

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

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



FILED
05/25/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Christi Pruitt (Vacant) Jodi Cole	01-01-14 to 04-24-15 04-25-15 to 05-25-15 05-26-15 to 12-31-18
Superintendent of Schools	Steve Darnell (Vacant) Dennis Stockdale	07-01-14 to 06-30-16 07-01-16 to 07-24-16 07-25-16 to 07-24-20
President of the School Board	Linda McCellan Theresa Gottbrath Hector Nale Tom Coats	01-01-14 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



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TO: THE OFFICIALS OF THE EAST WASHINGTON SCHOOL
CORPORATION, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the East Washington 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 and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Result and Comment as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describes the identified reportable instance of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Result and Comment, incorporated within this report, were not verified for accuracy.

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

April 12, 2018

EAST WASHINGTON 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 of finding from the immediate prior report. 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). The School Corporation was unable to present evidence for audit that anyone other than the School Corporation Treasurer reviewed or approved the grant information presented on the SEFA.

Context

Due to the lack of controls, the SEFA presented for audit contained the following errors:

1. The Special Education Grants to States expenditures were understated by \$351,851 for the year ending June 30, 2015.
2. The National School Lunch Program commodities were understated by \$994 and \$901 for the years ending June 30, 2015 and 2016, respectively.
3. State matching funds for the National School Lunch Program were incorrectly reported as federal expenditures for the years ending June 30, 2015 and 2016, in the amount of \$7,180 and \$6,360, respectively.
4. Some federal grantor agencies, program names, and CFDA numbers were listed incorrectly.

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. . . .

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.
- (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*.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls 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 2016-002

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the School Corporation related to Financial Transactions and Reporting.

Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to receipts for the School Lunch fund. The School Lunch fund was maintained on the extracurricular records. The School Lunch fund Treasurer was responsible for verifying collections with the daily register reports, issuing receipts, recording receipts, preparing deposit tickets and making bank deposits, and performing bank reconcilements. There was no evidence of a proper oversight, review, or approval process.

Context

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

EAST WASHINGTON SCHOOL CORPORATION
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 misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation establish a system of internal controls related to 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 2016-003

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2014-004.

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management and Reporting.

Cash Management (School Breakfast Program and National School Lunch Program only)

The School Corporation did not have effective procedures in place to ensure that the food service account balance did not exceed the three months average expenditures.

Reporting

The School Corporation had not established adequate controls to ensure that the monthly Sponsor Summary Claims reports were accurate prior to submission. One person prepared and submitted the reports. There was no segregation of duties, such as an oversight, review, or approval process.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of properly designed and implemented controls was a systemic problem, 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). . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls 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.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-004

Subject: Child Nutrition Cluster - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Number and Year (or Other Identifying Number): FY 15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2014-007.

Condition

An effective internal control system, which would include segregation of duties, 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 - Paid Lunch Equity compliance requirement. The School Corporation had not designed or implemented adequate policies and procedures to ensure the required Paid Lunch Equity calculations were correct.

The failure to establish an effective internal control system resulted in noncompliance. The weighted average lunch meal price required to be charged for the 2015-2016 school year was \$2.46 and the actual weighted average amount charged was \$2.42.

Context

The lack of internal controls and noncompliance were systemic issues during the 2015-2016 school year.

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). . . ."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 210.14(e) states in part:

"*Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

(1) *Calculation procedures.* Each school food authority shall:

(i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.

(ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (*i.e.*, the reimbursement difference);

(iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section. . . .

(3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:

(i) 2 percent; and

(ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the FEDERAL REGISTER announcing the national average payment rates, from the prior year.

(4) *Price Adjustments.*

(i) *Maximum required price increase.* The maximum annual average price increase required under this paragraph shall not exceed ten cents.

(ii) *Rounding of paid lunch prices.* Any school food authority may round the adjusted price of the paid lunches down to the nearest five cents.

(iii) *Optional price increases.* A school food authority may increase the average price by more than ten cents. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls and ensure compliance related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity 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 2016-005

Subject: Child Nutrition Cluster - Eligibility

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Eligibility

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2014-005.

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Eligibility compliance requirement.

The Extracurricular Treasurer in each building received the applications for free and reduced price lunches and determined the students' eligibility. There was no segregation of duties, such as an oversight, review, or approval process to ensure correct determinations. A review of applications for 60 students receiving free and reduced price meals identified that 7 applications contained errors that resulted in an incorrect eligibility determination.

Context

The lack of internal controls and noncompliance were systemic issues during the audit period.

EAST WASHINGTON 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 245.6(e) states in part: "*Recordkeeping*. The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain . . ."

7 CFR 245.6a(f)(2) states in part: "*Documentation timeframe*. . . The documentation must indicate the source, amount and frequency of all income and can be for any point in time between the month prior to application for school meal benefits and the time the household is requested to provide income documentation."

