

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SOUTHWEST SCHOOL CORPORATION

SULLIVAN COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
12/14/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Amy Kinnett	07-01-15 to 05-17-17
	(Vacant)	05-18-17 to 06-01-17
	Glenda D. Small (interim)	06-02-17 to 09-10-17
	Michele Hazelrigg	09-11-17 to 12-31-18
Superintendent of Schools	Chris Stitzle	07-01-15 to 06-30-19
President of the School Board	Barbara Rotramel	01-01-15 to 12-31-15
	Kevin Arnett	01-01-16 to 12-31-16
	Mitzie Badger	01-01-17 to 12-31-17
	Grant Bryant	01-01-18 to 12-31-18



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AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SOUTHWEST SCHOOL CORPORATION, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the Southwest 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 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

October 25, 2018

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-002.

Condition

There were 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 cash and investments and receipts. One person was solely responsible for the preparation of the bank reconciliations and for all aspects of the receipt process, including issuing receipts, depositing the funds, and reconciling the transactions in the records. There was no evidence of a control such as an oversight, review, or approval process.
2. **Monitoring of Controls:** The School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the School Corporation to monitor and assess the quality of the system of internal control.

Context

The deficiencies in the internal control system were systemic issues 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. . . ."

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the School Corporation had not established a proper system of internal control related to cash and investments and receipts.

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's management establish and implement a system of internal controls, including segregation of duties, related to financial transactions and reporting of cash and investments and 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: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-001.

Condition

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

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

Context

Due to the lack of effective controls, the SEFA contained the following errors:

1. Federal expenditures were understated in total by \$781,041 and \$477,007 for the 2015-2016 and 2016-2017 school years, respectively.
2. Several CFDA numbers, program names, pass-through entities, or pass-through identifying numbers were incorrectly reported or missing.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

Criteria

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

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

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

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. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

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

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.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-003

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 15/16, FY 16/17
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Cash Management, Reporting, Special Tests
and Provisions - School Food Accounts
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding numbers were 2015-006 and 2015-007.

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 compliance requirements listed above.

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

The School Corporation did not have effective procedures in place to ensure that the food service account balance (net cash resources) did not exceed three months average expenditures.

Reporting

There was no evidence of an oversight, review, or approval process, or other compensating controls, to ensure that the monthly Sponsor Claims (claims for reimbursement), NSLP Annual Financial Report, or School Food Authority (SFA) Verification Collection Reports were accurate and complete.

Special Tests and Provisions - School Food Accounts (School Breakfast Program and National School Lunch Program)

Proper controls were not in place related to the school food accounts. There was no evidence that management of the School Corporation monitored or reviewed the school food accounts to ensure that its non-profit school food service was in accordance with state requirements.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

SOUTHWEST 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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with 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 listed above. 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 Cash Management, Reporting, and Special Tests and Provisions - School Food Accounts 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 2017-004

Subject: School Breakfast Program and 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 15/16, FY 16/17
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
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 eligibility requirements.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

In addition to paper applications, the School Corporation also used Harmony Student Management Software to receive and make eligibility determinations for online applications. The software allowed a household member to be counted twice on the same application, which caused the household size and the eligibility determination to be incorrect.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. In addition to the instance of noncompliance identified, this error could have occurred for any online application in which a household member was listed more than once.

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). . . ."

7 CFR 245.3 states in part:

"(a) Each State agency, or FNSRO where applicable, shall by July 1 of each year announce family-size income standards to be used by local educational agencies, as defined in § 245.2, under the jurisdiction of such State agency, or FNSRO where applicable, in making eligibility determinations for free or reduced price meals and for free milk. Such family size income standards for free and reduced price meals and for free milk shall be in accordance with Income Eligibility Guidelines published by the Department by notice in the FEDERAL REGISTER.

(b) Each participating local educational agency and all participating schools under its jurisdiction must adhere to the eligibility criteria specified in this part. . . ."

