

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

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



FILED
07/31/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Renee' L. Anderson Troy Cloum	07-01-14 to 05-31-18 06-01-18 to 06-30-19
Superintendent of Schools	Kevin Emsweller	07-01-14 to 06-30-19
President of the School Board	Rick Powell	07-01-14 to 06-30-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TIPTON COMMUNITY SCHOOL
CORPORATION, TIPTON COUNTY, INDIANA

This report is supplemental to our audit report of the Tipton Community School Corporation (School Corporation), for the period from July 1, 2014 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

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

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

June 27, 2018

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

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

Repeat Finding

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

Condition

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

The School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway), which is a financial reporting system used to compile the School Corporation's SEFA. One employee prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were understated by \$58,547 for the 2015 fiscal year and overstated by \$224,010 for the 2016 fiscal year.
2. The Special Education Cluster (IDEA) expenditures were understated by \$4,888 and \$1,676 for the 2015 and 2016 fiscal years, respectively.
3. The Supporting Effective Instruction State Grants program expenditures were overstated by \$6,253 and \$3,449 for the 2015 and 2016 fiscal years, respectively.

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. . . .

TIPTON COMMUNITY 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, misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

TIPTON COMMUNITY 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: Child Nutrition Cluster - Internal Controls

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 2015, FY 2016, FY 2014-2015
FY 2015-2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Allowable Costs/Cost Principles, Eligibility, Reporting,
Special Tests and Provisions - Verification of Free
and Reduced Price Applications (NSLP)

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report related to the Allowable Costs/Cost Principles compliance requirement. The prior audit finding number was 2014-002.

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 Allowable Costs/Cost Principles, Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Allowable Costs/Cost Principles

Food costs were paid for by an outside vendor, which administered the Child Nutrition Cluster programs for the School Corporation. These costs were then billed to the School Corporation, along with management fees and labor costs. There was no one at the School Corporation level who reviewed the detailed invoices that supported the food costs billed by the outside vendor.

Eligibility

There were no controls in place to ensure that the eligibility determinations for free and reduced price meals were accurate. One employee processed the applications for free and reduced price meals, which included determining eligibility, without oversight, review, or other compensating control.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Reporting

There were no controls in place to ensure that required Annual Financial Reports and Verification Summary Reports were complete and accurate prior to submission. One employee prepared and submitted the Annual Financial Reports and the Verification Summary Reports without oversight, review or approval, or other compensating control.

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

There were no controls in place to ensure that the required verifications of original eligibility determinations for free and reduced price meals were accurate. One employee verified the applications for free and reduced price meals, which included verification of eligibility, without oversight, review, or other compensating control.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

Management had not developed a system of internal controls that ensured compliance with the Allowable Costs/Cost Principles, Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Allowable Costs/Cost Principles, Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) 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.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2016-003

Subject: Child Nutrition Cluster - Cash Management

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015, FY 2016, FY 2014-2015,
FY 2015-2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Cash Management

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of finding from the immediately prior audit report. The prior audit finding number was 2014-003.

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 Cash Management compliance requirement.

The School Corporation failed to comply with the Cash Management requirement that its net cash resources in the School Lunch fund be limited to the three months average expenditures of the food service program. The School Lunch fund cash balance was in excess of the three months average expenditures of the food service program for 19 of the 24 months tested during the audit period.

Context

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

TIPTON COMMUNITY 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 210.14(b) states: "*Net cash resources*. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e) states in part:

". . . the School Food Authority shall, with respect to participating schools under its jurisdiction:
. . .

(iv) Limit its net cash resource to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

Cause

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

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation in noncompliance with the grant agreement and the Cash Management compliance requirement.

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 Cash Management compliance requirement.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2016-004

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): 14-7945, 15-7945, 16-7945

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, and Reporting

Audit Finding: Material Weakness

Condition

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

Cash Management

The reimbursement requests were being prepared by one individual without an oversight, review, or approval process.

Eligibility

Individual student eligibility determinations, based on student test scores depending on grade level, were being made by one individual without a documented oversight, review, or approval process.

Reporting

Final Expenditure reports and Reimbursement Requests were being prepared by one individual without an oversight, review, or approval process.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management, Eligibility, and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Cash Management, Eligibility, and Reporting compliance requirements.

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 Cash Management, Eligibility, 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 2016-005

Subject: Title I Grants to Local Educational Agencies - Allowable Costs/Cost Principles
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): 14-7945, 15-7645, 16-7945
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
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 Allowable Costs/Cost Principles compliance requirement.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation had not implemented adequate controls to ensure that time and effort documentation was prepared and/or approved. Required time and effort logs for employees who worked on multiple activities or cost objectives during the audit period were not presented for audit in three of the four required reporting periods during the audit.

Context

The lack of controls and noncompliance were systemic issues, 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). . . ."

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

". . . (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. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases,
or
- (e) An unallowable activity and a direct or indirect cost activity. . . ."

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.430(i) states in part:

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

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

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

Title I Fiscal Handbook 2015-2016, Basic Title I, Part A and D states: "Title I funded staff paid solely from Title I funds complete a Semi-Annual Certification twice a year. Employees who work on multiple activities must maintain a time and effort log at least once a month."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the 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 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.



TIPTON COMMUNITY SCHOOL CORPORATION

Kevin R. Emsweller, Superintendent
John K. Junco, Assistant Superintendent

Reneé L. Anderson, Treasurer
Brian D. Witherow, Director of Technology

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Renee' Anderson
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

We will work on improving controls over preparing the Schedule of Expenditure of Federal Awards.

Anticipated Completion Date: June 30, 2018

FINDING 2016-002

Contact Person Responsible for Corrective Action: Renee' Anderson
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

We will improve our internal controls over the compliance requirements detailed in the finding.

Anticipated Completion Date: Immediately

FINDING 2016-003

Contact Person Responsible for Corrective Action: Renee' Anderson
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

We submitted a plan, which was accepted by the Indiana Department of Education which described how we were going to reduce excessive cash balances in our school lunch fund.

Anticipated Completion Date: December 31, 2018

FINDING 2016-004

Contact Person Responsible for Corrective Action: Renee' Anderson
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

We will work on improving controls over the compliance requirements and issues described in the finding.

Anticipated Completion Date: December 31, 2018

FINDING 2016-005

Contact Person Responsible for Corrective Action: Renee' Anderson

Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

We will work on improving controls over the compliance issues noted in the finding.

Anticipated Completion Date:

Time and effort logs detailing which employees worked on multiple activities or cost activities for the Title I program will be available during the next audit.

TIPTON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on June 27, 2018, with Kevin Emsweller, Superintendent of Schools; Troy Cloum, Treasurer; and Rick Powell, President of the School Board.