

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

RANDOLPH EASTERN SCHOOL CORPORATION

RANDOLPH COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
02/27/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Brenda Peacock	01-01-15 to 12-31-18
Superintendent of Schools	Lisa K. Smith Alice Johnson (interim)	01-01-15 to 07-31-18 08-01-18 to 01-31-19
President of the School Board	Selina Miller Greg Whitesel	01-01-15 to 12-31-16 01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE RANDOLPH EASTERN SCHOOL
CORPORATION, RANDOLPH COUNTY, INDIANA

This report is supplemental to our audit report of the Randolph Eastern 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 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

December 27, 2018

RANDOLPH EASTERN SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

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): 15-6835, 16-6835

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility,
Procurement and Suspension and Debarment, Program Income, Reporting,
Special Tests and Provisions - Verification of Free and Reduced Price
Applications (NSLP), Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Procurement and Suspension and Debarment, Program Income, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Activities Allowed or Unallowed

There was no control in place during the first year of the audit period to ensure that only the correct individuals were paid from the School Lunch fund. Payroll claims were prepared by the Food Service Director from time cards without documentation of a process for oversight, review, or approval by any other individual.

Allowable Costs/Cost Principles

There was no control in place during the first year of the audit period to ensure that only the correct individuals were paid from the School Lunch fund. Payroll claims were prepared by the Food Service Director from time cards without documentation of a process for oversight, review, or approval by any other individual.

Eligibility

Extracurricular Treasurers entered eligibility information into the food service software from the free/reduced lunch applications. There was no process for oversight, review, or approval by any other individual.

Procurement and Suspension and Debarment

There was no control in place during the first year of the audit period to ensure that the School Corporation did not contract with vendors who were suspended or debarred. While documents were retained proving compliance with the requirements, there was no evidence presented of a process for oversight or review to ensure that the requirements were being met.

RANDOLPH EASTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Program Income

A control process had not been established to ensure that the income received under the food service program agreed to the records generated from the food service program. The Treasurer used reports provided by the Food Service Director to enter program information into the accounting system without a process for oversight, review, or approval by any other individual.

Reporting

Verification summary reports were prepared without an established process in place to ensure the reports agreed to the records prior to submission.

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

A control process had not been established to ensure the verification of free and reduced priced applications was performed in accordance with program requirements. Verifications were performed without an oversight or review process to determine the accuracy of the verifications.

Special Tests and Provisions - Paid Lunch Equity

A control process had not been established to ensure the paid lunch equity calculations were performed in accordance with program requirements. Paid lunch equity calculations were performed without an oversight or review process to determine the accuracy of the calculations.

Context

The lack of controls was a systemic issue, which occurred 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 compliance requirements identified above.

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 compliance requirements identified above.

RANDOLPH EASTERN 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 with the grant agreement and the compliance requirements identified above.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Child Nutrition Cluster - Cash Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): 15-6835, 16-6835
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matters

Condition

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

The School Corporation did not have controls in place to ensure that three months average expenditures were calculated for comparison to monthly cash balances and to verify that the comparison was performed.

The balance (net cash resources) of the School Lunch fund exceeded 3 months average expenditures in 12 of the 24 months in the audit period.

Context

The lack of controls and noncompliance were systemic issues, which occurred 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

RANDOLPH EASTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

7 CFR 210.14(b) states: "*Net cash resources*. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e) states in part:

". . . the School Food Authority shall, with respect to participating schools under its jurisdiction:
. . .

- (iv) Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

Cause

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

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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



Randolph Eastern School Corporation

731 North Plum Street • Union City, Indiana • www.resc.k12.in.us

Dr. Alice A. Johnson, Interim Superintendent

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Aaron Black, Superintendent
Contact Phone Number: 765-964-4994

Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

Allowable Activities - While distribution reports in the tested sample were not verified by another individual, the current practice is that the payroll clerk prints the payroll distributions from federal funds with each employee along with which federal fund they are being paid out of. The payroll clerk submits these reports to the superintendent for verification and the superintendent signs or initials the report. This practice will continue.

Allowable Costs/Cost Principles - While distribution reports in the tested sample were not verified by another individual, the current practice is that the payroll clerk prints the payroll distributions from federal funds with each employee along with which federal fund they are being paid out of. The payroll clerk submits these reports to the superintendent for verification and the superintendent signs or initials the report. This practice will continue.

Eligibility - Effective immediately, the Cafeteria Manager shall verify and initial the paper application indicating what the Cafeteria Secretary has entered into the software program matches the information on the application and the verification was performed in accordance with program requirements. Each paper application will be stamped with the words Eligibility _____ and the words Program Requirements_____.

Procurement and Suspension and Debarment - The corporation treasurer prints debarment forms for each vendor. Effective immediately, all debarment forms will be verified and initialed by the superintendent to ensure compliance.

Program Income - Effective Immediately, the Cafeteria secretary will generate the Sales Activity Report and the cafeteria manager will generate the School food Service Daily Record of Meals/Milk Served Report. The Cafeteria Secretary will verify the Meals Served report by signing or initialing and the Cafeteria Manager shall verify the Activity Report by initialing or signing. These two corresponding reports should verify two forms of internal control that the income received agrees with the records generated from the food service program.

Reporting - Effective immediately, the cafeteria secretary shall submit the verification summary reports to the cafeteria manager, whom shall verify and initial the report.

Special Tests and Provisions - Verification of Free and Reduced Price Applications - Effective immediately, the Cafeteria Manager shall verify and initial the paper application indicating what the Cafeteria Secretary has entered into the software program matches the information on the application and the verification was performed in accordance with program requirements. Each paper application will be stamped with the words Eligibility _____ and the words Program Requirements_____.

Special Tests and Provisions - Paid Lunch Equity - Annually, the Cafeteria Manager will print the PLE tool and it will be verified and signed or initialed by the Corporation Financial Manager.

Anticipated Completion Date: Immediately

FINDING 2017-002

Contact Person Responsible for Corrective Action: Aaron Black, Superintendent
Contact Phone Number: 765-964-4994

Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

Currently, the corporation treasurer submits to the cafeteria manager a monthly fund report of expenditures. Effective immediately, the cafeteria manager shall submit back to the corporation financial manager a quarterly report comparing the fund balance with the average quarterly expenditures. Should the fund balance exceed the average three months expenditures, the cafeteria manager shall file an accompanying report of planned expenditures to decrease the fund balance. The corporation financial manager shall sign all quarterly reports submitted to verify the compliance with calculating the three-month rule. In the case where a planned expenditures report is required, the corporation financial manager will verify and the superintendent shall approve/initial the planned expenditure report.

Reports will be submitted end of month: March, June, September, and December.

Anticipated Completion Date: Immediately

Alicia A. Johnson

(Signature)

Interris Superintendent

(Title)

12-27-2018

(Date)

RANDOLPH EASTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 27, 2018, with Brenda Peacock, Treasurer; Alice Johnson, interim Superintendent of Schools; Aaron Black, Superintendent of Schools, effective February 1, 2019; and Greg Whitesel, President of the School Board.