

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SALEM COMMUNITY SCHOOLS

WASHINGTON COUNTY, INDIANA

July 1, 2015 to June 30, 2017



**FILED**  
01/18/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Geneva Sue Collier Ruth D. Gilbert Rachel Weedin	07-01-15 to 04-17-16 04-18-16 to 08-31-18 09-01-18 to 12-31-18
Superintendent of Schools	Dr. D. Lynn Reed	07-01-15 to 12-31-20
President of the School Board	Steven R. Motsinger Mark Abbott Rebecca L. White	01-01-15 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the Salem Community 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 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/](http://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 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 Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 4, 2018

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS

**FINDING 2017-001**

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Condition*

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. There was a lack of segregation of duties as the School Corporation had not separated incompatible activities related to cash and investments and vendor disbursements of the School Lunch fund. One individual ordered items, approved and recorded disbursements, and was responsible for preparing bank reconciliements for the School Lunch fund, without evidence of an oversight, review, or approval process.

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the financial statement. Due to the lack of controls, the School Corporation's financial statement contained the following errors:

1. Receipts were understated for the School Lunch fund by \$286.
2. Disbursements were overstated for the General fund by \$65,422. Disbursements were understated for the following funds and amounts: Title I 2016-17 fund by \$65,422 and Textbook Rental fund by \$4,389.
3. Other financing sources (uses) were overstated for the Safe Room GO Bond fund by \$1,700,000.

In addition, beginning cash and investment balances, receipts, disbursements, and ending cash and investment balances of several funds were not included in the financial statements for the years ending June 30, 2016 and 2017, as follows:

Fund	For the Year Ended June 30, 2016			
	Cash and Investments	Receipts	Disbursements	Cash and Investments
Prepaid Lunches	\$ 14,696	\$ 314,177	\$ 312,545	\$ 16,328
Clearing Accounts	13,780	4,172,718	4,173,549	12,949
Totals	\$ 28,476	\$ 4,486,895	\$ 4,486,094	\$ 29,277

Fund	For the Year Ended June 30, 2017			
	Cash and Investments	Receipts	Disbursements	Cash and Investments
Prepaid Lunches	\$ 16,328	\$ 309,395	\$ 311,565	\$ 14,158
Clearing Accounts	12,949	4,191,062	4,188,924	15,087
Totals	\$ 29,277	\$ 4,500,457	\$ 4,500,489	\$ 29,245

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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

*Context*

The lack of controls and noncompliance 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. . . ."

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](#)."

*Cause*

Management had not established a proper system of internal control.

*Effect*

The failure to establish controls enabled misstatements or irregularities to remain undetected.

*Recommendation*

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

*Views of Responsible Officials*

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

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***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 report. 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). The Treasurer was the person solely responsible for preparing and submitting the SEFA. There was no segregation of duties documented, such as an oversight, review, approval process, or other compensating control.

*Context*

The SEFA presented for audit contained the following errors:

1. The Pre-Disaster Mitigation grant was omitted for fiscal year 2017.
2. The National School Lunch Program was not properly reported for either year.

In total, the SEFA was overstated in fiscal year 2016 by \$63,148, and understated in fiscal year 2017 by \$499,970. 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. . . ."

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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 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 that 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*.

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

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

*Views of Responsible Officials*

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

**FINDING 2017-003**

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, Special Tests and Provisions - School Food Accounts

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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Program Income*

The Food Service Director was responsible for ordering items for the School Lunch fund and was also responsible for approving and recording the disbursements. There was no segregation of duties, such as an oversight, review, or approval process.

*Reporting*

Monthly Sponsor Claims (Claims for Reimbursement), Annual Financial Reports, and School Food Authority (SFA) Verification Collection Reports were prepared and submitted by one individual. There was no segregation of duties, such as an oversight, review, or approval process.

*Special Tests and Provisions - School Food Accounts*

A school food account had been established for the School Corporation; however, an oversight or review process of the amounts recorded in the school food account had not been established.

*Context*

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

SALEM COMMUNITY SCHOOLS  
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). . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

*Effect*

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, 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: Child Nutrition Cluster - Procurement and Suspension and Debarment  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Procurement and Suspension and Debarment  
Audit Findings: Material Weakness, Other Matters

SALEM COMMUNITY 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 Procurement and Suspension and Debarment compliance requirement.

