

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF

NORTH SPENCER COUNTY  
SCHOOL CORPORATION  
SPENCER COUNTY, INDIANA

July 1, 2016 to June 30, 2018



**FILED**  
03/22/2019



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2018-001	
Child Nutrition Cluster - Internal Controls .....	4-5
Finding 2018-002	
Child Nutrition Cluster - Procurement and Suspension and Debarment .....	5-7
Finding 2018-003	
Child Nutrition Cluster - Program Income .....	7-9
Corrective Action Plan.....	10-12
Audit Result and Comment:	
Prepaid School Meal Accounts.....	13
Exit Conference.....	14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Martha Barnett	01-11-16 to 06-30-19
Superintendent of Schools	Daniel R. Scherry	07-01-16 to 06-30-19
President of the School Board	L. Elaine Daubenspeck Lori Gogel	01-01-16 to 12-31-17 01-01-18 to 12-31-19



**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 NORTH SPENCER COUNTY SCHOOL CORPORATION, SPENCER COUNTY, INDIANA

This report is supplemental to our audit report of the North Spencer County School Corporation (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 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 Result and Comment as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describes the identified reportable instance of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

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

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

February 7, 2019

NORTH SPENCER COUNTY SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2018-001***

Subject: Child Nutrition Cluster - Internal Controls  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY17, FY18  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirements: Activities Allowed or Unallowed, Allowable  
Costs/Cost Principles, Reporting  
Audit Finding: Material Weakness

*Condition*

An effective internal control system, including segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting.

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

The School Corporation had established the control that all school lunch employees' time cards were reviewed and approved by a supervisor. However, timesheets for the high school lunch employees were not approved by a supervisor for five of the six payroll distributions tested.

*Reporting*

An effective internal control system was not in place to ensure that the Monthly Sponsor Claims for Reimbursement, Annual Financial Report, and Verification Summary were accurately prepared and submitted. There was no segregation of duties, such as an oversight, review, or approval process.

*Context*

Internal controls over the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements were not effective from July 1, 2016 to February 10, 2018. Beginning with payroll period ending February 10, 2018, the high school lunch employees' timesheets were being signed by the School Lunch Director.

The lack of controls over the Reporting compliance requirement was a systemic problem 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). . . ."

NORTH SPENCER COUNTY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management did not adhere to their system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. Management had not developed a system of internal controls, including segregation of duties, that would have ensured compliance with the Reporting compliance requirement.

*Effect*

The failure to establish and adhere to an effective internal control system could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements listed above 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 and adhere to their controls to ensure compliance with 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 2018-002**

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment  
Federal Agency: Department of Agriculture  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY17, FY18  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Procurement and Suspension and Debarment  
Audit Findings: Material Weakness, Other Matters

*Condition*

*Procurement*

The School Corporation had not established an effective internal control system to ensure compliance with procurement requirements. A procurement plan was maintained by the School Corporation; however, there were no controls in place to ensure that appropriate procurement methods were used. The School Corporation disbursed more than \$150,000 to one company without soliciting bids during each year of the audit period.

NORTH SPENCER COUNTY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Suspension and Debarment*

The School Corporation had not established an effective internal control system to ensure compliance with suspension and debarment requirements. The School Corporation did not perform any procedures to verify that vendors without contracts with purchases over \$25,000 in a school year were not suspended or debarred from participation in federal programs before entering into the covered transactions.

*Context*

The lack of controls was a systemic issue throughout the audit period. There was one vendor during each school year for which the proper procurement method was not used. There were three vendors during each school year that exceeded the \$25,000 threshold for which the School Corporation did not verify that the vendors were not suspended or debarred from participation in federal programs.

*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). . . ."

2 CFR 200.320 states in part:

"The non-Federal entity must use one of the following methods of procurement.

(a) Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified source.

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c) (1) of this section apply. . . ."

NORTH SPENCER COUNTY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

2 CFR 180.300 states:

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

You do this by:

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

*Cause*

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with the procurement and suspension and debarment 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 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 Procurement and Suspension and Debarment compliance requirement.

*Views of Responsible Officials*

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

**FINDING 2018-003**

Subject: Child Nutrition Cluster - Program Income  
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): FY17, FY18  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Program Income  
Audit Findings: Material Weakness, Modified Opinion

NORTH SPENCER COUNTY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Condition*

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

For the 2016-2017 and 2017-2018 school years, the School Corporation did not comply with requirements for accounting for program income generated from the operation of the school food service program. A single fund, the School Lunch fund, was used to account for all activity of the school food service program. There was no distinction between prepaid amounts and program income.

*Context*

The lack of controls was a systemic issue throughout the audit period. The commingling of funds prevented the ability to determine the School Corporation's compliance with the program income requirements.

*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). . . ."

