

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WABASH CITY SCHOOLS

WABASH COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED

11/21/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michele L. Hough	07-01-15 to 06-30-19
Superintendent of Schools	Jason A. Callahan	07-01-15 to 06-30-19
President of the School Board	Kimberly A. Pinkerton Tony Pulley	01-01-16 to 12-31-17 01-01-18 to 12-31-18



STATE OF INDIANA
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TO: THE OFFICIALS OF THE WABASH CITY SCHOOLS, WABASH COUNTY, INDIANA

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

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

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

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

October 18, 2018

WABASH CITY SCHOOLS
FEDERAL FINDINGS

FINDING 2017-001

Subject: Child Nutrition Cluster - Cash Management, Program Income
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015-2016, FY 2016-2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Cash Management, Program Income
Audit Finding: Material Weakness

Condition

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

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

The School Corporation had not designed or implemented adequate policies or procedures to ensure that the School Lunch fund cash balance (net cash resources) did not exceed three months average expenditures.

Program Income

The School Corporation had not established an effective internal control over verifying the proper determination and recording of program income. The School Corporation did not provide evidence of a review of the meal count activity reports for all of its schools to ensure that all program income was properly determined and recorded in the School Corporation's ledger.

The School Corporation had not established an effective internal control over verifying that the transfers from the Prepaid Lunch fund 8400 to the School Lunch fund account number 800 were accurate.

Context

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

Criteria

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

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

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

Management had not developed a system of internal controls that would have ensured compliance with Cash Management and Program Income compliance requirements.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Cash Management and Program Income compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Cash Management and Program Income compliance requirements.

Views of Responsible Officials

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

FINDING 2017-002

Subject: School Breakfast Program, National School Lunch Program - Eligibility

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015-2016, FY 2016-2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Eligibility

Audit Findings: Material Weakness, Other Matters

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Condition

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

The School Corporation had an onsite audit performed by Indiana Department of Education - School and Community Nutrition. This onsite audit determined that Free and Reduced Applications were approved incorrectly.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of supporting documentation prevented the determination of the School Corporation's compliance with the Eligibility 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). . . ."

7 CFR 245.6(e) states:

"*Recordkeeping.* The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain, except that if audit findings have not been resolved, the documentation must be maintained as long as required for resolution of the issues raised by the audit."

Cause

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

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system and provide accurate Eligibility determination prevented the School Corporation from being in compliance with the grant agreement and the Eligibility compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Eligibility compliance requirement.

Views of Responsible Officials

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

FINDING 2017-003

Subject: Child Nutrition Cluster - Reporting
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 2015-2016, FY 2016-2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
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 Reporting compliance requirement.

The School Corporation prepared and submitted the monthly Sponsor Claims (Claims for Reimbursement), the Annual Financial Report, and the School Food Authority (SFA) Verification Collection Report without evidence of a proper system of oversight or review.

The Annual Financial Report contained errors. The beginning and ending balances, as well as total receipts and disbursements, did not agree with the School Corporation's financial records for fiscal year 2015-2016.

The School Food Authority (SFA) Verification Collection Report for the 2015-2016 and 2016-2017 program years were completed; however, information was not available, for either year, to support the total number of applications that were reported on the School Food Authority (SFA) Verification Report in order to determine whether the correct number of applications was selected for verification.

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Context

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

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 3016.20(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. . . ."

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. . . ."

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

Cause

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

Effect

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

FINDING 2017-004

Subject: School Breakfast Program, National School Lunch Program - Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015-2016, FY 2016-2017

Pass-Through Entity: Indiana Department of Education

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

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

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Food Authority (SFA) Verification Collection Report for the 2015-2016 and 2016-2017 program years were completed; however, information was not available, for either year, to support the total number of applications that were reported on the School Food Authority (SFA) Verification Report in order to determine whether the correct number of applications were selected for verification.

