

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION

PULASKI COUNTY, INDIANA

July 1, 2015 to June 30, 2017



**FILED**  
03/15/2019



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2017-001	
Financial Transactions and Reporting .....	4-6
Finding 2017-002	
Preparation of the Schedule of Expenditures of Federal Awards .....	6-9
Finding 2017-003	
Child Nutrition Cluster - Internal Controls .....	9-11
Finding 2017-004	
Child Nutrition Cluster - Cash Management .....	11-13
Finding 2017-005	
Child Nutrition Cluster - Program Income, Reporting .....	13-16
Corrective Action Plan.....	17-21
Audit Results and Comments:	
Overdrawn Cash Balances.....	22
Prepaid Lunch Account Reconciliations .....	22-23
Errors on Claims .....	23
Exit Conference.....	24

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Angela Anspach	07-01-15 to 06-30-19
Superintendent of Schools	Dan L. Foster	07-01-15 to 06-30-19
President of the School Board	Joe Cunningham Deke DeMarco	01-01-15 to 12-31-17 01-01-18 to 12-31-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE EASTERN PULASKI COMMUNITY  
SCHOOL CORPORATION, PULASKI COUNTY, INDIANA

This report is supplemental to our audit report of the Eastern Pulaski Community School Corporation (School Corporation), for the period from July 1, 2015 to June 30, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa](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 Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 20, 2018

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2017-001***

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

*Repeat Finding*

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

*Condition*

There were several 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, receipts, disbursements, and financial reporting.

In addition, the School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the School Corporation to monitor and assess the quality of the system of internal control.

*Cash and Investments*

The School Corporation was responsible for ensuring that the accounting record balances were reconciled with the bank depository balances at least monthly as required by Indiana Code. Controls had not been developed to ensure that reconciliations were completed.

Reconciliations of the record balances to the depository balances were not properly completed for any of the 24 months of the audit period. Differences between record and depository balances varied monthly and were not identified or adjusted timely.

*Receipts*

The School Corporation had not properly designed or implemented adequate policies and procedures to ensure that receipts were properly recorded. An oversight or review process had not been established.

*Disbursements*

The School Corporation had not properly designed or implemented policies and procedures to ensure that disbursements, including vendor and payroll disbursements, were properly recorded. One employee prepared and recorded the accounts payable vouchers without evidence of a proper system of oversight or review to ensure that vendor disbursements were accurately recorded in the proper funds. One employee recorded the payroll transactions without evidence of an oversight, review, or approval process.

*Financial Reporting*

The School Corporation had not properly designed or implemented policies and procedures to ensure that the financial statement was accurate and complete and agreed with the accounting records. There was no evidence of an adequate oversight or review process to detect and correct errors.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Context*

The lack of controls and lack of bank reconcilements were systemic problems 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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

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

Management remediates identified issues. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

*Cause*

Management of the School Corporation had not established a proper system of internal control that segregated key functions and would have ensured accurate monthly bank reconcilements.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish and properly implement controls over financial transactions and reporting could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, misstatements in a timely manner.

*Recommendation*

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

We also recommended that the School Corporation establish a system of internal controls to ensure that depository reconcilements will be accurately performed on a timely basis.

*Views of Responsible Officials*

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

**FINDING 2017-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

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

*Condition*

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

The federal grant information entered and submitted in the Indiana Gateway for Government Units financial reporting system was the source of the SEFA. An oversight or review process had not been established by the School Corporation to ensure that the information entered was accurate.

*Context*

Due to a lack of internal controls, the following errors resulted in the understatement of the total federal awards expended on the SEFA by \$760,061 and \$751,494 as of June 30, 2016, and June 30, 2017, respectively:

1. The Child Nutrition Cluster was omitted. This resulted in the understatement of the School Breakfast Program expenditures by \$57,609 and \$45,928 for the 2015-2016 and 2016-2017 school years, respectively. In addition, the National School Lunch Program expenditures were understated by \$402,779 and \$318,847 for the 2015-2016 and 2016-2017 school years, respectively.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2. The Special Education Cluster (IDEA) was omitted. This resulted in the understatement of the Special Education Grants to States expenditures by \$271,108 and \$306,368 for the 2015-2016 and 2016-2017 school years, respectively. In addition, the Special Education Preschool Grants expenditures were understated by \$13,513 and \$16,498 for the 2015-2016 and 2016-2017 school years, respectively.
3. The Supporting Effective Instruction State Grants were omitted, which understated federal expenditures by \$95,344 and \$69,678, for the 2015-2016 and 2016-2017 school years, respectively.
4. The Title I Grants to Local Educational Agencies were overstated by \$80,292 and \$5,825 for the 2015-2016 and 2016-2017 school years, respectively.

