

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCOTT COUNTY SCHOOL DISTRICT 1

SCOTT COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
08/31/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kathie Bowling	07-01-14 to 01-14-18
	Jami Parks	01-15-18 to 06-30-19
Superintendent of Schools	Robert Anderson	07-01-14 to 06-30-19
President of the School Board	Linda Spicer	01-01-14 to 12-31-14
	Kathy Morris	01-01-15 to 12-31-15
	Joie Bukowski	01-01-16 to 12-31-16
	Ryan Payne	01-01-17 to 12-31-17
	Kathy Morris	01-01-18 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE SCOTT COUNTY SCHOOL DISTRICT 1, SCOTT COUNTY, INDIANA

This report is supplemental to our audit report of the Scott County School District 1 (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 Results and Comments as described below.

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

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

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

July 20, 2018

SCOTT COUNTY SCHOOL DISTRICT 1
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 2014-002 from the immediately prior audit.

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). As a result, material misstatements of the SEFA remained undetected. The Business Manager prepared the SEFA; however, there were no controls in place to verify the accuracy of the information prior to submission.

Context

The SEFA contained the following errors:

1. Expenditures for the Child Nutrition Cluster were not reported in the amount of \$498,293 and \$450,222 for school years 2014-2015 and 2015-2016, respectively.
2. Expenditures for the Special Education Cluster (IDEA) were not reported in the amount of \$376,680 and \$367,662 for school years 2014-2015 and 2015-2016, respectively.
3. Expenditures for the Twenty-First Century Community Learning Centers were overstated by \$91,840 for the 2014-2015 school year and understated by \$111,461 for the 2015-2016 school year.
4. Expenditures for the Rural Education grant were not reported in the amount of \$25,439 in the 2014-2015 school year.
5. Expenditures for the Title I Grants to Local Educational Agencies were understated by \$126,958 in the 2014-2015 school year.
6. Expenditures for the Improving Teacher Quality State Grants were overstated by \$36,516 for the 2014-2015 school year.

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:

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § _____.310. . . ."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (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.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the School Corporation's management establish controls 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 Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat of Finding 2014-001 from the immediately prior audit.

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to receipts, disbursements, and cash.

Receipts

Office personnel were assigned the responsibility for issuing receipts for specific collection areas. For their assigned collection area, each individual issued and posted the receipts and prepared and made the bank deposit without any oversight.

Adjustment transactions were recorded without oversight or approval to verify the validity of the adjustment. The employee responsible for receipting and posting money to the student prepaid meal accounts was also able to make adjustments to the students' meal accounts and enter the students' eligibility status into the food service software without oversight or review.

Online payments received on student meal accounts were not recorded at the time of the transaction when the funds were applied to the students' accounts. The activity was recorded in the financial records approximately once a week when the online payments were deposited into the School Corporation's bank account by the third-party payment processing company.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Cash

Reconcilements of the depository account balances to the financial records were performed without indication of an oversight or review. The same employee who prepared the bank reconcilements was also responsible for handling receipts associated with the student meal accounts and textbook rental. Monthly reconcilements of the depository account balances with the record balances were performed; however, unidentified variances existed. Corrections for known reconciling errors were not recorded correctly in a timely manner.

Vendor disbursements

In some instances, the person responsible for recording disbursement transactions in the ledger and issuing checks was the same individual responsible for approving the transactions. Adjustment transactions were recorded to the financial records without oversight or approval to verify the validity of the adjustment.

Refunds on student meal accounts were not made by check and approved through the normal disbursement process. Instead, monies were withheld from daily collections and held as cash refunds for students or parents to pick up.

Payroll disbursements

One individual was responsible for processing payroll activity without oversight or review. This individual was responsible for establishing new employees and terminating employees within the payroll system, entering pay rates, processing the biweekly pay, and making electronic payroll and payroll deduction payments.

2. Procedures were not in place to perform reconcilements of control accounts with the supporting subsidiary records to ensure financial activity was properly recorded.

The balances of the payroll withholding funds were not being reconciled properly with amounts owed. Posting errors were not properly identified and corrected timely. Failure to reconcile the withholding funds resulted in errors on the bank reconcilement that went unidentified.

A reconcilement was not performed between the financial activity per the subsidiary student meal accounts and the funds ledger control account to ensure all financial activity recorded within the subsidiary student account was being recorded in the financial records.