*Procurement*

The School Corporation did not have an effective internal control system to ensure compliance with procurement requirements. A Procurement Plan was maintained by the Food Service Director; however, there were no controls in place to ensure procurement procedures were followed.

*Suspension and Debarment*

The School Corporation did not have an effective internal control system to ensure compliance with suspension and debarment requirements. The School Corporation did not comply with the suspension and debarment requirements for the 2015-2016 and 2016-2017 school years. They did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into covered transactions.

*Context*

The lack of controls existed throughout the audit period. There was one vendor during each school year that exceeded \$25,000. The School Corporation did not verify that the vendors were not suspended or debarred prior to entering into covered transactions.

*Criteria*

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

You do this by:

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

*Cause*

Management of the School Corporation 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 the School Corporation to be in noncompliance with the suspension and debarment compliance requirements and the grant agreement. In addition, lack of an effective internal control system placed the School Corporation at risk of noncompliance with the procurement requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls related to the grant agreement and the Procurement and Suspension and Debarment compliance 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: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Schoolwide Programs

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): FY 2015, FY 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Schoolwide Programs

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding numbers were 2015-002 and 2015-004.

SALEM COMMUNITY 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 Special Tests and Provisions - Schoolwide Programs compliance requirement.

The school operating a schoolwide program did not perform a comprehensive needs assessment of the entire school, develop a comprehensive plan based on that assessment, or conduct an annual evaluation of the results achieved by the schoolwide program.

*Context*

Lack of controls and noncompliance were systemic issues 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). . . ."

34 CFR 200.26 states:

"(a) *Comprehensive needs assessment.*

- (1) A school operating a schoolwide program must conduct a comprehensive needs assessment of the entire school that—
  - (i) Is based on academic achievement information about all students in the school, including all groups under § 200.13(b)(7) and migratory children as defined in section 1309(2) of the ESEA, relative to the State's academic standards under § 200.1 to—
    - (A) Help the school understand the subjects and skills for which teaching and learning need to be improved; and
    - (B) Identify the specific academic needs of students and groups of students who are not yet achieving the State's academic standards; and
  - (ii) Assesses the needs of the school relative to each of the components of the schoolwide program under § 200.28.
- (2) The comprehensive needs assessment must be developed with the participation of individuals who will carry out the schoolwide program plan.
- (3) The school must document how it conducted the needs assessment, the results it obtained, and the conclusions it drew from those results.

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

(b) *Comprehensive plan.* Using data from the comprehensive needs assessment under paragraph (a) of this section, a school that wishes to operate a schoolwide program must develop a comprehensive plan, in accordance with § 200.27, that describes how the school will improve academic achievement throughout the school, but particularly for those students furthest away from demonstrating proficiency, so that all students demonstrate at least proficiency on the State's academic standards.

(c) *Evaluation.* A school operating a schoolwide program must—

- (1) Annually evaluate the implementation of, and results achieved by, the schoolwide program, using data from the State's annual assessments and other indicators of academic achievement;
- (2) Determine whether the schoolwide program has been effective in increasing the achievement of students in meeting the State's academic standards, particularly for those students who had been furthest from achieving the standards; and
- (3) Revise the plan, as necessary, based on the results of the evaluation, to ensure continuous improvement of students in the schoolwide program."

*Cause*

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

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of the 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 with the grant agreement and the Special Test and Provisions - Schoolwide Programs compliance requirement.

*Views of Responsible Officials*

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

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-006***

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): 14214-056-PN01, 14215-056-PN01,  
14216-054-PN01, 14217-054-PN01,  
45715-056-PN01, 45716-054-PN01,  
45717-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

*Condition*

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is 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 Allowable Costs/Cost Principles compliance requirement.

No Semi-Annual Certifications or records of activity for School Corporation employees that were paid solely from special education funds were maintained during the audit period. No personal activity reports or records of activity for School Corporation employees paid from multiple cost objectives were maintained during the audit period.

*Context*

No evidence was presented that Semi-Annual Certifications were completed and certified for the audit period for employees who were paid solely from special education funds. No evidence was presented that personal activity reports were prepared and signed during the audit period for any employees who were paid from multiple cost objectives. In addition, no records of activity were presented for audit for any employees paid either solely or partially from special education funds.

*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:

SALEM COMMUNITY SCHOOLS  
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). . . ."

OMB Circular A-87, Attachment B, section 8h 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. . . ."