Audit adjustments were proposed, approved 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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. . . ."

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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*.

*Recommendation*

We recommended that the School Corporation establish a system of internal controls to ensure that federal expenditures will be properly reported on the SEFA.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*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 Number): FY 15-16, FY 16-17

Pass-Through Entity: Indiana Department of Education

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

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit related to Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Reporting. 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 compliance requirements listed above.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

The School Corporation had not designed or implemented procedures to ensure compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements. There was no documented oversight or review process to ensure that vendor and payroll expenditures were for activities or costs that were allowable for the programs and were properly posted to the School Lunch fund.

*Eligibility*

Eligibility determinations were performed by one individual. Although a review was indicated, there was no documentation of this review and we were not able to verify that a review took place.

*Procurement*

There was not a consistently documented procedure in place to ensure that purchases made without a contract followed the correct procurement policy. One individual reviewed claims to ensure that they followed the correct procurement policy, but this control was not consistently documented.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Reporting*

One person was responsible for preparing the monthly Sponsor Claims (claims for reimbursement) and the School Food Authority (SFA) Verification Collection Reports without a proper system or oversight or review.

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

Eligibility verifications performed as part of the Verification Summary Report were performed by one individual. There was no documented oversight, review process, or other compensating control to ensure that eligibility determinations were correct.

*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. One individual was responsible for posting receipts to the financial system with no documented control in place to ensure that the receipts were recorded properly or promptly to the School Lunch fund.

*Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program Only)*

One individual completed the paid lunch equity calculation without an oversight or review process to ensure the accuracy of the calculation.

*Context*

The lack of controls was a systemic issue 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). . . ."

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

The School Corporation's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the compliance requirements listed above.

*Effect*

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the compliance requirements listed above.

*Views of Responsible Officials*

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

**FINDING 2017-004**

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): FY 15-16, FY 16-17  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Cash Management  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit. 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 related to the grant agreement and the Cash Management compliance requirement.

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

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The School Corporation did not comply with the cash management requirements that cash balances (net cash resources) be limited to three months average expenditures during the audit period. The School Lunch fund monthly net cash resources exceeded three months average expenditures during the audit period.

Although the School Corporation indicated that a spending plan was in place, the plan was not provided for audit.

*Context*

The lack of controls and noncompliance were systemic issues during the audit period. The School Lunch fund monthly net cash resources exceeded the 3 months average expenditures for 15 of the 24 months in the audit period.

*Criteria*

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 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*

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Cash Management compliance requirement.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*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 federal funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

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

**FINDING 2017-005**

Subject: Child Nutrition Cluster - Program Income, Reporting  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 15-16, FY 16-17  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirements: Program Income, Reporting  
Audit Findings: Material Weakness, Modified Opinion

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding numbers were 2015-003 and 2015-004.

*Condition*

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

The School Corporation did not have documented controls in place to ensure that program income was properly recorded and reported on the Annual Financial Report (AFR). An oversight or review process of the amounts recorded in the school food account had not been established to ensure the proper reporting on the AFR.

The School Corporation did not comply with program income requirements that program income be correctly recorded in the School Lunch fund. This resulted in program income being incorrectly reported on the AFR since the recorded amount was inaccurate.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Context*

The lack of controls and noncompliance were systemic issues throughout the audit period. A transfer was made in April 2016 to account for the 2014 annual calendar year program income. However, the School Corporation had previously transferred \$123,924 of the January through June 2014 program income in 2014. Therefore, the School Corporation overstated program income by \$123,924 in the fiscal year 2015-2016. The inaccurate recording resulted in an overstatement of program income on the AFR.

*Criteria*

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 210.14(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; . . ."

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). (The School Administrator and Uniform Compliance Guidelines, September 2008)

7 CFR 3016.20(b) states in part:

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

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:  
. . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . .
- (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. . . ."

*Cause*

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

*Effect*

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

*Questioned Costs*

Known questioned costs of \$123,924 were identified for Program Income as identified in the *Context*.

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Program Income and Reporting compliance requirements.

