

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

PERRY TOWNSHIP SCHOOLS

MARION COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
01/31/2019

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | J. Michael Bagley | 07-01-15 to 12-31-18 |
| Superintendent of Schools | Patrick W. Mapes | 07-01-15 to 06-30-21 |
| President of the School Board | Gwen E. Freeman Charles R. Mercer, Jr. Kenneth J. Mertz Edward T. Denning | 01-01-15 to 12-31-15 01-01-16 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 PERRY TOWNSHIP SCHOOLS, MARION COUNTY, INDIANA

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

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

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

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

November 7, 2018

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS

FINDING 2017-001

Subject: Child Nutrition Cluster - Reporting
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.556, 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 Requirement: Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2015-004.

Condition

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

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the Monthly Sponsor Claims (claims for reimbursement) were accurate prior to submission. One person prepared and submitted the reports. There was no segregation of duties, such as an oversight, review, or approval process.

Context

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

Criteria

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

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

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). . . ."

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

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

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Reporting compliance requirement. A lack of segregation of duties within an 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 to ensure compliance with the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles, Program Income,
and Special Tests and Provisions - School Food Accounts

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.556, 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: Allowable Costs/Cost Principles, Program Income, Special
Tests and Provisions - School Food Accounts

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 Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts compliance requirements.

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

Allowable Costs/Cost Principles, Program Income, Special Tests and Provisions

Management of the School Corporation had not established an effective internal control system to ensure that transfers from the School Lunch fund were for the benefit of food service. The School Corporation transferred \$150,000 from the School Lunch fund to the Self-Insurance fund for both fiscal years 2015-2016 and 2016-2017 to fund worker's compensation costs allocated to food service employees. The School Corporation did not use an indirect cost rate or maintain adequate documentation to support the transfer from the School Lunch fund to the Self-Insurance fund for funding of worker's compensation costs allocated to food service employees.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records. The School Corporation did not transfer the correct amount of sales from the Prepaid Lunches fund. The transfer from the Prepaid Lunches fund (8400) to the School Lunch fund (800) was the difference between the ending balance in the 8400 fund and the ending prepaid food trust account balance from the food service computer program. The actual program income generated from food service operations was not transferred or recorded.

Context

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

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

OMB Circular A-87, Attachment A, Part C states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .
- j. Be adequately documented. . . ."

2 CFR 200.403 states in part:

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

7 CFR 210.14(a) states in part:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. . . ."

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 210.14(f)(3) states: "All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority."

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall enter into a written agreement with the State agency or the Department through the FNSRO, as applicable, that may be amended as necessary. . . . Such agreements shall provide that the School Food Authority shall, with respect to participating schools under its jurisdiction: . . .

- (12) Maintain a financial management system as prescribed by the State agency, or FNSRO where applicable; . . ."

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

7 CFR 225.6(e) states in part:

"*State-Sponsor Agreement.* A sponsor approved for participation in the Program must enter into a permanent written agreement with the State agency. All sponsors must agree in writing to: . . .

(12) Maintain a financial management system as prescribed by the State agency; . . ."

7 CFR 215.7(d) states:

"Each school food authority or child care institution approved to participate in the program shall enter into a written agreement with the State agency or FNSRO, as applicable, that may be amended as necessary. . . . Such agreement shall provide that the School Food Authority or child-care institution shall, with respect to participating schools and child-care institutions under its jurisdiction: . . .

(6) Maintain a financial management system as prescribed by the State agency, or FNSRO where applicable; . . ."

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

Questioned costs identified totaled \$300,000.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles, Program Income, 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.

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2017-003

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 Number and Year (or Other Identifying Number): 14216-053-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the Southside Special Services of Marion County (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative. During the audit period, the fiscal agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations. Since the grant agreements for the federal programs were between the Indiana Department of Education and each member school corporation of the Cooperative, the School Corporation was ultimately responsible for compliance with the compliance requirement.

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 suspension and debarment requirements.

The School Corporation did not perform any procedures to ensure compliance with requirements regarding verification that vendors were not suspended or debarred from participation in federal programs before entering into a contract. The School Corporation contracted with two vendors to provide professional services without verifying that the vendors were not suspended or debarred.

Context

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

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

PERRY TOWNSHIP 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). . . ."

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

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

Effect

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

Questioned Costs

There were no question costs identified.

Recommendation

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

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2017-004

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Comparability
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 15-5340, 16-5340, 17-5340
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Comparability
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior year. The prior audit finding number was 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 Special Tests and Provisions - Comparability compliance requirement.

Comparability reports were completed and submitted by a single member of Title I management. No controls procedures were identified to ensure the accuracy of the report submitted.

Context

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

Criteria

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(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). . . ."

PERRY TOWNSHIP SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Comparability compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Special Tests and Provisions - Comparability compliance requirement. A lack of segregation of duties within an 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 program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, to ensure compliance with the grant agreement and the Special Tests and Provisions - Comparability compliance requirement.