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); . . .
- (iv) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

*Cause*

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the School Corporation in non-compliance with grant agreement and the Allowable Costs/Cost Principles compliance requirement.

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management develop and implement procedures and establish controls to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

*Views of Responsible Officials*

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

**FINDING 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): 14217-054-PN01, 45717-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

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 Level of Effort - Maintenance of Effort (MOE) requirements of the Matching, Level of Effort, Earmarking compliance requirement.

In calculating the state and local expenditures for special education to meet the MOE requirement of Level of Effort, the School Corporation did not use consistent categories of expenditure accounts from year to year. Additional expenditure categories were added to the 2015-2016 calculation that were not included in the 2014-2015 and 2016-2017 calculations. Acceptable documentation or explanations of the change in categories were not provided.

*Context*

The lack of internal controls and noncompliance affected the MOE calculation for the fiscal year 2017 application.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

SALEM COMMUNITY SCHOOLS  
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). . . ."

34 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 IDEA, Part B 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. . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with the MOE requirements of the Matching, Level of Effort, Earmarking compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the School Corporation in noncompliance with the grant agreement and the MOE requirements of the Matching, Level of Effort, Earmarking compliance requirement.

*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 MOE requirements of 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.

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-008***

Subject: Special Education Grants to States - Suspension and Debarment  
Federal Agency: Department of Education  
Federal Program: Special Education\_Grants to States  
CFDA Number: 84.027  
Federal Award Numbers and Years (or Other Identifying Numbers): 14215-056-PN01, 14216-054-PN01  
14217-054-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 report. The prior audit finding number was 2015-006.

*Condition*

The School Corporation was a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education programs on behalf of the School Corporation and managed the special education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member 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 suspension and debarment requirements.

The Cooperative's Director signed the Application and Assurance Plan as a condition of federal assistance, which stated that the Cooperative would check the subcontractors to ensure that they were not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency, or political subdivision of the State of Indiana. However, the School Corporation did not have procedures in place to monitor that the Cooperative verified that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a covered transaction with them.

*Context*

There were three contracts during fiscal year 2016 and three contracts during fiscal year 2017 that exceeded \$25,000; however, the Cooperative did not verify that the vendors were not suspended or debarred prior to awarding these contracts for covered transactions.

*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. . . ."

SALEM COMMUNITY 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). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking the 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 of the School Corporation had not developed a system of internal controls that would ensure that the Cooperative complied with the suspension and debarment requirements.

*Effect*

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the suspension and debarment requirements and the grant agreement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the suspension and debarment requirements.

*Views of Responsible Officials*

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

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-009***

Subject: Special Education Cluster (IDEA) - Reporting  
Federal Agency: Department of Education  
Federal Programs: Special Education\_Grants to States, Special Education\_Preschool Grants  
CFDA Numbers: 84.027, 84.173  
Federal Award Numbers and Years (or Other Identifying Numbers): 14215-056-PN01, 45715-056-PN01  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2015-005.

*Condition*

The School Corporation was a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is 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 Reporting compliance requirement. The required Final Reports for special education grants were not completed and submitted to the Indiana Department of Education (IDOE).

*Context*

Two final reports for the special education grants that were due by December 15, 2016, were not prepared and submitted to IDOE.

*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. . . ."

34 CFR 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

SALEM COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (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. . . ."

*Cause*

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

*Effect*

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the grant agreement and the Reporting compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative 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.



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**Assistant Superintendent**  
Dr. Kim Thurston  
**Dir. of Informational Technology**  
Erin Humphrey

**Board of School Trustees**  
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Rebecca White

## CORRECTIVE ACTION PLAN

### **FINDING 2017-001**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is re-evaluating its internal controls system. The school district will continue to strive to become more diligent toward the management of financial transactions and reporting. The disbursements from the school lunch fund will be reviewed and approved by the Assistant Superintendent. The bank reconcilements and financial statements from the school lunch program will be submitted to the Administration Office for the Assistant Superintendent to review and approve those transactions. The responsibility of the Corporation Treasurer and Food Service Director is to generate and enter a transaction while the Assistant Superintendent's responsibility is to review, approve, and acknowledge the transaction through a signature or initial and date. We will review our records to be sure all funds are properly reported on the Form 9.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

  
(Signature)

  
(Title)

