

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PENN-HARRIS-MADISON SCHOOL CORPORATION

ST. JOSEPH COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED

10/13/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2017-001	
Financial Transactions and Reporting	4-5
Finding 2017-002	
Title I Grants to Local Educational Agencies - Procurement and Suspension and Debarment	5-8
Finding 2017-003	
Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate	8-10
Finding 2017-004	
Special Education Cluster (IDEA) - Level of Effort - Maintenance of Effort.....	10-12
Finding 2017-005	
Child Nutrition Cluster - Internal Controls	12-14
Finding 2017-006	
School Breakfast Program and National School Lunch Program - Cash Management	14-16
Finding 2017-007	
Child Nutrition Cluster - Equipment.....	16-17
Finding 2017-008	
Child Nutrition Cluster - Procurement and Suspension and Debarment	18-20
Corrective Action Plan.....	21-28
Audit Result and Comment:	
Public Records Retention - Penn High School.....	29
Official Response	30
Exit Conference.....	31

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director of Business Services/Treasurer	Alex M. Newman	07-01-15 to 06-30-17
	(Vacant)	07-01-17 to 08-31-17
	Jerry Hawkins	09-01-17 to 06-30-19
Superintendent of Schools	Dr. Jerry L. Thacker	07-01-15 to 06-30-19
President of the School Board	Chris Riley	07-01-15 to 12-31-15
	Gary Fox	01-01-16 to 12-31-17
	Chris Riley	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 PENN-HARRIS-MADISON SCHOOL
CORPORATION, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the Penn-Harris-Madison School Corporation (School Corporation), for the period from July 1, 2015 to June 30, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

August 30, 2018

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting of receipts. The School Corporation did not have controls in place to ensure that collections for Kids Club LLC were receipted and recorded correctly.

The School Corporation provided a before and after school care program (Kids Club) at ten of the elementary schools. A software system tracked collections at each school. Collections were given to the program director or assistant program director who prepared the Summary Collection form (SA-8), prepared the bank deposit, deposited the collections, and remitted the SA-8 to the School Corporation. The School Corporation recorded the information in the Child Care Program fund according to the SA-8. The School Corporation had not designed or implemented adequate policies and procedures to ensure that the Kids Club software system reports were reconciled to actual deposits or to amounts receipted into the Child Care Program fund.

Context

The lack of controls was a systemic issue 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. . . ."

Cause

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

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, misstatements in a timely manner.

Recommendation

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting of receipts.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Title I Grants to Local Educational Agencies - Procurement and Suspension and Debarment
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 15-7175, 16-7175, 17-7175
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: 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 requirement.

Procurement

The School Corporation did not have internal controls in place to ensure that the purchasing methods used complied with their procurement procedures and applicable state and local requirements, or that they documented their rationale for the method of procurement used. Their procurement policy did not address applicable state laws and regulations.

The School Corporation contracted with a service provider and renewed the contract annually for many years. They did not detail the history of the procurement or document the rationale for the method of procurement.

The School Corporation did not obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Suspension and Debarment

The School Corporation had not established an effective internal control system to ensure compliance with suspension and debarment requirements. 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 the noncompliance were systemic issues 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 3016.36(b)(1) states: "Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

2 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part. . . ."

(i) The non-Federal entity must maintain records sufficient to detail the history of 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. . . ."

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . .
- (f) Procurement by noncompetitive proposals. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:
 - (1) The item is available only from a single source;
 - (2) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
 - (3) The Federal awarding agency or pass-through entity expressly authorizes non-competitive proposals in response to a written request from the non-Federal entity; or
 - (4) After solicitation of a number of sources, competition is determined inadequate."

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

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with 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 2017-003

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): 15-7175, 16-7175, 17-7175
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

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 annual report card, high school graduation rate requirements.

The School Corporation did not comply with the requirement that students removed from the high school cohort graduation rate for mobility reasons have written documentation to support the students' removal from the cohort.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. Of those tested, 13.6 percent of the students listed were reported as mobile without the required supporting documentation being retained to substantiate their removal from the cohort for mobility reasons.

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. . . ."

PENN-HARRIS-MADISON 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). . . ."

34 CFR 200.19(b) states in part:

"*High schools*—

(1) *Graduation rate.* Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a 'four-year adjusted cohort graduation rate,' defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . . .

(ii) The term 'adjusted cohort' means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term 'students who transfer into the cohort' means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

(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. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the annual report card, high school graduation rate requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the grant agreement and the annual report card, high school graduation rate requirements could have resulted in the loss of federal funds to the School Corporation.

PENN-HARRIS-MADISON 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 and comply with the Special Tests and Provisions - Annual Report Card, High School Graduation 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 2017-004

Subject: Special Education Cluster (IDEA) - Level of Effort - Maintenance of Effort
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): 14217-134-PN01, 45717-134-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Matching, Level of Effort, Earmarking
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 level of effort - maintenance of effort (MOE) requirements.

Per the instructions for the special education program applications, the School Corporation was required to use the 2015-2016 expenditure data to complete the MOE calculation for the fiscal year (FY) 2017 application and the 2016-2017 expenditure data to complete the FY 2018 application.

