

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION

HENRY COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
08/22/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stephanie L. Madison	07-01-14 to 06-30-19
Superintendent of Schools	Jediah T. Behny	07-01-14 to 06-30-19
President of the School Board	Wade Beatty	01-01-14 to 12-31-18



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CHARLES A. BEARD MEMORIAL
SCHOOL CORPORATION, HENRY COUNTY, INDIANA

This report is supplemental to our audit report of the Charles A. Beard Memorial 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

July 30, 2018

CHARLES A. BEARD MEMORIAL 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 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 had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer 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 lack of controls and noncompliance were systemic issues, which occurred throughout the audit period.

The SEFA presented for audit contained the following errors:

1. The Title I Grants to Local Educational Agencies expenditures were over-reported for the year ending June 30, 2015, causing an overstatement of \$40,568.
2. The National School Lunch Program commodity expenditures were over-reported for the years ending June 30, 2015 and 2016, causing an overstatement of \$2,032 and \$2,965, 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. . . .

CHARLES A. BEARD MEMORIAL 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*.

CHARLES A. BEARD MEMORIAL 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: Significant Deficiency

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2014-002.

Condition

The School Corporation had not separated incompatible activities related to cash and investments. The Treasurer was responsible for preparing and reviewing the bank reconcilements. An additional review of the bank reconcilements by another employee was not completed.

Context

The lack of 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. . . ."

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management 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's management establish a system of internal controls, including segregation of duties, 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 - Reporting

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 15, FY 16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Finding: Significant Deficiency

Repeat Finding

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

Condition

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

The School Corporation did not have a control procedure in place to ensure compliance with requirements related to the Annual Financial Report.

Context

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

CHARLES A. BEARD MEMORIAL 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). . . ."

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 an effective internal control system, which would have included segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Reporting 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 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.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-004

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

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Procedures established to ensure that the School Corporation's preparation and reporting of the Paid Lunch Equity calculation for the National School Lunch Program were not effective. The School Corporation did not have policies or procedures in place to ensure Special Tests and Provisions - Paid Lunch Equity requirements were properly calculated and considered. The School Corporation did not retain its Paid Lunch Equity calculation documentation for the 2014-2015 school year; therefore, it could not be determined if the School Corporation was in compliance with the Special Tests and Provisions - Paid Lunch Equity requirements.

Context

The lack of controls was a systemic issue throughout the audit period. Compliance with the Special Tests and Provisions - Paid Lunch Equity could not be determined for the 2014-2015 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). . . ."

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 210.15(b) states in part:

"*Recordkeeping summary.* In order to participate in the Program, a school food authority or a school, as applicable, must maintain records to demonstrate compliance with Program requirements. These records include but are not limited to: . . .

- (6) Records to document compliance with the requirements in § 210.14(e); . . ."

7 CFR 3016.42 states in part:

"(a) *Applicability.*

- (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:

- (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
- (ii) Otherwise reasonably considered as pertinent to the program regulations or the grant agreement. . . .

(b) *Length of retention period.*

- (1) Except as otherwise provided, records must be retained for three years . . ."

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 proper supporting documentation was maintained and made available for audit relating to the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Effect

The failure to establish an effective internal control system prevented the determination of the School Corporation's compliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Questioned Costs

There were no questioned costs identified.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement. We also recommended that the School Corporation's management complete the required calculations for Paid Lunch Equity and retain adequate supporting documentation for those calculations.

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 - 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 15, FY 16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit 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 Cash Management compliance requirement.

The School Corporation failed to comply with the Cash Management compliance requirement that the net cash resources in the School Lunch fund should not exceed 3 months average expenditures for its nonprofit school food service program. The net cash resources in the School Lunch fund exceeded 3 months average expenditures for 18 out of 24 months during the audit period.

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. . . ."

CHARLES A. BEARD MEMORIAL 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(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 resources 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 would have ensured compliance with the Cash Management 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 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.

Views of Responsible Officials

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

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-006

Subject: Child Nutrition Cluster - Eligibility
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 15, FY 16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
Audit Finding: Significant Deficiency

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 Eligibility compliance requirement.