3. Proper controls were not in place to ensure financial activity being held in trust by the School Corporation was recorded and identified separately from other School Corporation funds. Monies being held in trust for use by students to purchase meals were incorrectly included with the financial activity reported for the School Lunch fund.

Context

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

The depository account balance was not reconciled with the record balance at June 30, 2016. The record balance reported \$34,321 more than the depository account balances. The difference between the depository account balance and the record balance at June 30, 2016, was primarily due to a \$17,915 correction in June 2016 that was recorded incorrectly in the ledger. Differences identified in the monthly reconcilements as the result of posting errors or checks returned for insufficient funds were not corrected timely in the financial records and were included as reconciling items for one or more years.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Clearing account number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 and 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classified meals (breakfast, lunch, etc.) when known (charged by the students). Subsidiary records by student should be routinely reconciled with the cash balance at month end. (The School Administrator and Uniform Compliance Guidelines, Volume 183, September 2008).

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Cause

Management of the School Corporation had not established a proper system of internal control. An evaluation of the School Corporation's system of internal control had not been conducted. Management had not conducted a risk assessment related to the School Corporation's financial reporting and transactions.

Effect

The failure to establish controls 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 for receipts, cash, and disbursements.

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 - Allowable Costs/Cost Principles

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): SY 14-15, SY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2014-013.

Condition

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Proper documentation was not retained to support salaries recorded to the School Lunch fund.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Context

Transactions related to the food service program were recorded in the School Lunch fund. This included, but was not limited to, the following: salaries and benefits, food purchases, supplies, and all revenue generated by the food service program. There was a lack of segregation of duties in reviewing costs charged to the programs as only one individual was in control of validating and approving the vendor costs recorded to the grant programs. No controls were in place to review ledger activity, specifically detail payroll activity, to ensure costs were properly recorded to the programs.

The School Corporation did not comply with the Allowable Costs/Cost Principles requirements regarding payment of salaries from the food service program (School Lunch fund). Semi-Annual Certifications, Personal Activity Reports, or other documentation of personnel expenses were not completed for any employees whose salaries were charged to the programs during the period of July 1, 2014 to October 1, 2015, as required under Circular A-133.

Costs of \$85,197 were charged to the grant programs for salaries and benefits for two employees who performed multiple job functions. No Personal Activity Reports or other documentation of personnel expenses were completed to support the actual time spent on the grant programs in relationship to other duties performed to determine that the costs were properly allocated to the food service program. Beginning in June 2016, the employees began tracking time spent on the food service program and documenting the time separately on timesheets.

Problems were identified with portions of salaries for two additional employees being charged to the food service program. Salary costs were charged to the programs for activities unrelated to the food service program. The costs and benefits associated with these employees totaled \$2,212. On April 11, 2018, changes were made to codes used in the payroll system so that a set amount was not automatically charged to the food service program for these employees.

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). . . ."

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

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. 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. . . ."

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. . . ."

Cause

Management of the School Corporation had not developed an effective internal control system that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Effect

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

Questioned Costs

Questioned costs in the amount of \$87,409 were identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirement listed above.

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: 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): SY 14-15, SY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Cash Management,
Eligibility, Reporting, Special Tests and Provisions -
School Food Accounts, Special Tests and
Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding numbers were 2014-008, 2014-009, 2014-010, and 2014-012.

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: Activities Allowed or Unallowed, Cash Management, Eligibility, Reporting, Special Tests and Provisions - School Food Accounts, and Special Tests and Provisions - Paid Lunch Equity.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Context

Activities Allowed or Unallowed

The School Corporation had not designed or implemented adequate policies and procedures to ensure that School Lunch funds were expended for allowable activities. One individual reviewed and approved the claims prior to payment with no controls in place to ensure that the claims were for allowable expenses. Activities related to payroll were not properly reviewed to ensure the salary activity associated with the costs charged to the programs related to the School Lunch fund.

Cash Management

The School Corporation had not developed procedures whereby the net cash resources in its food service program (School Lunch fund) were monitored to ensure that the net cash resources in the fund did not exceed the three months average expenditures.

Eligibility

Determination of eligibility was made by one individual without the oversight or review by another individual.

Reporting

Monthly Sponsor Claims (claims for reimbursement), Annual Financial Reports, and School Food Authority (SFA) Verification Collection Reports were completed by one individual without any oversight or review.

