

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

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



FILED
03/29/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Teresa Vester	07-01-16 to 06-05-17
	Jennifer Smith (interim)	06-06-17 to 07-17-17
	Travis Hueston	07-18-17 to 06-30-19
Superintendent of Schools	Dr. Tracy Cadell	07-01-16 to 06-23-17
	(Vacant)	06-24-17 to 06-25-17
	Dr. Keith Richie	06-26-17 to 06-30-19
President of the School Board	Matthew J. Adams	01-01-16 to 12-31-16
	Brian Day	01-01-17 to 12-31-17
	Aimee Romero	01-01-18 to 12-31-18
	Jordan Buckley	01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

March 14, 2019

EASTERN HOWARD 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 (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer prepared the federal award information entered into Gateway without an effective system of internal 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 was overstated by \$15,683 for the 2016-2017 school year and understated by \$9,828 for the 2017-2018 school year.
2. The National School Lunch Program was overstated by \$81,632 for the 2016-2017 school year and understated by \$17,808 for the 2017-2018 school year. The National School Lunch Program Commodities were understated by \$51,940 and \$52,741 for the 2016-2017 and 2017-2018 school years, respectively.
3. The Title I Grants to Local Educational Agencies program was understated by \$54,912 for the 2016-2017 school year.
4. The Supporting Effective Instruction State Grants program was understated by \$4,332 and \$14,999 for the 2016-2017 and 2017-2018 school years, 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:

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"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. . . ."

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.

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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's management establish effective 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 - Eligibility, Special Tests and Provisions -
Verification of Free and Reduced Price Applications

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 2016-2017, FY 2017-2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility, Special Tests and Provisions - Verification
of Free and Reduced Price Applications

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.

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the following compliance requirements:

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Eligibility

The School Corporation had not established an effective system of internal controls to ensure that participant eligibility was properly determined. The Elementary Secretary and High School ECA Treasurer were responsible for determining eligibility for free and reduced price meals, but those were performed independently, without any oversight or review of the determinations made.

Special Tests and Provisions - Verification of Free and Reduced Price Applications

The School Corporation had not established an effective system of internal controls to ensure that verifications were properly performed. The Food Service Director was responsible for the verifications of free and reduced price meal applications, but made the determination of changes in eligibility without any oversight or review process.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

Management had not developed a system of internal controls to ensure compliance with the grant agreement and the Eligibility and Special Tests and Provisions - Verification of Free and Reduced Price Applications 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 Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirements.

Questioned Costs

There were no questioned costs identified.

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish an effective system of internal controls to ensure compliance with the grant agreement and the Eligibility and Special Tests and Provisions - Verification of Free and Reduced Price Applications 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 2018-003

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): FY 2016-2017, FY 2017-2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

Condition

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

An effective internal control system was not in place to ensure that only applicable employees were paid proper amounts from program funds. The School Corporation paid a portion of the wages of the Middle School Principal (5 percent), the High School Assistant Principal (5 percent), and the Family and Consumer Sciences/Food Service Director (50 percent) from the School Lunch fund. The wages charged were based on fixed percentages. There was no supporting documentation to indicate how the payment amounts were determined.

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). . . ."

EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . ."

2 CFR 200.430(i) states in part:

"Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

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

Effect

The failure to establish an effective system of internal controls enabled noncompliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

There were no questioned costs during the audit period.

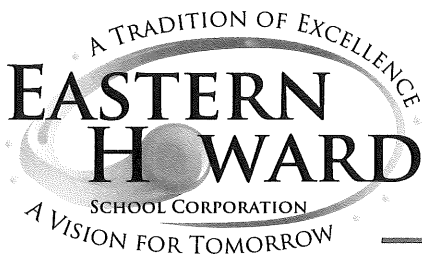
EASTERN HOWARD SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish an effective system of internal 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.



Dr. Keith Richie
Superintendent of Schools

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CORRECTIVE ACTION PLAN FOR EASTERN HOWARD SCHOOL CORPORATION

Report Period: 7/1/2016 – 6/30/2018

FINDING 2018-001

Material weakness - Preparation of Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Travis Hueston, Treasurer
Contact Email/Phone Number: travis.hueston@eastern.k12.in.us/(765) 628-3391

The corporation has not previously had a procedure to verify the amounts reported in the SEFA, resulting in erroneous data being reported.

2 CFR 200.508
2 CFR 200.510(b)

We agree with the repeat finding identified

The corporation has implemented internal control procedures since the findings of the 2014-16 SBoA audit, completed in May of 2018. As a result of the completion of the 2016-18 audit, the Treasurer has learned the correct procedure to obtain the correct data to include in the SEFA report. This data will segregate state funds from federal funds, for the School Lunch fund, specifically, and the SEFA report should accurately reflect only the federal funds received, in the future.