7 CFR 245.2 states in part: ". . . *Current income* means income, as defined in § 245.6(a), received during the month prior to application. If such income does not accurately reflect the household's annual rate of income, income shall be based on the projected annual household income. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the Eligibility compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Eligibility compliance requirement.

Questioned Costs

There were no questioned costs identified.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance related to the grant agreement and the Eligibility 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 2016-006

Subject: Child Nutrition Cluster - Program Income

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

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 Program Income compliance requirement. The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded. There was no evidence presented for audit that anyone other than the School Lunch Treasurer reviewed program income to ensure that it was accurately reported.

The School Corporation established a single fund, the School Lunch fund, for all activity of the food service. The School Corporation also maintained prepaid accounts for students. When prepaid funds were received, they were receipted with the program income into the School Lunch fund as revenue, with no distinction between the prepaid accounts and the program income generated from the service programs.

Context

The lack of internal controls and noncompliance were systemic issues during the entire 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. . . ."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 210.14(c) states:

"*Financial assurances.* The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 210.14(f)(3) states: "All revenue from the sale of non-program foods shall accrue to the non-profit school food service account of a participating school food authority."

7 CFR 220.13(i) states in part: "Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall enter into a written agreement with the State agency or the Department through the FNSRO, as applicable, that may be amended as necessary. Nothing in the preceding sentence shall be construed to limit the ability of the State agency or the FNSRO to suspend or terminate the agreement in accordance with § 220.18. If a single State agency administers any combination of the Child Nutrition Programs, that State agency shall provide each SFA with a single agreement with respect to the operation of those programs. Such agreements shall provide that the School Food Authority shall, with respect to participating schools under its jurisdiction: . . ."

(12) Maintain a financial management system as prescribed by the State agency, or FNSRO where applicable; . . ."

7 CFR 225.6(e) states in part:

"*State-Sponsor agreement.* A sponsor approved for participation in the Program must enter into a permanent written agreement with the State agency. All sponsors must agree in writing to: . . ."

(12) Maintain a financial management system as prescribed by the State agency; . . ."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). (The School Bulletin and Uniform Compliance Guidelines, September 2008)

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and 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 compliance and comply 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 2016-007

Subject: Special Education Cluster (IDEA) - Cash Management and 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): 14214-056-PN01, 14215-056-PN01,
45714-056-PN01, 45715-056-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2014-009.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation was a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Cash Management and Reporting compliance requirements.

The supporting documentation attached to the reimbursement forms was a detail subtotal by fund by object code report, which was a summary listing of expenses grouped by fund and object code with no detail of the actual expenses incurred. The supporting documentation did not consistently agree with the amounts requested for reimbursement or the total expenses to date that were reported on the reimbursement forms. The School Corporation claimed and received reimbursements for expenditures that were not incurred and/or paid prior to the date of claiming the reimbursement.

Context

The amount requested for reimbursement and the reported amount of total expenses to date did not consistently agree to supporting documentation for four of the eight reimbursement requests tested for fiscal year 2015. Although supporting documentation for some individual reimbursement requests did not agree, in total the amounts claimed for reimbursement for each individual grant agreed to the applicable grant award amounts.

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. . . ."

34 CFR 80.20(b) states:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

34 CFR 80.21(d) states in part: ". . . Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. . . ."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management of the School Corporation had not developed a system of internal controls that would have ensured that the Cooperative complied with the Cash Management and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system caused the School Corporation to be in noncompliance with the grant agreement and the compliance requirements. A lack of an internal control system could have also 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 develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the Cash Management and Reporting compliance requirements.

Views of Responsible Officials

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

FINDING 2016-008

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-056-PN01, 14216-054-PN01,
45715-056-PN01, 45716-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and manages the Special Education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

No Semi-Annual Certifications or records of activity for School Corporation employees that were paid solely from Special Education funds were maintained during the audit period. No personal activity reports or records of activity for School Corporation employees paid from multiple cost objectives were maintained during the audit period.

Context

No evidence was presented that Semi-Annual Certifications were completed and certified during the audit period for any employees who were paid solely from Special Education Funds. No evidence was presented that personal activity reports were prepared and signed during the audit period for any employees who were paid from multiple cost objectives. In addition, no records of activity were presented for audit for any employees paid either solely or partially from Special Education funds.

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). . . ."

OMB Circular A-87, Attachment B, section 8(h) states in part:

". . . (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (iv) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

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

Effect

The failure to establish an effective internal control system placed the Cooperative and the participating school corporations in noncompliance with grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management develop and implement procedures and establish controls to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles 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 2016-009

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): 14213-056-PN01, 14214-056-PN01,
14215-056-PN01, 14216-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operates the Special Education program on behalf of the School Corporation and manages the Special Education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The Cooperative's Director signed the Application and Assurance Plan as a condition of federal assistance, which stated that the Cooperative would check the subcontractors to ensure that they were not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency or political subdivision of the State of Indiana. However, the School Corporation did not have procedures in place to monitor that the Cooperative verified that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a covered transaction with them.