Special Tests and Provisions - School Food Accounts

No financial overview of the School Lunch fund was performed to determine if the financial activity recorded was proper and reasonable. Procedures were not in place to ensure the number of meals served and other items sold were reasonable in relationship to the amounts receipted to the School Lunch fund. There were no controls in place to ensure that all financial activity recorded in the student meal accounts was recorded in the financial ledger. There was a lack of segregation of duties over the receipting and disbursing aspects of the School Lunch fund activity. The same individual that receipted money to the School Lunch fund also deposited the money and performed the bank reconciliements. The individuals responsible for ordering items for the School Lunch fund was also responsible for approving disbursements and recording the disbursements.

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

The School Corporation calculated the Paid Lunch Equity and submitted it to the Indiana Department of Education (IDOE); however, the School Corporation did not have controls in place whereby someone reviewed the calculation for accuracy prior to it being submitted to the IDOE.

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

SCOTT COUNTY SCHOOL DISTRICT 1
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 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.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

FINDING 2016-005

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): SY 14-15, SY 15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2014-011.

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 requirement.

The School Corporation did not have a purchasing policy. No quotes were obtained for small and micro purchases made by the School Corporation. The School Corporation utilized a third-party purchasing agent for the bulk of its food service program purchases. Procedures used by the third-party purchasing agent were not reviewed to determine that the Procurement and Suspension and Debarment compliance requirement was being followed.

The School Corporation did not determine if vendors paid were suspended or debarred from participation in federal programs.

Context

Noncompliance with the program requirements and lack of internal 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:

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

(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 3016.36 states in part:

". . . (b)(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. . . ."

(d) *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) Procurement by *sealed bids* (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in § 3016.36(d)(2)(i) apply. . . ."

2 CFR 200.319 (c) states in part: "The non-Federal entity must have written procedures for procurement transactions. . . ."

2 CFR 200.320 states in part:

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

(a) Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(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.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c)(1) of this section apply. . . ."

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

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 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 had not developed a system of internal controls that segregated key functions, nor did they have procedures in place to ensure compliance with the Procurement and Suspension and Debarment requirements.

Effect

The failure to establish an effective internal control system allowed noncompliance with the compliance requirement and could have allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Recommendation

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

FINDING 2016-006

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): SY 14-15, SY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2014-008.

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.

Proper procedures were not in place to ensure financial activity related to program income was properly recorded in the financial records. The control account in the financial ledger was not reconciled with the detail meal subsidiary records to ensure that all financial activity recorded in the subsidiary record had been properly identified and recorded in the financial ledger.

Proper segregation of duties did not exist for recording of program income. One individual was responsible for receipting, depositing, and recording cash meal sales without any oversight. One individual was responsible for recording program income related to prepaid meal sales without any oversight or review.

Instances were noted in which students were not charged for meals served. The students did not meet eligibility guidelines under the nutrition program to receive meals free of charge and should have been charged for the meals in accordance with the established meal prices approved by the School Board. During the 2015 school year, the estimated program income lost by the School Corporation for the failure to charge the students for the meals was approximately \$3,419. During the 2016 school year, the estimated program income associated with these meals was \$5,720. The School Corporation computed the amount of money that should have been collected from these students for the 2016 school year and the costs were reimbursed to the School Lunch fund from the General fund.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Context

The lack of adequate internal 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). . . ."

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; . . ."

Cause

Management had not developed a system of internal controls that segregated key functions and ensured compliance with the Program Income compliance requirement. Management did not require all students to pay for meals received.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant requirements to go undetected. A lack of segregation of duties within an internal control system could have allowed noncompliance with the compliance requirement 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. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds.

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 Program Income compliance requirement. Meals should not be provided free of charge to anyone other than individuals eligible for free meals under the program guidelines.

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: Title I Grants to Local Educational Agencies, Twenty-First Century Community Learning Centers, Special Education Cluster (IDEA) - Level of Effort

Federal Agency: Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, Twenty-First Century Community Learning Centers, Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.010, 84.287, 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14-7230, 15-7230, 16-7230, A58-0-10DL-122, A58-5-15DL-0160, A58-6-16DL-3056, 14213-038-PN01, 14214-157-PN01, 99914-157-PN01, 14215-038-PN01, 14216-036-PN01, 45713-038-PN01, 45714-157-PN01, 45715-038-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding numbers were 2014-003, 2014-007, and 2014-015.