Description of Corrective Action Plan:

The internal control procedure is currently in place, and is as follows: The Corporation Treasurer will prepare the SEFA, our Deputy Treasurer will review and verify the information reported. The report will be shared with and reviewed by the Superintendent prior to finalization and submission. Treasurer, Deputy Treasurer and Superintendent will all sign/initial after their review is complete. It is my understanding currently that I may receive a breakdown of federal vs. state funds received from the Indiana Department of Education that will ensure that the corporation correctly report only federal funds received for the School Lunch program on future SEFA submissions.

Anticipated Completion Date: 8/30/2019



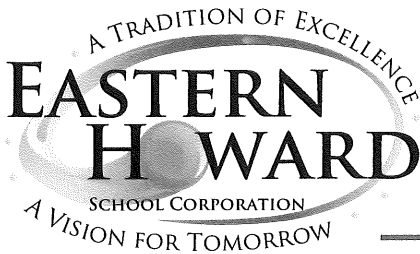
(Signature)

Treasurer

(Title)

3/13/2019

(Date)



Dr. Keith Richie
Superintendent of Schools

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CORRECTIVE ACTION PLAN FOR EASTERN HOWARD SCHOOL CORPORATION

Report Period: 7/1/2016- 6/30/2018

FINDING 2018-002

Child Nutrition Cluster –Eligibility, Special Tests & Provisions-Verification of Free & Reduced Price Applications (NSLP)

Contact Person Responsible for Corrective Action: Travis Hueston, Treasurer
Contact Email/Phone Number: travis.hueston@eastern.k12.in.us/(765) 628-3391

For Eligibility: the corporation needs to implement a procedure for multiple checks of applications
For Special Tests, etc.: an additional review of the test of 3% of our applications was not performed

2 CFR 200.303

We agree with the repeat finding identified

The corporation has implemented internal control procedures since the completion of the previous SBoA audit in May of 2018 for the period of July 1, 2014-June 30, 2016. There has been one new school year between the completion of the 2014-16 and 2016-18 audits for the corporation to establish the control procedures. We will continue to assess and revamp the process from the guidance we have received from the State Board of Accounts.

-Eligibility

Skyward software system is in place to determine eligibility. The software is updated with the correct formula to calculate eligibility. Following the Skyward determination, the ECA Treasurers will initially review for accuracy. Building Administrators will review for final determination at the beginning of each school year, and throughout the school year as needed.

Anticipated Completion Date: 3/31/2019

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

The Food Service Director will select a sample of 3% of total applications to verify at the beginning of each school year. The ECA Treasurers will recalculate eligibility and the Food Service Director will sign off/initial upon reviewing those recalculations.

Anticipated Completion Date: 3/31/2019



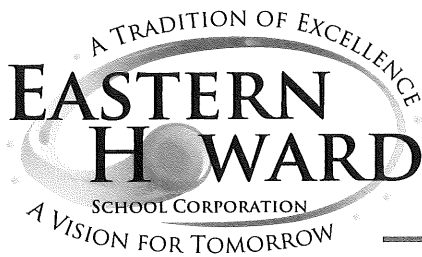
(Signature)

Treasurer

(Title)

3/13/2019

(Date)



Dr. Keith Richie
Superintendent of Schools

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CORRECTIVE ACTION PLAN FOR EASTERN HOWARD SCHOOL CORPORATION

FINDING 2018-003

Child Nutrition Cluster-Allowable Costs/Cost Principles

Contact Person Responsible for Corrective Action: Travis Hueston, Treasurer
Contact Phone Number: (765) 628-3391

The corporation has been paying a portion of administrators' salaries from the School Lunch fund without proper time and effort logs submitted, per federal guidelines.

2 CFR 200.303
2 CFR 200.403
2 CFR 200.430(i)
34 CFR 76.730

We concur with the findings

The corporation has changed the payroll accounts used for the three administrators that were previously being paid 5% of their salaries from the School Lunch Fund (0800), effective January 1, 2019. The Food Service Director will continue to receive a percentage of her salary based on the portion of her time that is devoted to the Food Service department. This documentation will be added to the Food Service Director's personnel file, as a supplement to their current and future teacher contracts.

Anticipated Completion Date: 3/1/2019



(Signature)

Treasurer

(Title)

3/13/2019

(Date)

EASTERN HOWARD SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2019, with Travis Hueston, Treasurer; Dr. Keith Richie, Superintendent of Schools; Sheryl Dean, School Board member; and Aimee Romero, School Board member.