Views of Responsible Officials

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



Perry Township Schools

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CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: J. Michael Bagley and Chyrie Thompson
Contact Phone Number (317) 789-3761 and (317) 789-3745

Views of Responsible Official:

The district concurs with this repeat finding from the immediate prior year audit. The repeat nature of the finding is due to the timing of the prior audit concluding at the end of the current audit cycle, which did not allow time to implement the corrective action. The overlap in the audit ensured the repeat nature of the finding.

Description of Corrective Action Plan:

Beginning July 2017, all Department of Education Financial Reports, Claims for Reimbursement, Verification Reports and Other Special Reports are prepared by the Director or Assistant Director of Food Services and are reviewed for accuracy by the Director or Assistant Director of Food Services or the Food Service Bookkeeper requiring two separate signatures for documentation. The reports are printed, dated, and signed first by the person completing the report and then by the designated person reviewing the report for accuracy. All reports are retained. These Internal Controls are ongoing.

Anticipated Completion Date: July, 2017



Perry Township Schools

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FINDING 2017-002

Contact Person Responsible for Corrective Action: J. Michael Bagley
Contact Phone Number: (317) 789-3761

Views of Responsible Official: **Allowable Costs/Cost Principles, Program Income, Special Tests and Provisions**

The district concurs that neither the indirect cost rate methodology nor the direct cost methodology were used to determine the amount of transfer made from the Food Service Fund to the Worker's Compensation Fund.

Description of Corrective Action Plan:

The district will refund the Food Service Fund for the fiscal years 2015-2016, 2016-2017, and 2017-2018 using the following calculation:

(Amount Transferred from Food Service minus the Direct Cost incurred by Food Service employees equals the amount refunded by transfer to the Food Service Fund) An independent calculation will be made for each of the fiscal years mentioned above.

The Perry Township Worker's Compensation program is self-insured. The Direct Cost for Food Service employees will be obtained through our Worker's Compensation Consultant JWF Specialty. The document that will be used is the Payment Register reported by employee and employee group. The Payment Register can be reconciled with the invoices paid during each year.

Anticipated Completion Date: March, 2019

Views of Responsible Official: **Program Income**

The district concurs with the finding. The district uses the Skyward Student Data Base for recording student and adult payments and food purchases. This database previously had not been programmed by Skyward to generate the reporting necessary to determine the non-prepaid payments. After working with Skyward for several months on this issue, these reports became available in March 2018.

Description of Corrective Action Plan:

As of March 2018, the newly created Payment and Purchase summary report is available. This report is used to determine the payments made on non-prepaid accounts. This information allows the Food Service Bookkeeper to calculate and reconcile the transfer amount from Fund 8400 to Fund 0800.

Anticipated Completion Date: March 2018



Perry Township Schools

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FINDING 2017-003

Contact Person Responsible for Corrective Action: J. Michael Bagley and P. Ann Schmidt
Contact Phone Number: Contact Phone Number (317) 789-3761 and (317) 789-3796

Views of Responsible Official:

The district concurs with the identified finding.

Description of Corrective Action Plan:

The school district will begin to account for the Special Education Cluster (IDEA) grants locally instead of Southside Special Services of Marion County (Inter-Local) acting as the Fiscal Agent. Department administration will be trained and directed to utilize the System for Award Management (SAM) to verify if an entity or individual has been declared ineligible to receive Federal contracts due to a violation of Executive Order 12549, before awarding a contract for goods or services, which exceeds \$25,000.

Anticipated Completion Date: July 1, 2018



Perry Township Schools

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FINDING 2017-004

Contact Person Responsible for Corrective Action: Title I Administrator, Jane Pollard
Fiscal Coordinator, Lisa Harrison
Contact Phone Number: (317) 789-3777 and (317) 789-3725

Views of Responsible Official:

The district concurs that this is a repeat finding from the immediate prior year. The repeat nature of the finding is due to the timing of the prior audit concluding at the end of the current audit cycle, which did not allow time to implement the corrective action. The overlap in the audit ensured the repeat nature of the finding.

Description of Corrective Action Plan:

Effective with the Fall 2017 submission, the Title I Administrator will continue to complete and submit the Comparability Report. Prior to submission, the report will be reviewed by the Fiscal Coordinator and initialed in agreement. Future submissions will contain the signature of the Title I Administrator and initials of the Fiscal Coordinator

Anticipated Completion Date: Fall 2017 Submission



J. Michael Bagley

Chief Financial Officer

November 7, 2018

PERRY TOWNSHIP SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on November 7, 2018, with J. Michael Bagley, Treasurer; Patrick W. Mapes, Superintendent of Schools; Kent A. Hatcher, Fiscal Control Officer; Edward T. Denning, President of the School Board; Steve Johnson, School Board member; and Jon P. Morris, School Board member.