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 Level of Effort compliance requirement.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Financial activity was not properly recorded in the financial records to ensure amounts used in the computation of the level of effort calculation was accurate. As a result of not being able to substantiate the accuracy of the amounts used in the computation of the level of effort calculation, a proper evaluation of compliance with the requirements could not be made.

Context

Financial activity associated with the fiscal years 2013 and 2014, upon which the level of effort for grants awarded in fiscal years 2015 and 2016 was determined, was not properly recorded in the financial records resulting in a disclaimer of opinion on the financial statements. Based upon the disclaimer of the financial statements, the validity of underlying expenditure figures used in the level of effort calculation could not be determined in order to properly evaluate compliance with the Level of Effort compliance requirement.

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-133, Subpart C, section .310(a) states in part: "Financial statements. The auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. . . ."

2 CFR 200.510(a) states in part: "*Financial statements*. The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited. . . ."

Cause

Management of the School Corporation had not developed an effective internal control system that would have ensured proper recording of the transactions in the financial statements.

Effect

The failure to establish an effective internal control system and properly record transactions in the financial statements prevented the determination of the School Corporation's compliance with the Level of Effort compliance requirement.

SCOTT COUNTY SCHOOL DISTRICT 1
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 the compliance requirement listed above. We recommended that the School Corporation establish controls related to the proper recording of financial activity to ensure accuracy in financial reporting.

Views of Responsible Officials

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

FINDING 2016-008

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate
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): 14-7230, 15-7230, 16-7230
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. 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 Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

The School Corporation did not retain sufficient documentation to support the reason students were removed from the graduation cohort.

Context

Testing procedures were performed on six of the students removed from the graduation cohort. Errors were identified with three of the students information tested. In all three instances, complete written documentation was not retained to support the reason for removal from the graduation cohort. In addition, for two of the three students tested, the reason for removal from the graduation cohort reported to the state did not agree with the reason as indicated per information on file at the School Corporation.

SCOTT COUNTY SCHOOL DISTRICT 1
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). . . ."

34 CFR 200.19(b)(ii) states in part:

". . . (B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

- (1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.
- (2) A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort."

Cause

Management of the School Corporation had not developed a system of internal controls that would have ensured that the School Corporation complied with the grant agreement and the compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduate Rate 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: Title I Grants to Local Educational Agencies - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement and Suspension and Debarment, and Reporting

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 14-7230, 15-7230, 16-7230

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement and Suspension and Debarment, Reporting

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting. 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 following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement and Suspension and Debarment, and Reporting.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Controls were not adequate to ensure expenditures were recorded under the proper budget categories; or to monitor adherence to the grant budget categories throughout the grant period.

Procurement and Suspension and Debarment

Written policies and procedures had not been adopted for purchases made under the grant program. Additionally, controls were not implemented to ensure contractors doing business with the School Corporation were not suspended or debarred.

Reporting

Controls were not in place to ensure amounts claimed for reimbursement were in agreement with the School Corporation records and were claimed only once. Also, there was no control in place to verify that final expenditure reports were in agreement with the School Corporation records.

Context

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

SCOTT COUNTY SCHOOL DISTRICT 1
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 to ensure compliance with the requirements and agreement of the records to amounts reported.

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 adequate procedures 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 program.

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.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

FINDING 2016-010

Subject: Twenty-First Century Community Learning Centers - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Program: Twenty-First Century Community Learning Centers

CFDA Number: 84.287

Federal Award Numbers and Years (or Other Identifying Numbers): A58-0-10DL-122; A58-5-15DL-0160;
A58-6-16DL-3056

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2014-006.

Condition

The School Corporation did not have controls in place to properly monitor financial activity to determine if costs charged to the program were allowable costs in accordance with the Allowable Costs/Cost Principles compliance requirement. The lack of controls resulted in costs charged to the grant program that were not properly documented or were considered unallowable costs under the program.