The School Corporation did not have a control procedure in place to ensure the eligibility determinations were being reviewed after the initial determination.

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 would have ensured compliance with the Eligibility compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Eligibility compliance requirement.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
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 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 2016-007

Subject: Special Education Cluster (IDEA) - Activities Allowed or Unallowed

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): 14215-044-PN01, 14216-042-PN01,
45715-044-PN01, 45716-042-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Activities Allowed or Unallowed

Audit Finding: Significant Deficiency

Repeat Finding

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

Condition

The School Corporation was a member school corporation of the New Castle Area Special Services Cooperative (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative. During the audit period, the fiscal agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations. Since the grant agreements were between the Indiana Department of Education and each member school corporation of the Cooperative, the member school corporation was ultimately responsible for following the requirements related to the Activities Allowed or Unallowed compliance requirement.

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 Activities Allowed or Unallowed compliance requirement.

Context

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

CHARLES A. BEARD MEMORIAL 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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Activities Allowed or Unallowed 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 Activities Allowed or Unallowed compliance requirement.

Views of Responsible Officials

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

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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): 14215-044-PN01, 14216-042-PN01,
45715-044-PN01, 45716-042-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Finding: Significant Deficiency

Repeat Finding

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

Condition

The School Corporation was a member school corporation of the New Castle Area Special Services Cooperative (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative. During the audit period, the fiscal agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations. Since the grant agreements were between Indiana Department of Education and each member school corporation of the Cooperative, the member school corporation was ultimately responsible for following the requirements related to the Allowable Costs/Cost Principles compliance requirement.

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.

There was no control procedure in place to ensure that all employees paid from the Special Education Cluster (IDEA) were allowed.

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. . . ."

CHARLES A. BEARD MEMORIAL 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 Allowable Costs/Cost Principle compliance requirement.

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 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.

FINDING 2016-009

Subject: Child Nutrition Cluster - 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 15, FY 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.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The entire amount of adult and student prepaid food advance deposits were recognized in the School Lunch fund, Fund 800, at the end of each month. The School Corporation had not established Fund 8400 - Prepaid Food to account for advance deposits made to individual student and adult prepaid food accounts. As a result, revenue was recognized in advance of being earned as the deposits were always recognized in the same month in which the monies were received rather than when meals were served. Therefore, the cash balance in the School Lunch fund, included prepaid amounts that had not been earned.

Context

The lack of controls and noncompliance were systemic issues, which occurred through the audit period. The required Prepaid Food fund was not implemented until the last month of 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). . . ."

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 nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority."

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. . . . 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; . . ."

CHARLES A. BEARD MEMORIAL 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 Administrator 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 placed the School Corporation in non-compliance 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 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 2016-010

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
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 15, FY 16
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

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 Procurement and Suspension and Debarment compliance requirements.

Procurement

The School Corporation did not procure bids or enter into contracts with vendors of the school lunch program.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Suspension and Debarment

There were no controls in place to ensure that vendors were not suspended or debarred from participation in federal programs. The School Corporation did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

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). . . ."

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

2 CRF 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.

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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."

7 CFR 3016.36(d) states in part:

"Methods of procurement to be followed.

- (1) Procurement by *small purchase procedures*. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. . . ."

2 CFR 200.320 states in part:

"The non-Federal entity must use one of the following methods of procurement. . . .

- (b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. . . ."

7 CFR 3016.42 states in part:

"(a) *Applicability.*

- (2) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
 - (iii) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
 - (iv) Otherwise reasonably considered as pertinent to the program regulations or the grant agreement. . . .

(b) *Length of retention period.*

- (1) Except as otherwise provided, records must be retained for three years . . ."

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. . . ."

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirements.

Effect

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

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 Procurement and Suspension and Debarment compliance requirements.

Views of Responsible Officials

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

Charles A. Beard Memorial School Corporation

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Knightstown, Indiana 46148

School Board
Wade Beatty, President
Cynthia Neal, Vice President
Gerald Leonard, Secretary
John Swartz
Steve Ferrell
Thomas Schaetzle
Graham Richardson



Jediah Behny
Superintendent

Voice: 765-345-5101
Fax: 765-345-5103

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Stephanie Madison
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation will establish effective internal controls by adding an additional layer of oversight through inclusion of the superintendent and fiscal officer in the review and submission process of the Schedule of Expenditures of Federal Awards.