*Views of Responsible Officials*

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



# EASTERN PULASKI COMMUNITY SCHOOL CORPORATION

711 School Drive  
Winamac, IN 46996

Phone: 574-946-4010  
Fax: 574-946-4510

## CORRECTIVE ACTION PLAN

### **FINDING 2017-001**

Contact Person Responsible for Corrective Action: Angie Anspach, Treasurer/Business Manager

Contact Phone Number: (574) 946-4010 ext. 229

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Treasurer will implement more stringent internal controls in the business office to prevent or detect and correct errors related to financial transactions and reporting. A more stringent checklist will be developed to provide reasonable assurances that material noncompliance with the financial transactions and reporting will be prevented.

The Treasurer or Assistant Treasurer will record transactions and the Treasurer or Assistant Treasurer will review the transactions. No one individual will be allowed to record financial transactions without a different individual checking those transactions.

Reconciliation was done monthly, however, the Treasurer could not convince the Assistant Treasurer to comply with controls in place, such as using the same check number over and over for ACH payments, and receipting in funds incorrectly, specifically matured CD's were receipted in that were already recorded thus double receipting in of funds. Again, reconciliation did take place, however, the Treasurer could not get the accounts to balance due to the above issues.

The Assistant Treasurer during the audit period is no longer with the school corporation.

#### *Receipts:*

Corrective action has already taken place on receipts. Receipts are being processed by the Treasurer and checked by the Corporation Secretary before posting. Both are signing off that receipts are processed properly.

#### *Disbursements:*

Corrective action has already taken place on disbursements. Disbursements are being processed by the Treasurer and checked by the Superintendent before any disbursements are posted or checks processed. Both are signing off that disbursements are processed properly.

#### *Financial Reporting:*

Financial Reporting will be done by the Treasurer and checked by Assistant Treasurer or Superintendent before submitted.

We understand the importance of Internal Controls, however, small school corporations have few employees with many duties.

Anticipated Completion Date: Immediately.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Treasurer/Business Manager  
(Title)

\_\_\_\_\_  
December 18, 2018  
(Date)



# EASTERN PULASKI COMMUNITY SCHOOL CORPORATION

711 School Drive  
Winamac, IN 46996

Phone: 574-946-4010  
Fax: 574-946-4510

## **FINDING 2017-002**

Contact Person Responsible for Corrective Action: Angie Anspach, Treasurer/Business Manager  
Contact Phone Number: (574) 946-4010 ext. 229

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Treasurer will implement more stringent internal controls in the business office to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). A more stringent checklist will be developed to provide reasonable assurances that material noncompliance with the SEFA and reporting will be prevented.

The Treasurer or Assistant Treasurer will record information in Gateway and the Treasurer or Assistant Treasurer will review the information. No one individual will be allowed to record and submit information without a different individual checking the information.

We understand the importance of Internal Controls, however, small school corporations have few employees with many duties.

Anticipated Completion Date: Immediately.

  
(Signature)

Treasurer/Business Manager  
(Title)

December 18, 2018  
(Date)



# EASTERN PULASKI COMMUNITY SCHOOL CORPORATION

711 School Drive  
Winamac, IN 46996

Phone: 574-946-4010  
Fax: 574-946-4510

## **FINDING 2017-003**

Contact Person Responsible for Corrective Action: Angie Anspach, Treasurer/Business Manager

Contact Phone Number: (574) 946-4010 ext. 229

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Treasurer will implement more stringent internal controls in the business office to prevent or detect and correct errors related to grant agreement and the compliance requirements listed. A more stringent checklist will be developed to provide reasonable assurances that material noncompliance with the financial transactions and reporting will be prevented. The Treasurer or Assistant Treasurer will record transactions and the Treasurer or Assistant Treasurer will review the transactions. No one individual will be allowed to record financial transactions without a different individual checking those transactions.

### *Eligibility/Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP):*

Corrective action has already taken place on eligibility. Eligibility is being processed by the Food Service Director and entered into our software for the lunch program. All of our lunch applications are checked, as well, by the Treasurer, Assistant Treasurer or the Corporation Secretary for accuracy. If errors are found, corrections are immediately made.

### *Procurement:*

All claims will be reviewed by more than one person with knowledge of Procurement before being processed.

### *Reporting:*

The Sponsor Claims and the School Food Authority Verification Collection Reports will be reviewed by more than one person with knowledge of the reporting before processed.