Context

The following items were identified regarding costs charged to the grant program:

1. Transportation costs in the amount of \$34,768 were charged to the grant program with no documentation to support the costs charged. Of this amount, \$26,150 was charged to the program in the 2015 fiscal year. The amount of \$8,618 was incurred during the 2016 fiscal year; however, the actual costs were not paid or reimbursed by the grantor agency until July 2016.
2. Costs in the amount of \$19,346 were charged to the grant program 'Personnel' budget category for bus driver wages and reported to the state grantor agency as personnel costs. Per the approved grant program budget, bus driver wages were to be included in the 'Transportation' budget category. The grant application budget indicated funds disbursed from the 'Personnel' budget category were to be used for administrative and instructional salaries. Had the cost been charged to the correct budget category, transportation costs would have exceeded the approved budget and a request for a budget modification from the state grantor agency would have been required. No records were presented to indicate that an approved budget modification had been received. In May 2016, the School Corporation began properly charging bus driver wages to the transportation category of the grant budget and reporting the amount to the state grantor agency under the correct budget category.
3. Personal activity reports and Semi-Annual Certifications (time and effort logs) were not completed by employees to support the time spent on the program for grants subject to A-133 requirements.

SCOTT COUNTY SCHOOL DISTRICT 1
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). . . ."

34 CFR 80.20(b) states in part:

"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. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . ."

2 CFR 200.302(a) states:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also § 200.450 Lobbying."

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: . . .

(g) Be adequately documented. . . ."

34 CFR 80.30(c) states in part:

"*Budget changes (1) Nonconstruction projects.* Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated under a non-construction award: . . .

(ii) Unless waived by the awarding agency, cumulative transfers among direct costs categories, or, if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds \$100,000. . . ."

2 CFR 200.308(b) states in part: "Recipients are required to report deviations from budget or project scope or objective, and request prior approvals from Federal awarding agencies for budget and program plan revisions, . . ."

The grant agreement with Indiana Department of Education states in part:

"The Grantee agrees to abide by the Grant Budget; except that budget line item transfer of up to ten percent (10%) of the original line item amount may be transferred to other Grant budget line items without State Project Director approval. Transfers exceeding the maximum amount of ten percent (10%) of the budget line item require a budget amendment and prior written approval by the State Project Director. . . ."

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

"Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. . . .
- (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 and 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. . . ."

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Cause

Management of the School Corporation had not developed an effective internal control system that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

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

Questioned Costs

Unsupported transportation costs associated with the program in the amount of \$34,768 were considered to be questioned costs.

Recommendation

We recommended that personnel responsible for allocating personnel costs and approving costs become knowledgeable about the grant program and of the activities and costs allowed per the approved grant application in order to properly monitor costs prior to charging and authorizing the costs to the federal program.

Views of Responsible Officials

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

FINDING 2016-011

Subject: Special Education Cluster (IDEA) - Reporting

Federal Agency: Department of Education

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

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-038-PN01, 14214-157-PN01,
99914-157-PN01, 14215-038-PN01,
14216-036-PN01, 45713-038-PN01,
45714-157-PN01, 45715-038-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2014-014.

Condition

Management of the School Corporation had not established an effective internal control system related to the Reporting compliance requirement as it related to the Count of Children with Disabilities Receiving Special Education Services report required to be filed with the state.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

Procedures were not in place whereby the report was reviewed prior to being submitted to ensure its accuracy. The Madison Area Educational Special Services Unit (MAESSU) acting as the LEA for the School Corporation's special education program, reviewed student data per the School Corporation's records for comparison with the student data per its records. The MAESSU then submitted this information to the School Corporation. The School Corporation submitted the MAESSU report data to the state without review to determine its accuracy or identification of any differences in its data.

Context

Two of the four Count of Children with Disabilities Receiving Special Education Services reports submitted to the state had the following errors. The December 1, 2014, Count of Children with Disabilities Receiving Special Education Services report reported 249 students; however, the documentation presented for audit showed 251 students for a difference of 2 students. The December 1, 2015, Count of Children with Disabilities Receiving Special Education Services report reported 253 students; however, the documentation presented for audit showed 260 students for a difference of 7 students.

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). . . ."

34 CFR 80.20 states in part:

"(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

SCOTT COUNTY SCHOOL DISTRICT 1
FEDERAL FINDINGS
(Continued)

(b) 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. . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:
. . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

Cause

Management had not developed a system of internal controls that would have ensured accurate reporting.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the compliance requirement listed above. Documentation to support student counts reported should be maintained and reviewed for accuracy.

