

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SHELBY EASTERN SCHOOLS

SHELBY COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
03/22/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mary C. Scott	07-01-16 to 06-30-19
Superintendent of Schools	Dr. Robert Evans	07-01-16 to 06-30-19
President of the School Board	Jason Redd Mark Nigh Jason Yantiss	07-01-16 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
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TO: THE OFFICIALS OF THE SHELBY EASTERN SCHOOLS, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the Shelby Eastern Schools (School Corporation), for the period from July 1, 2016 to June 30, 2018. 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 Finding, identified in the above referenced audit report, is included in this report.

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

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

February 4, 2019

SHELBY EASTERN SCHOOLS
FEDERAL FINDING

FINDING 2018-001

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

Repeat Finding

This is a repeat of Finding 2016-001 from the immediately prior audit.

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 internal control in place was not effective in detecting and correcting errors on the SEFA.

Context

The SEFA contained the following errors:

1. The Child Nutrition Cluster was understated by \$22,815 and \$23,122 for the school years ended June 30, 2017 and 2018, respectively.
2. The Special Education Cluster (IDEA) was understated by \$128,784 and overstated by \$230,538 for the school years ended June 30, 2017 and 2018, respectively.
3. The Title I Grants to Local Educational Agencies program was understated by \$80,924 and overstated by \$42,734 for the school years ended June 30, 2017 and 2018, respectively.
4. The Supporting Effective Instruction State Grants program was understated by \$42,828 and \$46,475 for the school years ended June 30, 2017 and 2018, respectively.

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. . . .

SHELBY EASTERN SCHOOLS
FEDERAL FINDING
(Continued)

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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

2 CFR 200.510(b) states:

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

SHELBY EASTERN SCHOOLS
FEDERAL FINDING
(Continued)

Effect

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

Recommendation

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

Views of Responsible Officials

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



SHELBY EASTERN SCHOOLS

Superintendent: Dr. Robert Evans ■ Corp. Treasurer: Chris Scott

Mission Statement:

Shape, Empower, and Support the minds of tomorrow

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Mary C Scott (Chris)
Contact Phone Number: (765) 544-2246 x 1027

We concur with the Audit finding:

Description of Corrective Action Plan:

After it was brought to our attention in the prior audit, controls have been implemented. Additional information was gained and/or training received which cleared up a misunderstanding of how to report our receipts and disbursements. The SEFA will be completed by the Treasurer and reviewed/approved by someone knowledgeable about the preparation of the SEFA and federal grants.

Anticipated Completion Date: 01/31/2019

Mary C Scott
(Signature)

Treasurer
(Title)

2/4/2019
(Date)

SHELBY EASTERN SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 4, 2019, with Dr. Robert Evans, Superintendent of Schools; Mary C. Scott, Treasurer; and Jason Redd, School Board member.