  
(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-002**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is re-evaluating its internal controls system as it relates to the proper reporting of SEFA. The Assistant Superintendent is responsible for reviewing the SEFA prior to submission. The Treasurer will prepare the SEFA, submit it to the Assistant Superintendent for review and will initial it for submission after conferring with the Treasurer. The Food Service Director will complete the report for the National School Lunch Program. The Director will submit a report to the Assistant Superintendent. Following a review of the report by the Assistant Superintendent, he/she and the Food Service Director will confer, sign and initial the report for submission.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

Kim A. Thurston, Ed.D.  
(Signature)

Asst. Superintendent  
(Title)

12/4/2018  
(Date)



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Rebecca White

## CORRECTIVE ACTION PLAN

### **FINDING 2017-003**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is working to establish a system of controls pertaining to the grant agreement as well as the allowed and un-allowed activities. Particular attention will be paid to compliance requirements regarding school food accounts. The Assistant Superintendent will review and approve disbursements before they are made. Receipts and disbursement reports will be generated monthly and submitted to the Assistant Superintendent for review. Reports will be reviewed and approved before submittal.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

Kim A. Thurston, Ed.D.  
(Signature)

Asst. Superintendent  
(Title)

12/4/2018  
(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-004**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is working to establish a system of controls pertaining to the grant agreement as well as the Procurement and Suspension and Debarment compliance requirement. The Assistant Superintendent will review purchases to ensure those purchases adhere to the school district's purchasing policy and the State of Indiana's purchasing requirements. Prior to entering into a contract exceeding \$25,000 the school district will verify the vendor is not presently suspended or debarred and ineligible from participating in federally funded programs.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-005**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The required elements and data regarding the schoolwide needs assessment plan cannot be located from when it was conducted in 2010. A new needs assessment will be conducted at Bradie Shrum Elementary to replace the 2010 assessment and this will be updated annually.

### Anticipated Completion Date:

The anticipated completion date is March 29, 2019.

Kim A. Thurston, Ed.D.  
(Signature)

Asst. Superintendent  
(Title)

12/4/2018  
(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-006**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is working to establish a system of procedures and controls to ensure compliance with the grant agreement and allowable costs/cost principles compliance requirement. The School Corporation Treasurer will maintain records of activity for school corporation employees paid solely from special education funds by completing semi-annual certifications. The Assistant Superintendent will review these records, confer with the Treasurer and initial the records prior to filing.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

Kim A. Thurston, Ed.D.  
(Signature)

Asst. Superintendent  
(Title)

12/4/2018  
(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-007**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is working to establish a system of procedures and controls related to the grant agreement and the Level of Effort/Maintenance of Effort (MOE) requirements. To achieve this, the school district will use consistent categories of expenditure accounts from year to year. If additional expenditure categories are added, documentation will be maintained to support the change in categories following a review by the Assistant Superintendent.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-008**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

Recognizing this is a repeat finding, the school district is working to establish a more effective system of procedures and controls to monitor the Cooperative ensuring compliance with the grant agreement as well as the Suspension and Debarment compliance requirement. To achieve this, contracts and subcontracts will be presented by the South Central Area Special Education Cooperative to the SCASEC Board of Directors and reviewed by the superintendent prior to approval.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)



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## CORRECTIVE ACTION PLAN

### **FINDING 2017-009**

Contact Person Responsible for Corrective Action: Dr. Kim A. Thurston  
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding.

### Description of Corrective Action Plan:

The school district is working to establish a more effective system of procedures and controls to monitor the Cooperative ensuring compliance with the grant agreement and the Reporting compliance requirement. To ensure this, reports will be generated by the South Central Area Special Education Cooperative and signed by the Board President and verified by the Superintendent.

### Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

Kim A. Thurston, Ed.D.  
(Signature)

Asst Superintendent  
(Title)

12/4/2018  
(Date)

SALEM COMMUNITY SCHOOLS  
AUDIT RESULT AND COMMENT

**CERTIFICATION AND TRAINING ON INTERNAL CONTROL STANDARDS**

The School Corporation certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) received training concerning the internal control standards adopted by the School Corporation; however, no evidence could be provided to support that minimum internal control standards training had been completed by personnel.

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](#)."

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

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

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

SALEM COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on December 4, 2018, with Dr. D. Lynn Reed, Superintendent of Schools; Dr. Kim A. Thurston, Assistant Superintendent of Schools; Steve R. Motsinger, Board member; Rachel Weedon, Treasurer; Karen Libka, Food Service Director; and Brent Minton, Title I Director.