Cause

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

Effect

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

SOUTHWEST 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 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 2017-005

Subject: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 15/16, FY 16/17
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-008.

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 paid lunch equity requirements.

The School Corporation did not have documentation that the weighted average price calculations had been completed for either school year.

Context

The School Corporation was required to perform the weighted average price calculation for each school year. The calculation was not presented for audit for either school year. The lack of documentation prevented the determination of the School Corporation's compliance with the paid lunch equity requirements.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

SOUTHWEST 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). . . ."

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. . . ."

Cause

Management had not developed an effective system of internal controls that would have ensured compliance with paid lunch equity requirements.

Effect

The failure to establish an effective internal control system could have enabled material noncompliance to go undetected. The lack of documentation prevented the determination of the School Corporation's compliance with the paid lunch equity requirements. Noncompliance with the grant agreement and the paid lunch equity 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 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.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-006

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 15/16, FY 16/17
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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-006.

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

The Food Service Director determined eligibility for free and reduced price lunches and also performed verifications for those applications. There was no evidence of an oversight, review, or approval process. Additionally, ten applications were required to be verified for fiscal year 2015-2016, but only nine were presented for audit.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance applied to the 2015-2016 school year.

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). . . ."

7 CFR 245.6a(c)(3) states in part:

"*Standard sample size.* Unless eligible for an alternative sample size under paragraph (d) of this section, the sample size for each local educational agency shall equal the lesser of:

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (i) Three (3) percent of all applications approved by the local educational agency for the school year, as of October 1 of the school year, selected from error prone applications; . . ."

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 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

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 - 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 2017-007

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): 14214-24-PN01, 99914-24-PN01,
14215-24-PN01, 14216-22-PN01,
14217-22-PN01, 45715-24-PN01,
45716-22-PN01, 45717-22-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Finding: Material Weakness

Condition

The School Corporation was a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grants. There was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with the level of effort - maintenance of effort (MOE) requirements. The MOE calculation was performed by the Cooperative from information supplied by the School Corporation. There was no evidence of an oversight or review of the calculation by the School Corporation.

Context

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

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). . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the MOE 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 MOE requirements. A lack of segregation of duties within the internal control system could have also 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.

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 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.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-008

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

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

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-24-PN01, 99914-24-PN01,
14215-24-PN01, 14216-22-PN01,
45715-24-PN01, 45716-22-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-003.

Condition

The School Corporation is a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grants. There was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

The School Corporation had not established an internal control system to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. The School Corporation failed to ensure that the Cooperative kept the necessary documentation related to time and effort reporting. For those employees that were paid entirely from the special education programs, the Cooperative did not submit Semi-Annual Certification Reports. For employees that had a portion of their wages paid from the special education programs, there were no personnel activity reports to support the amount of wages charged to each cost objective. There was no evidence of an oversight or review by the School Corporation to ensure compliance.

Context

The lack of controls was a systemic issue. The noncompliance applied to the 2015-2016 school year. There were no Semi-Annual Certification Reports completed nor were personnel activity reports maintained to support the amount of wages paid from each cost objective during the 2015-2016 school year.

Criteria

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

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

SOUTHWEST 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). . . ."

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) . . .

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 nonFederal 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 had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement concerning time and effort reporting.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Noncompliance 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 and implement procedures to ensure compliance and comply with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

FINDING 2017-009

Subject: Special Education Cluster (IDEA) - Procurement and Suspension and Debarment

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): 14214-24-PN01, 99914-24-PN01,
14215-24-PN01, 14216-22-PN01,
14217-22-PN01, 45715-24-PN01,
45716-22-PN01, 45717-22-PN01

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 2015-005.

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation is a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grants. There was no oversight of the Cooperative by the School Corporation. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the procurement and suspension and debarment requirements.

Procurement

The School Corporation did not have internal controls in place to ensure that the purchasing methods used complied with procurement procedures or with applicable state and local requirements.

