

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
TIPTON COMMUNITY SCHOOL CORPORATION
TIPTON COUNTY, INDIANA
July 1, 2016 to June 30, 2018



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Renee L. Anderson Troy Cloum	07-01-16 to 05-31-18 06-01-18 to 06-30-19
Superintendent of Schools	Kevin Emsweller	07-01-16 to 06-30-19
President of the School Board	Rick Powell	07-01-16 to 06-30-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TIPTON COMMUNITY SCHOOL
CORPORATION, TIPTON COUNTY, INDIANA

This report is supplemental to our audit report of the Tipton Community 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 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

January 29, 2019

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

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 2016-001.

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 School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

The SEFA presented for audit contained the following errors:

1. The School Breakfast Program (CFDA 10.553) was overstated by \$16,719 during fiscal year 2017 and \$23,210 during fiscal year 2018.
2. The National School Lunch Program (CFDA 10.555) was overstated by \$186,555 during fiscal year 2017 and \$198,842 during fiscal year 2018.
3. The Supporting Effective Instruction State Grants (CFDA 84.367) were overstated by \$3,644 during fiscal year 2017 and \$4,500 during fiscal year 2018.

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.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . ."

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.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(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.

FINDING 2018-002

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles
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: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

Condition

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

A food service management company administered the Child Nutrition Cluster program for the School Corporation. The food service management company billed the School Corporation on a summary level for costs associated with providing services to the School Corporation. The food service management company invoices to the School Corporation were not supported by adequate documentation to determine if the amounts billed to the School Corporation were accurate. No one at the Corporation level was ensuring that there was proper documentation of invoices.

Context

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

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 200.403 states in part:

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

- (g) Be adequately documented. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, enabled noncompliance with the grant agreement and the Allowable Costs/Cost Principles 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 Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-003

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): FY17, FY18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-003.

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 failed to comply with the Cash Management requirement that its net cash resources in the School Lunch fund be limited to the 3 months average expenditures of the food service program. The School Lunch fund cash balance was in excess of the 3 months average expenditures of the food service program for all 24 months of 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 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)."

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 resource 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 ensured compliance with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance 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.

FINDING 2018-004

Subject: Child Nutrition Cluster - Eligibility and 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): FY17, FY18

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility, Reporting

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

TIPTON COMMUNITY 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 Eligibility and Reporting compliance requirements.

Eligibility

There were no controls in place to ensure that the eligibility determinations for free and reduced price meal applications were accurate. One employee processed the applications for free and reduced price meals, which included determining eligibility, without oversight, review, or other compensating control.

Reporting

There were no controls in place to ensure that required Annual Financial Reports (AFR) were completed and accurate prior to submission. One employee prepared the AFR without oversight, review, approval, or other compensating control.

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 that would have ensured compliance with the Eligibility and Reporting compliance requirements.

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 Eligibility and Reporting compliance requirements.

Questioned Costs

There were no questioned costs identified.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

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

FINDING 2018-005

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, 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 Program Income compliance requirement.

The School Corporation had not properly designed or implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records to ensure its compliance with Program Income requirements.

The School Corporation had not established the School Lunch Clearing Fund (8400) to account for the prepaid school lunch account balances. All receipts collected were recorded directly in the School Lunch fund (800) instead as earned revenue.

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 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). . . ."

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 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; . . ."

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)

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Program Income 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 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.



TIPTON COMMUNITY SCHOOL CORPORATION

Kevin R. Emsweller, Superintendent
John K. Junco, Assistant Superintendent

Troy A. Cloum, Treasurer
Brian D. Witherow, Director of Technology

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Troy Cloum
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The treasurer will work with the Director of the Kokomo Special Education Cooperative to develop the SEFA. The completed SEFA will then be submitted to the Superintendent for review and approval.

Anticipated Completion Date: February 2019

FINDING 2018-002

Contact Person Responsible for Corrective Action: Troy Cloum
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Corrected: June 2018 – The Food Service Director submits all invoices to the Corporation Treasurer on a monthly basis. Once the invoices are reviewed and approved, the Corporation Treasurer and the Food Service Director sign off.

Corrected: June 2018 - The Free and Reduced Lunch Coordinator has Harmony (Student Management System) randomly identify the required percentage for verification. The Corporation Administrative Assistant then checks and verifies the applications for eligibility.

Anticipated Completion Date: Corrected June 2018



TIPTON COMMUNITY SCHOOL CORPORATION

Kevin R. Emsweller, Superintendent

FINDING 2018-003

Troy A. Cloum, Treasurer

Brian D. Witherow, Director of Technology

Contact Person Responsible for Corrective Action: Troy Cloum

Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Corrected: June 2018 – The Food Service Director, with information from the Corporation Treasurer, now completes a spreadsheet tracking the three month rolling average balance. The Corporation Treasurer and the Superintendent review and sign off on the document on a monthly basis. If the balance is too high, the Food Service Director and Superintendent develop a plan to reduce the balance.

Anticipated Completion Date: Corrected June 2018

FINDING 2018-004

Contact Person Responsible for Corrective Action: Troy Cloum

Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Corrected: June 2018 - The Free and Reduced Lunch Coordinator has Harmony (Student Management System) randomly identify the required percentage for verification. The Corporation Administrative Assistant then checks and verifies the applications for eligibility.

Corrected: June 2018 - The Food Service Director and the Corporation Treasurer both prepare and sign off on the Annual Financial Report. The Superintendent reviews and signs the AFR. The Corporation Treasurer verifies the verification summary reports.

Anticipated Completion Date: Corrected June 2018

TIPTON COMMUNITY SCHOOL CORPORATION



TIPTON COMMUNITY SCHOOL CORPORATION

FINDING 2018-005, Superintendent
John K. Junco, Assistant Superintendent

Troy A. Cloum, Treasurer
Brian D. Witherow, Director of Technology

Contact Person Responsible for Corrective Action: Troy Cloum
Contact Phone Number: 765-675-2147

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

We will create a clearing account (8400) for prepaid food. We will work with the food service vendor to develop standard operating procedures, including proper internal controls, for prepaid lunch accounts.

Anticipated Completion Date: February 2019

TIPTON
COMMUNITY
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TIPTON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 29, 2019, with Kevin Emsweller, Superintendent of Schools; Rick Powell, President of the School Board; and Troy Cloum, Treasurer.