Additionally, the Indiana Department of Education-School and Community Nutrition did an onsite audit of the School Corporation's lunch program and found an issue with eligibility. The School Corporation had incorrectly approved free and reduced applications.

Context

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

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 245.6a(h) states in part:

"Verification reporting and recordkeeping requirements. By February 1, each local educational agency must report information related to its annual statutorily required verification activity, which excludes verification conducted in accordance with paragraph (c)(7) of this section, to the State agency in accordance with guidelines provided by FNS. . . . Local educational agencies shall retain copies of the information reported under this section and all supporting documents for a minimum of 3 years. All verified applications must be readily retrievable on an individual school basis and include all documents submitted by the household for the purpose of confirming eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission. All relevant correspondence between the households selected for verification and the school or local educational agency must be retained. . . ."

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) 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: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Programs: National School Lunch Program
CFDA Numbers: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015-2016, FY 2016-2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
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 Special Tests and Provisions - Paid Lunch Equity compliance requirement.

The School Corporation completed the annual Paid Lunch Equity calculation using the state's online template; however, these Paid Lunch Equity calculations were not used to increase meal prices.

Context

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

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 210.14(e) states in part:

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

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

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

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

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

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

(i) 2 percent; and

WABASH CITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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

(4) *Price Adjustments.*

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

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

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

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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



CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Matt Stone, CFO/COO
Contact Phone : 260-563-2151

Views of Responsible Official: Wabash City Schools concur with finding.

Description of Corrective Action Plan:

The Chief Financial Officer will work with the Deputy Treasurer and Food Service Director to create a system of internal controls to track and verify the Cash Management and Program Income compliance requirements.

Anticipated Completion Date: School Year 2018-19

Matt Stone
(Signature)

CFO / COO
(Title)

10/16/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Matt Stone, CFO/COO
Contact Phone : 260-563-2151

Views of Responsible Official: Wabash City Schools concur with finding.

Description of Corrective Action Plan:

The Chief Financial Officer will work with the Food Service Director to create a system of internal controls to verify and comply with the Eligibility compliance requirements.

Anticipated Completion Date: School Year 2018-19



(Signature)

CFO / COO

(Title)

10/16/18

(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-003

Contact Person Responsible for Corrective Action: Matt Stone, CFO/COO
Contact Phone : 260-563-2151

Views of Responsible Official: Wabash City Schools concur with finding.

Description of Corrective Action Plan:

The Chief Financial Officer will work with the Deputy Treasurer and Food Service Director to make sure that there is proper oversight and monitoring of preparations and reporting of the monthly Sponsor Claims, the Annual Financial Report and the SFA Verification Collection Reports for the School Lunch Fund

Anticipated Completion Date: School Year 2018-19



(Signature)

CFO / COO

(Title)

10/16/18

(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-004

Contact Person Responsible for Corrective Action: Matt Stone, CFO/COO
Contact Phone : 260-563-2151

Views of Responsible Official: Wabash City Schools concur with finding.

Description of Corrective Action Plan:

The Chief Financial Officer will work with the Food Service Director to create a system of internal controls to ensure compliance with the Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP).

Anticipated Completion Date: School Year 2018-19

Matt Stone
(Signature)

CFO/COO
(Title)

10/16/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2017-005

Contact Person Responsible for Corrective Action: Matt Stone, CFO/COO
Contact Phone : 260-563-2151

Views of Responsible Official: Wabash City Schools concur with finding.

Description of Corrective Action Plan:

The Chief Financial Officer will work with the Food Service Director to create a system of internal controls and an immediate plan to ensure compliance with the Special Tests and Provisions – Paid Lunch Equity.

Anticipated Completion Date: School Year 2018-19



(Signature)

CFO / COO

(Title)

10/16/18

(Date)

WABASH CITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on October 18, 2018, with Michele L. Hough, Treasurer; Jason A. Callaghan, Superintendent of Schools; Tony Pulley, President of the School Board; Tiffanie King, School Board member; and Matthew Stone, Chief Financial Officer.