A local procurement policy was not implemented by the Cooperative for the audit period.

Suspension and Debarment

The Cooperative 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. There was no oversight or review by the School Corporation to ensure compliance.

No procedures were performed to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. There was no verification that vendors were not suspended or debarred prior to awarding the contracts to 100 percent of applicable vendors for both school years.

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 200.318(a) states: "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."

SOUTHWEST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 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 procurement and suspension and debarment 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 and implement procedures to monitor the Cooperative to ensure compliance and comply with 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.

SOUTHWEST SCHOOL CORPORATION

P.O. Box 510, Sullivan, Indiana 47882-1225
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CHRIS STITZLE, Superintendent
JON STUCKEY, Asst. Superintendent, Transp. Dir.
MICHELE HAZELRIGG, Treasurer-Bookkeeper
TRACY VANDERGRUFF, Payroll Clerk, Personnel
REBECCA SCOTT, Administrative Assistant
BRIAN IRWIN, Technology Coordinator

BOARD OF SCHOOL TRUSTEES
MITZIE BADGER
JON BOBBITT
GRANT BRYANT
BARBARA ROTRAMEL
JERRY D. WILSON

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

All incoming items for deposit are received by central office personnel – Superintendent, Assistant Superintendent, Treasurer, Deputy Treasurer and Administrative Assistant and are forwarded to the Treasurer who makes out the deposit and posts to the ledger. Deposits are reviewed with supporting documentation and initialed by the Superintendent, Assistant Superintendent, Deputy Treasurer or Administrative Assistant and deposited in a timely manner by central office personnel/employees. Deposit receipts will be maintained with supporting documentation for audit purposes.

Bank reconciliations are prepared monthly by the Treasurer and provided to the Board and Superintendent for signatures of review and approval.

Anticipated Completion Date: Corrective action implemented in September 2017

FINDING 2017-002

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Federal expenditure reports will be obtained and verified by Treasurer and Superintendent for each school year reported. Each grant will be identified by corresponding CFDA and program identifying information as required by SEFA reporting.

Anticipated Completion Date: November 2018

FINDING 2017-003

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Prepaid food balances have been established in a separate "prepaid" lunch account. This should reflect a more accurate food service account balance for comparison with the three-month average expenditures.

A secondary verification will be reviewed and approved by the Superintendent or Assistant Superintendent for the monthly free and reduced application. Monthly food reports will be reviewed by the Superintendent or Assistant Superintendent for comparison of expenditures and revenue and non-profit food service compliance.

Anticipated Completion Date: November 2018

FINDING 2017-004

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

School building personnel will review all on-line lunch applications for accuracy to ensure eligibility determinations are correct. Deputy Treasurer will complete a final check of the applications for verification.

Anticipated Completion Date: November 2018

FINDING 2017-005

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

School lunch prices will be established in accordance with grant program requirements. The Food Service Director will use the lunch price equity tool to determine if the Southwest School Corporation is compliant. The Superintendent or Deputy Treasurer will check the calculations for accuracy.

Anticipated Completion Date: November 2018

FINDING 2017-006

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

A secondary verification will be reviewed and approved by the Superintendent or Assistant Superintendent for the free and reduced application.

The Food Service Director will prepare all reports. The Superintendent or Deputy Treasurer will check for accurate reporting for all federal food service funding and compliance requirements.

Monthly food reports will be reviewed by the Superintendent or Assistant Superintendent for comparison of expenditures and revenue and non-profit food service compliance.

Anticipated Completion Date: November 2018

FINDING 2017-007

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

The Level of Effort – Maintenance of Effort that is completed by the Corporation will be reviewed and signed by the Treasurer and Superintendent prior to submitting to the Greene-Sullivan Special Education Cooperative.