The School Corporation did not use the correct years' expenditure data when completing the calculation for both the FY 2017 and FY 2018 applications. The School Corporation used the 2014-2015 expenditure data to complete the calculation for the FY 2017 application and the 2015-2016 expenditure data to complete the calculation in the FY 2018 application.

The School Corporation also omitted expenditure accounts used in the prior year's MOE calculation from the FY 2017 calculation. The expenditure accounts were to be consistent unless it was an allowable exclusion or adjustment. There was not any documentation presented to support the exclusion.

Context

The lack of controls was a systemic issue throughout the audit period. The MOE calculations included incorrect data for both applications audited.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 300.203(b) states in part:

"Compliance standard.

- (1) Except as provided in §§ 300.204 and 300.205, funds provided to an LEA under Part B of the Act must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.
- (2) An LEA meets this standard if it does not reduce the level of expenditures for the education of children with disabilities made by the LEA from at least one of the following sources below the level of those expenditures from the same source for the preceding fiscal year, except as provided in §§ 300.204 and 300.205:
 - (i) Local funds only;
 - (ii) The combination of State and local funds;
 - (iii) Local funds only on a per capita basis; or
 - (iv) The combination of State and local funds on a per capita basis. . . ."

34 CFR 300.205 states:

"(a) *Amounts in excess.* Notwithstanding § 300.202(a)(2) and (b) and § 300.203(b), and except as provided in paragraph (d) of this section and § 300.230(e)(2), for any fiscal year for which the allocation received by an LEA under § 300.705 exceeds the amount the LEA received for the previous fiscal year, the LEA may reduce the level of expenditures otherwise required by § 300.203(b) by not more than 50 percent of the amount of that excess.

(b) *Use of amounts to carry out activities under ESEA.* If an LEA exercises the authority under paragraph (a) of this section, the LEA must use an amount of local funds equal to the reduction in expenditures under paragraph (a) of this section to carry out activities that could be supported with funds under the ESEA regardless of whether the LEA is using funds under the ESEA for those activities.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(c) *State prohibition.* Notwithstanding paragraph (a) of this section, if an SEA determines that an LEA is unable to establish and maintain programs of FAPE that meet the requirements of section 613(a) of the Act and this part or the SEA has taken action against the LEA under section 616 of the Act and subpart F of these regulations, the SEA must prohibit the LEA from reducing the level of expenditures under paragraph (a) of this section for that fiscal year.

(d) *Special rule.* The amount of funds expended by an LEA for early intervening services under § 300.226 shall count toward the maximum amount of expenditures that the LEA may reduce under paragraph (a) of this section."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the MOE requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the grant agreement and the MOE requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Matching, Level of Effort, Earmarking compliance requirement.

Views of Responsible Officials

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

FINDING 2017-005

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility, Program Income, Reporting, Special
Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the requirements listed above.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Eligibility

The School Corporation used a food service software, which automatically made the eligibility determinations dependent upon the information entered into the software by applicants or school personnel. The School Corporation did not have a proper system of oversight or review documented to ensure that the federal income guidelines entered into the software program were accurate.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the food service program reports were reconciled to program income receipted into the School Lunch fund.

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure the accuracy of the Annual Financial Report, the Monthly Sponsor Claims (claims for reimbursement), and the School Food Authority (SFA) Verification Collection Report. The reports were completed by one individual without a proper system of oversight or review to ensure the accuracy of the reports before submission.

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

The School Corporation had not designed or implemented adequate policies and procedures to ensure the accuracy of the paid lunch equity calculations. The Food Service Director completed the calculations without a documented oversight or review process.

Context

The lack of controls was a systemic issue 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). . . ."

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the compliance requirements listed above.

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 listed above 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 establish controls to ensure compliance with 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.

FINDING 2017-006

Subject: School Breakfast Program and National School Lunch Program - 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 2016, FY 2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
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 Cash Management compliance requirement.

The School Corporation had not designed or implemented adequate internal controls to ensure that the School Lunch fund monthly cash balances (net cash resources) were limited to three months average expenditures in compliance with cash management requirements. There was no oversight, review, or monitoring of the cash balances.

The School Corporation did not comply with the cash management requirement that they limit cash balances (net cash resources) to three months average expenditures.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a systemic issue throughout the audit period. The cash balances (net cash resources) in the School Lunch fund exceeded the three months average expenditures for all 24 months 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(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

The School Corporation's management had not designed or implemented an effective internal control system that would have ensured compliance with the cash management requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the cash management requirements could have resulted in the loss of federal funds to the School.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective internal control system to ensure compliance and comply with 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.

FINDING 2017-007

Subject: Child Nutrition Cluster - Equipment

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Equipment and Real Property Management

Audit Findings: Material Weakness, 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 equipment requirements.

The School Corporation hired a third-party to perform a biennial inventory. The School Corporation did not perform a reconciliation of that inventory to their property records.

Context

The lack of controls and noncompliance were systemic issues 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:

PENN-HARRIS-MADISON SCHOOL CORPORATION
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). . . ."