Views of Responsible Officials

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

SCOTT COUNTY SCHOOL DISTRICT 1

255 Highway 31 S. P.O. Box 9

AUSTIN, IN 47102

812-794-8750 or FAX: 812-794-8765

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HIGH SCHOOL PRINCIPAL

Keith Henderson
ASST. HIGH SCHOOL PRINCIPAL

David Deaton
MIDDLE SCHOOL PRINCIPAL

Beverly Turner
ELEMENTARY SCHOOL PRINCIPAL

Sheila Carter
ASST. ELEMENTARY PRINCIPAL

Finding 2016-001

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur with the finding; however, there was very poor and minimal guidance when AFR was placed on Gateway. The responsible party has been learning with each AFR they complete.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan: Currently one person prepares, reviews, and submits the AFR/SEFA. The corrective action will be for another financially minded employee in the business office (to be determined) to participate in the preparation, review, and submission of the SEFA. A hard copy of the SEFA will be signed by both parties and filed in the business office.

Anticipated Completion Date: We hope to have implemented with the SEFA completed summer of 2018, completion date of 9/30/18.

Finding 2016-002

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur that there are issues with segregation of duties; however, it is impossible for a small school to staff the business office in manner that would provided accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. Receipts
 - a. A second individual will verify and approve the receipt and deposit
 - b. A second individual will approve all adjustments to receipts. Copies of the adjustment will be filed in the business office.
 - c. Online payments will be recorded in the more timely manner
2. Cash
 - a. A second individual will provide review of bank reconcilements, this will noted by signature of preparation and review.
3. Vendor Disbursements
 - a. The majority of this finding has already been corrected; the former Treasurer was also the Food Service Director. This individual would approve the food service claims and also issue the food service checks. This is no longer the practice.
 - b. Starting in July 2018 refunds on student meal accounts will be made by check instead of a cash refund and the checks will be approved through the normal claims process by the board.
 - c. A second business office employee will review all adjustments, this will be verified by signature.
4. Payroll Disbursements
 - a. One person will remain responsible for processing payroll. However with the conversion to a new/updated financial software in July/Aug 2018, additional employees will be trained on the process and will serve as backup and review for payroll processing. Since the audit, there have been internal spot audits of payroll vouchers conducted by Treasurer verified by initials on the vouchers.
5. The treasurer will work with the Superintendent and Food Service Director to develop procedures to perform reconcilements of control accounts to ensure financial activity is recorded properly.
6. Controls will be implemented to ensure financial activity is recorded and identified separately.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-003

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. The majority of this finding has already been corrected; the former Treasurer was also the Food Service Director. This individual would approve all food service claims and also issue the food service checks. This is no longer the case. The new Treasurer will start to review/approve.
2. Allowable Costs/Cost Principles have now been corrected with proper time keeping by Food Service Director and Food Service Treasurer.
3. With the implementation of a new financial software system in July/August of 2018, additional employees will be trained on the payroll process so that there will be better segregation of duties and review of payroll processing. Beginning in June 2016 new documentation was implemented to be track time spent between job functions.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-004

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. Activities Allowed or Unallowed
 - a. The majority of this finding has already been corrected; the former Treasurer was also the Food Service Director. This individual would approve all food service claims and also issue the food service checks. This is no longer the case. The new Treasurer will start to review/approve.
 - b. Payroll activities will be review and this will be reviewed with verification by signature.
2. Cash Management
 - a. The school corporation has a negative cash balance, when the cash balance begins to be positive it will be monitored by the Food Service Director to ensure that the net cash resources do not exceed the three-month average expenditure.
3. Eligibility
 - a. Eligibility will be verified by a second employee.
4. Reporting
 - a. There will be oversight/review by a second employee.
5. Special Tests and Provisions-School Food Accounts

- a. The school corporation will look into better segregation of duties. The school corporation has just recently hired a new employee and are currently in the process of trying to establish different roles for employees to provide better segregation.
6. Special Tests and Provisions-Paid Lunch Equity
 - a. Someone will review the calculation prior to submission to IDOE, this will be verified by signature.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-005

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. The business office was unaware of the Procurement and Suspension and Debarment compliance requirement; Certificates to prove vendor is not suspended/disbarred will be obtained and filed in the business office. Certificate will be signed to prove the verification.
2. Third Party Purchasing will be reviewed, certification will be obtained.
3. A written procurement policy was adopted in June 2017.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-006

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

- a. Internal Controls continue to be an audit issue, we are working on a solution to appease the auditors.
- b. Records will be reviewed by a second employee.
- c. Receipts, deposits, and recording cash meals sales will have oversight of a second business office employee.