Anticipated Completion Date: November 2018

FINDING 2017-008

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Management of the Southwest School Corporation will work with the Green-Sullivan Special Education Cooperative to establish internal controls that will ensure the Cooperative is in compliance with "Allowable Costs/Cost Principals" compliance requirements concerning time and effort reporting. The Greene-Sullivan Special Education Cooperative has a corrective action plan in place for their Treasurer and Deputy Treasurer to both verify the coding in their accounting system for employee salaries and benefits at the beginning of each school year. Completing their semi-annual Certification will also help to ensure that coding is correct.

Anticipated Completion Date: November 2018

FINDING 2017-009

Contact Person Responsible for Corrective Action: Chris Stitzle
Contact Phone Number: 812-268-6311

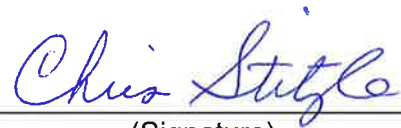
Views of Responsible Official: We concur with findings.

Description of Corrective Action Plan:

Management of the Southwest School Corporation will work with the Greene-Sullivan Special Education Cooperative to establish internal controls that will ensure the Cooperative is in compliance with Procurement and Suspension and Debarment requirement concerning the approval of contracts only after verifying the vendors were not suspended or debarred. The Greene-Sullivan Special Education Cooperative has a corrective action plan in place that requires their staff to require a written clause in all agreements that states the contractor was not suspended or ineligible of receiving Federal Funds. The GSSEC staff will check the System for Award Management (SAM Website) before entering into covered transactions with contractors and print out this documentation.

Southwest School Corporation Board will review and adopt the Greene-Sullivan Special Education Cooperative Procurement Policy after their policy is adopted by their Board. The Southwest School Corporation Superintendent is a member of the Greene-Sullivan Special Education Cooperative Board and will assist with monitoring for compliance.

Anticipated Completion Date: November 2018



(Signature)

Superintendent

(Title)

10/18/18

SOUTHWEST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation had not ensured that personnel received training concerning the adopted internal control standards.

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

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

As part of the Annual Financial Report, the Treasurer certified that training on the adopted internal control standards and procedures had been conducted for applicable personnel. However, the required training had not yet been conducted.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

DEPOSITS

Four of thirty-nine receipts tested could not be traced to deposit tickets. Additionally, one receipt did not show a proper breakdown of checks and cash received and one receipt was missing.

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 . . . Public funds deposited under this subsection shall be deposited in the same form in which they were received."

Indiana Code 5-13-6-1(g) states in part:

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

SOUTHWEST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) A local officer of a political subdivision required to deposit funds under subsection (c) other than a township trustee.
- (3) A city or a town required to deposit funds under subsection (d). . . ."

MALFEASANCE, MISFEASANCE, OR NONFEASANCE

The former Treasurer used the School Corporation's credit card to make a series of personal purchases from 2015 to 2017. She also removed cash from various envelopes containing collections from fundraisers and other sources. A forensic audit was completed by a private firm, and an investigation was conducted by the Indiana State Police. The former Treasurer repaid credit card charges of \$6,290.01, missing cash of \$1,237.72, and additional audit costs of \$11,739.83. All amounts were repaid by July 20, 2018.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PREPAID SCHOOL MEAL ACCOUNTS

The same comment also appeared in prior Report B48737.

All transactions related to prepaid food were accounted for in the School Lunch fund instead of the clearing account established for prepaid food. There was no audit evidence presented to indicate that the subsidiary records by student were reconciled to the prepaid food balance during the audit period.

Our opinion is that money a student puts into their individual meal account should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At his point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

TIMELY RECORDING

Twelve of thirty-nine receipts tested were receipted to the ledger after the deposits were made to the bank. Receipts were posted up to twenty-seven days after they were deposited.

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)

SOUTHWEST SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on October 25, 2018, with Michele Hazelrigg, Treasurer; Chris Stitzle, Superintendent of Schools; Barbara Rotramel, School Board member; and Grant Bryant, President of the School Board.