Context

There were three contracts during fiscal year 2015 and three contracts during fiscal year 2016 that exceeded \$25,000; however, the Cooperative did not verify that the vendors were not suspended or debarred prior to awarding these contracts for covered transactions.

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). . . ."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

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

Effect

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the Procurement and Suspension and Debarment compliance requirement and the grant agreement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

East Washington School Corporation



"All for one and one for all"

1050 North Eastern School Road ♦ Pekin, IN 47165

Phone 812-967-3926 ♦ Fax 812-967-5797

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Jodi Cole

Contact Phone Number: 812-967-3926

Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

The Corporation Treasurer prepares the Schedule of Expenditures of Federal Awards (SEFA). In order to improve the corporation's system of internal controls, the SEFA will be reviewed by the Superintendent to ensure assurance regarding the reliability of financial information maintained on the SEFA.

Anticipated Completion Date: Effective Immediately

FINDING 2016-002

Contact Person Responsible for Corrective Action: Greg Hopkins

Contact Phone Number: 812-967-3926

Views of the Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Building treasurers will receipt money in, post, and create daily deposit tickets. One of the treasurers will take the deposit to the bank. The Lunch Treasurer will maintain the Lunch Fund and reconcile the account each month. The Food Service Director will verify all reports and processes.

Anticipated Completion Date: July 1, 2018

FINDING 2016-003

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Views of the Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:

The school will research and find out the accurate way to calculate and determine that the school lunch fund balance does not exceed three months average expenditures. Proper rules and procedures will be reviewed and implemented. The Food Service Director to review the claims before they are submitted and the Food Service Director and Lunch Treasurer will sign off on the claims.

Anticipated Completion Date: July 1, 2018

FINDING 2016-004

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Views of the Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:

Management will receive further training on this process to ensure the correct calculation. The treasurer will review the calculation with the Food Service Director and submit to the DOE as required.

Anticipated Completion Date: July 1, 2018

FINDING 2016-005

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Views of the Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:

Management will check applications after they are entered at the building level. The Food Service Director and Lunch Treasurer will set up procedures to check the applications that are entered.

Anticipated Completion Date: August 2018

FINDING 2016-006

Contact Person Responsible for Corrective Action: Greg Hopkins

Contact Phone Number: 812-967-3926

Views of the Responsible Official:

We concur with this finding.

Description of Corrective Action Plan:

The School Lunch Treasurer created a separate prepaid account to distinguish between program revenue and student prepaid monies. The Food Service Director will review reports on transfers between prepaid and lunch fund accounts.

Anticipated Completion Date: Immediately April 2018

Contact Person Responsible for Corrective Action: Greg Hopkins

Contact Phone Number: 812-967-3926

Views of the Responsible Official:

We will begin this practice immediately.

FINDING 2016-007

Contact Person Responsible for Corrective Action: Jodi Cole

Contact Phone Number: 812-967-3926

Views of the Responsible Official:

We concur with this finding.

Description of Corrective Action Plan:

Reports will be generated by the Cooperative and signed by the Board President and verified by the Superintendent.

Anticipated Completion Date: Effective Immediately

FINDING 2016-008

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Views of the Responsible Official:
We concur with this finding.

Description of Corrective Action Plan:
The corporation treasurer will maintain records of school corporation employees that were paid from the Special Education funds by completing Semi-Annual Certifications.

Anticipated Completion Date: Effective Immediately

FINDING 2016-009

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Views of the Responsible Official:
We concur with this finding.

Description of Corrective Action Plan:
Contracts and Subcontracts will be presented by the Cooperative to the SCASEC Board of Directors, Superintendents, and be reviewed by the corporation's superintendent prior to approval.

Anticipated Completion Date:
Effective Immediately

(Signature)

Jodi Cole

(Title)

Corporation Treasurer

(Date)

4/10/18

EAST WASHINGTON SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

PREPAID SCHOOL MEAL ACCOUNTS

The same comment also appeared in prior Report B45880.

The School Corporation did not maintain a prepaid meal control account to reconcile to the subsidiary student meal account records. The School Corporation was unable to provide detailed records of student's prepaid meal account balances for the audit period.

Our opinion is that money a student puts into their individual meal account 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 number 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)

EAST WASHINGTON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2018, with Jodi Cole, Treasurer; Dennis Stockdale, Superintendent of Schools; Greg Hopkins, Assistant Superintendent of Schools; Tom Coats, President of the School Board; and Joanna Trueblood, Deputy Treasurer.