### *Special Tests and Provisions – Paid Lunch Equity (National School Lunch program only):*

The paid lunch equity calculation will be reviewed by more than one person with knowledge of the Paid Lunch Equity process before being processed.

We understand the importance of Internal Controls, however, small school corporations have few employees with many duties.

Anticipated Completion Date: Immediately.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Treasurer/Business Manager  
(Title)

\_\_\_\_\_  
December 18, 2018  
(Date)



# EASTERN PULASKI COMMUNITY SCHOOL CORPORATION

711 School Drive  
Winamac, IN 46996

Phone: 574-946-4010  
Fax: 574-946-4510

## **FINDING 2017-004**

Contact Person Responsible for Corrective Action: Angie Anspach, Treasurer/Business Manager  
Contact Phone Number: (574) 946-4010 ext. 229

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Treasurer will implement more stringent internal controls in the business office to prevent or detect and correct errors related to the grant agreement and the Cash Management compliance requirement.

A more stringent checklist will be developed to provide reasonable assurances that material noncompliance with the grant agreement and the Cash Management compliance requirement will be prevented.

The Treasurer will take steps to ensure that the three month average expenditures will be calculated and compared to the monthly cash balance and to ensure that those balances do not exceed three months average expenditures. This will be checked by the Assistant Treasurer.

We understand the importance of Internal Controls, however, small school corporations have few employees with many duties.

Anticipated Completion Date: Immediately.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Treasurer/Business Manager  
(Title)

\_\_\_\_\_  
December 18, 2018  
(Date)



# EASTERN PULASKI COMMUNITY SCHOOL CORPORATION

711 School Drive  
Winamac, IN 46996

Phone: 574-946-4010  
Fax: 574-946-4510

## **FINDING 2017-005**

Contact Person Responsible for Corrective Action: Angie Anspach, Treasurer/Business Manager  
Contact Phone Number: (574) 946-4010 ext. 229

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The Treasurer will implement more stringent internal controls in the business office to prevent or detect and correct errors related to grant agreement and the Program Income and Reporting compliance requirements.

A more stringent checklist will be developed to provide reasonable assurances that material noncompliance with the grant agreement and the Program Income and Reporting compliance requirements will be prevented on the Annual Financial Report.

The Treasurer will take steps to ensure that program income will be correctly recorded in the School Lunch Fund. The Treasurer will record the income and the Assistant Treasurer will check that the income was recorded properly.

The Assistant Treasurer taking care of transfers, during the audit period, is no longer with the school corporation. The Treasurer will do the transfers and ensure that the transfers are done correctly and checked by the Assistant Treasurer.

We understand the importance of Internal Controls, however, small school corporations have few employees with many duties.

Anticipated Completion Date: Immediately.

  
(Signature)

Treasurer/Business Manager  
(Title)

December 18, 2018  
(Date)

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

A similar comment appeared in the prior Report B47014, entitled *OVERDRAWN CASH BALANCES*.

The financial statement included in the Financial Statement and Federal Single Audit Report for the School Corporation included the following funds with overdrawn cash balances at June 30, 2016 and 2017:

Fund	Amount Overdrawn as of June 30,	
	2016	2017
Gifted and Talented 2014-2015	\$ 3,021	\$ 3,021
Secured Schools Safety Grant	-	17,132
School Technology	-	27,804
Prepaid School Lunch	118,690	119,336

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

**PREPAID LUNCH ACCOUNT RECONCILIATIONS**

A similar comment appeared in the prior report B47014, entitled *PREPAID LUNCH ACCOUNT RECONCILIATIONS*.

Monthly reconcilements of all the students' individual meal account balances to the Prepaid School Lunch fund (clearing account) were not performed. A report of the students' individual meal account balances as of June 30, 2016 and 2017, could not be provided for audit. The Prepaid School Lunch fund cash balance as of June 30, 2017, had an overdrawn cash balance of \$119,336.

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

**ERRORS ON CLAIMS**

Of the 121 Accounts Payable Vouchers (APV) tested for vendor and payroll disbursements, 40 payroll disbursements and 7 vendor claims that were related to payroll were not approved by the legislative body as required by Indiana Code. The 7 vendor claims were also not certified by the fiscal officer.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

EASTERN PULASKI COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on December 20, 2018, with Angela Anspach, Treasurer; Dan L. Foster, Superintendent of Schools; and Deke DeMarco, President of the School Board.