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 220.13(j) states in part: "Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

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: . . ."

NORTH SPENCER COUNTY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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

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 Bulletin and Uniform Compliance Guidelines, September 2008)

2 CFR 200.302(b)(3) states:

"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 documentation."

*Cause*

Management of the School Corporation had not developed a system of internal controls that would have ensured that prepaid receipts and program income receipts were properly identified and accounted for in order to allow for the determination of compliance with the Program Income compliance requirement.

*Effect*

The failure to establish an effective internal control system and the commingling of prepaid receipts and program income receipts prevented the determination of the School Corporation's compliance with the Program Income compliance requirement. Noncompliance with the grant agreement and the program income requirements 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 Program Income compliance requirement.

*Views of Responsible Officials*

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

# North Spencer County School Corporation

*Shaping Tomorrow Today*

Box 316, 3720 E SR 162

Lincoln City, IN 47552

Phone: (812) 937-2400

Fax: (812) 937-7187

www.nspencer.k12.in.us



## CORRECTIVE ACTION PLAN

### **FINDING 2018-001**

Contact Person Responsible for Corrective Action: Mary Waninger

Contact Phone Number: 812-937-2400 ext. 2003

Views of Responsible Official: We concur with the finding

### Description of Corrective Action Plan:

Internal control has been put in place in the 2018-19 school year of reviewing and approving payroll time cards. Internal controls will be put in place to make sure that the duties of preparing, reviewing, and or approving, Reimbursement Claims, Annual Financial Report, and Verification Summary Report are segregated to multiple people.

Anticipated Completion Date: Effective Immediately

Mary Waninger  
(Signature)

Food Service Director  
(Title)

2/7/19  
(Date)

# North Spencer County School Corporation

*Shaping Tomorrow Today*

Box 316, 3720 E SR 162  
Lincoln City, IN 47552

Phone: (812) 937-2400  
Fax: (812) 937-7187  
www.nspencer.k12.in.us



## CORRECTIVE ACTION PLAN

### **FINDING 2018-002**

Contact Person Responsible for Corrective Action: Mary Waninger  
Contact Phone Number: 812-937-2400 ext. 2003

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Compliance with suspension and debarment requirements will be established and maintained going forward. We will verify that vendors without contracts with purchases over 25,000 in a school year are not suspended or debarred from participation in federal programs before entering into the covered transactions.

Starting with the 2018-19 school year, we obtained contracts with all vendors from whom we purchase over \$150,000 worth of goods.

Anticipated Completion Date: Effective Immediately

Mary Waninger  
(Signature)

Food Service Director  
(Title)

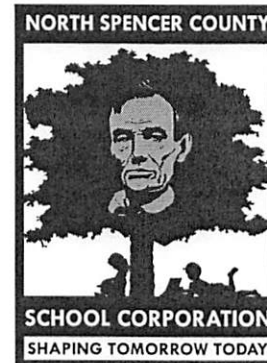
2/7/19  
(Date)

# North Spencer County School Corporation

*Shaping Tomorrow Today*

ox 316, 3720 E SR 162  
Lincoln City, IN 47552

Phone: (812) 937-2400  
Fax: (812) 937-7187  
www.nspencer.k12.in.us



## CORRECTIVE ACTION PLAN

### ***FINDING 2018-003***

Contact Person Responsible for Corrective Action: Martha Barnett  
Contact Phone Number: 812-937-2400 ext. 1004

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Revenue from pre-paid lunch accounts will be maintained separately from the current funds. Monthly the Café Treasurer will present a total of lunch account sales and the amount will be transferred from the separate account to the School Lunch account.

Anticipated Completion Date: At the close of the Fiscal Year (June 30<sup>th</sup>, 2019) we will make the transfer and establish a separate account for the Pre-Paid Revenue.

Martha Barnett  
(Signature)

Treasurer  
(Title)

2-7-19

NORTH SPENCER COUNTY SCHOOL CORPORATION  
AUDIT RESULT AND COMMENT

***PREPAID SCHOOL MEAL ACCOUNTS***

Prepaid lunch receipts were not accounted for in a Prepaid Lunch Fund, fund 8400, a clearing account. Receipts were instead accounted for in the School Lunch fund, fund 800. The entire amount of prepaid lunch receipts was recognized in the School Lunch fund at the time of receipt as revenue and not as applied from the clearing account as students consumed their individual prepaid account balances. As a result, the subsidiary records of prepaid lunch fund balances by student could not be reconciled to an overall balance on a routine basis by officials as required.

Our opinion is that money a student puts into their individual meal account 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 of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 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)

NORTH SPENCER COUNTY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2019, with Daniel R. Scherry, Superintendent of Schools; Martha Barnett, Treasurer; Don Detzer, School Board member; Mary Waninger, Food Service Manager; and Lori Gogel, President of the School Board.