2 CFR 200.313(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

Cause

The School Corporation's management had not developed or implemented a system of internal controls that would have ensured compliance with the equipment requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the equipment requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Equipment and Real Property Management compliance requirement.

Views of Responsible Officials

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

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-008

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: 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 requirements.

Procurement

The School Corporation had not established effective controls to ensure that the purchasing method used complied with 2 CFR 200.320.

The School Corporation did not always obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures.

Suspension and Debarment

The School Corporation had not established an effective internal control system to ensure compliance with suspension and debarment requirements. 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 effective controls and noncompliance were systemic issues 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. . . ."

PENN-HARRIS-MADISON 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). . . ."

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. . . ."

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

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the procurement and suspension and debarment requirements.

Effect

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

Questioned Costs

There were no questioned costs identified.

PENN-HARRIS-MADISON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with 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.



CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The business office has put into place internal controls that are detailed and clearly communicated. These procedures will be monitored on a weekly basis. We will prepare and review reports with the Kids Club Program Coordinator on a monthly basis.

Anticipated Completion Date: August 30, 2018

Jerry D. Hawkins
(Signature)

Spec. Dir. of Bus. Svcs.
(Title)

8-30-18
(Date)





CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Title I Coordinator, Learning Division, and Business Office will work together to ensure we put controls in place and follow all procurement and suspension and debarment procedures.

Anticipated Completion Date: October 31, 2018

Jerry D. Hawkins
(Signature)

Spec Dir of Bus. Svcs.
(Title)

8-30-18
(Date)





CORRECTIVE ACTION PLAN

FINDING 2017-003

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Business Office will meet with the Penn High School Principal to review the process for the removal of students from the cohort graduation rate for mobility reasons. We will ensure proper documentation is maintained as well as establishing a periodic review of the documentation.

Anticipated Completion Date: October 31, 2018

Jerry D. Hawkins
(Signature)

Exec Dir of Bus Svcs.
(Title)

8-30-18
(Date)





PENN·HARRIS·MADISON
SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

FINDING 2017-004

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Business Office will carefully prepare the Maintenance of Effort calculation and have a second person review for accuracy.


Anticipated Completion Date: August 30, 2018



(Signature)



(Title)



(Date)





CORRECTIVE ACTION PLAN

FINDING 2017-005

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

Eligibility: The Food Service Department will provide documentation that shows a second person is reviewing the appropriate number of eligibility applications. The Food Service Department will also have a second review of the federal income guidelines entered into the software to ensure accuracy.

Program Income: The Food Service Department will provide documentation that shows a second person is reviewing the monthly reconciliation.

Reporting: The Food Service Department will complete a review all reports and claims by a second person before submitting to the appropriate authority.

Special Tests and Provisions: The Food Service Department will review the Paid Lunch Equity calculations by a second person before submitting to the appropriate authority.

Anticipated Completion Date: September 30, 2018

Jerry D. Hawkins
(Signature)

Exec Dir. of Bus Svcs
(Title)

8-30-18
(Date)





CORRECTIVE ACTION PLAN

FINDING 2017-006

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Food Service Department will continue to implement a plan to upgrade equipment in various kitchens. The Business Office will review with the Food Service Director semi-annually the financials of the School Lunch Program.

Anticipated Completion Date: August 30, 2018

Jerry D. Hawkins
(Signature)

Spec. Dir. of Bus. Svcs.
(Title)

8-30-18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-007

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Business Office will hire a third party to perform an inventory. Upon completion, the Business Office will review the report with the Food Service Department to reconcile the report.


Anticipated Completion Date: September 30, 2019



(Signature)



(Title)



(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-008

Contact Person Responsible for Corrective Action: Jerry D. Hawkins
Contact Phone Number: 574-258-9591

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Food Service Department and Business Office will work together to ensure we put controls in place and follow all procurement and suspension and debarment procedures.

Anticipated Completion Date: August 30, 2018

Jerry D. Hawkins
(Signature)

Em. Dir. of Bus. Svcs.
(Title)

8-30-18
(Date)

PENN-HARRIS-MADISON SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

PUBLIC RECORDS RETENTION - PENN HIGH SCHOOL

Fifteen receipts and thirty-two deposits slips of the sample selected for testing were not provided for audit for the Penn High School extracurricular account.

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

State Board of Accounts
302 W. Washington St. Room E418
Indianapolis, Indiana 46204-2765

TO: Field Representatives
FROM: Jerry Hawkins
RE: OFFICIAL RESPONSE
DATE: September 14, 2018

In response to the Audit result and Comment for Public Records Retention at Penn High School:

The administration at Penn-Harris-Madison has reviewed the situation and made the necessary corrections to filing and record retention procedures at Penn High School. We have created a new position called Accounting Specialist. This person will work directly with the treasurers at every building to ensure proper procedures are followed. The Accounting Specialist will provide regular updates to the Executive Director of Business Services.

PENN-HARRIS-MADISON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on August 30, 2018, with Jerry Hawkins, Executive Director of Business Services/Treasurer; Dr. Jerry L. Thacker, Superintendent of Schools; Larry Beehler, Vice President of the School Board; Chris Riley, President of the School Board; and Victoria Roush, Accounting Coordinator.