Anticipated Completion Date: July 1, 2018

FINDING 2016-002

Contact Person Responsible for Corrective Action: Stephanie Madison
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation has established effective internal controls by adding an additional layer of oversight through inclusion of the superintendent and fiscal officer in the review of bank reconciliations.

Completion Date: July 1, 2016

FINDING 2016-003

Contact Person Responsible for Corrective Action: Stephanie Madison
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation will establish effective internal controls by adding an additional layer of oversight through inclusion of the fiscal officer and the food service director in the review and approval of School Nutrition reports.

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Thomas Schaetzle
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Jediah Behny
Superintendent

Voice: 765-345-5101
Fax: 765-345-5103

Anticipated Completion Date: July 1, 2018

FINDING 2016-004

Contact Person Responsible for Corrective Action: Jody McMahel
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan: The school corporation will establish effective internal controls by adding an additional layer of oversight to ensure the completion and retention of documentation required for Paid Lunch Equity reporting compliance.

Anticipated Completion Date: July 1, 2018

FINDING 2016-005

Contact Person Responsible for Corrective Action: Stephanie Madison
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation had anticipated, due to the significant changes in dietary guidelines, a significant increase in expenditures. Also, over the majority of the time frame in the previous audit period, school closures were contemplated. These discussions resulted in the Board action which closed two elementary schools. Spending funds on updating kitchens in any of our schools prior to having reached a final decision on closures would have been financially irresponsible. The school corporation used these excess funds to purchase new kitchen equipment in January, February and March of 2016.

Completion Date: March 30, 2016

FINDING 2016-006

Contact Person Responsible for Corrective Action: Stephanie Madison
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation implemented new internal controls following the Department of Education's School Nutrition audit, in which guidance was given to follow protocol of the provided Free and Reduced application that contains one signature line and to spot check a variable number of applications to ensure

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compliance. Having received additional guidance from State Board of Accounts, the corporation will now make all efforts to review and initial every Free and Reduced application.

Anticipated Completion Date: July 1, 2018

FINDING 2016-007

Contact Person Responsible for Corrective Action: Jediah Behny

Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: As a member of the NCASS, the Superintendent of Charles A Beard Memorial School Corporation serves on the board of directors for the cooperative. The Superintendent has taken all necessary steps to ensure that proper internal controls are in place, to the best of his ability. Actions have been taken to ensure internal controls have been put in place by the NCASS board as a whole.

Completion Date: May 24, 2016

FINDING 2016-008

Contact Person Responsible for Corrective Action: Jediah Behny

Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: As a member of the NCASS, the Superintendent of Charles A Beard Memorial School Corporation serves on the board of directors for the cooperative. The Superintendent has taken all necessary steps to ensure that proper internal controls are in place, to the best of his ability. Actions have been taken to ensure internal controls have been put in place by the NCASS board as a whole.

Completion Date: May 24, 2016

FINDING 2016-009

Contact Person Responsible for Corrective Action: Stephanie Madison

Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

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Superintendent

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Description of Corrective Action Plan: Fund 8400, Prepaid Food, was created on June 3, 2016.

Completion Date: June 3, 2016

FINDING 2016-010

Contact Person Responsible for Corrective Action: Stephanie Madison
Contact Phone Number: 765-345-5101

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The school corporation will establish effective internal controls by adding an additional layer of oversight to ensure the completion and retention of documentation required for the procurement process, as well as ensuring vendors have not been suspended or debarred.

Anticipated Completion Date: July 1, 2018

Stephanie L. Madic
(Signature)

Business Manager
(Title)

July 30, 2018
(Date)

CHARLES A. BEARD MEMORIAL SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on July 30, 2018, with Stephanie L. Madison, Treasurer; Jediah T. Behny, Superintendent of Schools; Wade Beatty, President of the School Board; Steve Ferrell, School Board member; and Gerald Leonard, School Board member.