- d. A new charge policy was adopted during the audit to stop the ability of NO ID meals in the elementary.
- e. A Food Service employee will reconcile the prepaid account balance and this will be approved by the Treasurer.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-007

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

- a. Internal Controls continue to be an audit issue, we are working on a solution to appease the auditors.
- b. We have implement new fund numbers with each years grant. Going forward there will be a new financial software system and with better coding capabilities. These classifications will be reviewed to ensure the proper employees are being paid from the proper funds.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-008

Contact Person Responsible for Corrective Action: Robert Anderson, Superintendent

Contact Phone Number: 812-794-8750

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

- a. Internal Controls continue to be an audit issue, we are working on a solution to appease the auditors.
- b. High School Staff will be trained on the retaining the correct records to verify the Annual Report Card

Anticipated Completion Date: Dec 31, 2018

Finding 2016-009

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. **Activities allowed or unallowed-** Reports will be verified by a second employee showing expenditures are recorded under the proper budget category.
2. **Procurement, Suspension, and Debarment-** Contractors will be verified as not suspended for debarred, evidence will maintained in the business office.
3. **Reporting-** Reimbursements will be verified in agreement with school financial records. Final report will be reviewed as well.
4. The district has a Procurement Policy for Federal Grants that is not being followed, the district will review the policy and begin policy following it.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-010

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. The school corporation will implement controls to properly monitor financial activity to determine the costs are allowed under the program. A second employee will verify the costs are allowed under the program before reimbursement is requested.
2. Semi Annual Certifications are no longer required under Uniform Guidance, bi-weekly payroll sheets are used as time and effort logs.

Anticipated Completion Date: Dec 31, 2018

Finding 2016-011

Contact Person Responsible for Corrective Action: Jami Parks, Business Manager and Treasurer

Contact Phone Number: 812-794-9630

Views of Responsible Official: We concur there are issues with segregation of duties; however, it is impossible for small schools to staff the business office in a manner that would provide accepted segregation of duties.

Repeat finding is a result of the timing of the prior audit and the current audit, there was not enough time to correct the finding from the previous audit.

Description of Corrective Action Plan:

1. Business Manager will work more closely with both MAESSU and the school corporation Technology Director to insure that school records and co-op records are in agreement before submitting to IDOE.

Anticipated Completion Date: Dec 31, 2018

SCOTT COUNTY SCHOOL DISTRICT 1
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B47496.

The financial statement included the following funds with overdrawn cash balances at June 30, 2014 and 2015.

Fund	Amount Overdrawn June 30, 2015	Amount Overdrawn June 30, 2016
School Transportation	\$ -	\$ 9,747
School Lunch	-	23,952
Walmart Teacher of Year McIntosh	-	73
Secured Schools Safety Grant	-	2,861
Title I 2011-2012	28,069	28,069
Drug Free Schools	6,530	6,530
Improving Teacher Quality, No Child Left, Title II, Part A	5,833	5,883
Rural Schools and Low Income Program - Pass Through State	3,379	3,379
Titel I - Grants to LEAs	101,239	101,239

Other funds on the School Corporation's financial statement had overdrawn cash balances at June 30 2014 and 2015; however, these funds were associated with grant funds for which the School Corporation will subsequently be reimbursed by the grant program.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit.

SCOTT COUNTY SCHOOL DISTRICT 1
AUDIT RESULTS AND COMMENTS
(Continued)

In an instance in which a unit receives a reimbursement grant, the unit must be claiming reimbursement in a timely manner. In this case, it would be possible for a fund to be overdrawn for a short period of time. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation failed to provide training over the internal control standards adopted as required by Indiana Code 5-11-1-27(g) to all required personnel.

Indiana Code 5-11-1-27(g) states in part:

". . . the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

APPROPRIATIONS

The same comment also appeared in prior Report B47496.

Expenditures of the Debt Service fund exceed the budgeted appropriations in the amount of \$336,772 for the 2014 year and \$13,885 in the 2015 year.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

SCOTT COUNTY SCHOOL DISTRICT 1
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2018, with Jami Parks, Treasurer; Robert Anderson, Superintendent of Schools; and Kathy Morris, President of the School Board.