

**FINDING 2017-009**

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: Shelbyville Central Schools and Chartwells will work together to ensure that records are retained. Verification of Free and Reduced Price Applications will be verified by the proper percentage required and documentation will be kept. There will be multiple people reviewing applications and signing off accordingly. Verification that income information is entered correctly will be reviewed by a second person.

Anticipated Completion Date: This audit was completed immediately after the previous one. New procedures will go in to place with the new Business Manager and School Lunch Manager during the 2018-19 school year.

**FINDING 2017-010**

Contact Person Responsible for Corrective Action: Salli S. Rooks  
Contact Phone Number: 317-392-2505 x 1258

Views of Responsible Official: We concur with the findings.

Description of Corrective Action Plan: Shelbyville Central Schools and Chartwells will work together to look in to the best ways to establish a plan for tracking equipment. Once equipment is tagged and verified inventory records will be kept.

Anticipated Completion Date: Once our new Business Manager is in place he will work with the School Lunch Manager on getting this in to place during the 2018-19 school year.



\_\_\_\_\_  
(Signature)

Interim Business Manager/Treasurer

\_\_\_\_\_  
(Title)

May 8, 2018

\_\_\_\_\_  
(Date)

SHELBYVILLE CENTRAL SCHOOLS  
AUDIT RESULTS AND COMMENTS

**COMPENSATION AND BENEFITS**

This is a repeat comment from the immediate prior audit report.

The School Corporation did not establish a salary schedule for noncertified personnel.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

**BANK ACCOUNT RECONCILIATIONS**

This is a repeat comment from the immediate prior audit report.

Depository reconciliations of the fund balances to the bank balances were not properly completed during the audit period. The reconciled bank balance as of June 30, 2017, was \$6,250 more than the funds ledger balance.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

**OVERDRAWN CASH BALANCES**

This is a repeat comment from the immediate prior audit report.

The cash balance of the following funds were overdrawn as of June 30, 2016, and June 30, 2017:

Fund	Amount Overdrawn 06-30-16	Amount Overdrawn 06-30-17
Construction	\$ -	\$ 15,508
G.O. Bond Projects	2,709,648	305,818
School Lunch	-	4,466
Textbook Rental	540,135	498,019
BRSEC General	346	346
Early Intervention Grant 15-16	16,963	903
SCTA Reading Goal Donation	200	200
Duke Energy Power Reader 15-16	9,921	-
IASP Mini Grant	620	620
BRF Drama Grant	111	111
Cultural Arts	76	76
Prevention Serv Grant 13-14	2,411	-
SMS Mentoring 13-14	818	1,071

SHELBYVILLE CENTRAL SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Fund	Amount Overdrawn 06-30-16	Amount Overdrawn 06-30-16
BRF Loper Musical Grant	-	660
All Day Preschool	36,993	11,057
G&T 2015-16	-	1,706
NESP 2014-15	16,601	-
NESP 2015-16	-	42,083
Performance Based Awards	187	187
Title I 2011-12	-	974
Title I 2014-15	926	1,295
Title I 2015-16	293,200	132,137
Title I 2016-17	-	60,367
IDEA Special Ed 2013-14	100	100
IDEA Special Ed 2014-15	265,209	266,509
IDEA Special Ed 2015-16	29,961	163,880
IDEA Special Ed 2016-17	-	45,660
Special Ed Tech Asst 13-14	9,610	9,610
IDEA Part B Preschool 2014-15	13,215	13,215
IDEA Part B Preschool 2015-16	-	17,752
IDEA Part B Preschool 2016-17	-	290
Title I Part A 2012-13	-	588
Title II Part A 2013-14	867	867
Title II Part A 14-15	90,894	-
Title II Part A 15-16	71,317	11,357
Title II Part A 16-17	-	13,911
Title III - English Proficiency Migrant	7,096	-
Title III 14-15	-	600
Title III 15-17	7,295	32,901

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

**RECONCILIATION OF PREPAID FOOD ACCOUNTS**

Reconciliations of the students' individual prepaid food account balances to the control account were not performed during the audit period. The control account balance at June 30, 2017, was \$1,109,631, while the detail of students' balances maintained on the Mosaic system was negative \$133,562. During the audit period, all school lunch collections were recorded in the Prepaid Food fund, with no distinction between sales and prepaid dollars. There were no transfers made from the Prepaid Food fund to the School Lunch fund during the audit period.

SHELBYVILLE CENTRAL SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

SHELBYVILLE CENTRAL SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on May 8, 2018, with David A. Adams, Superintendent of Schools; Mary E. Harper, Assistant Superintendent of Schools; Salli S. Rooks, Interim Treasurer; Tammy Achenbach, Deputy Treasurer; Mike Warble, President of the School Board; Curtis Johnson, School Board member; and David Finkel, School Board member.