

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH KNOX SCHOOL CORPORATION

KNOX 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	Terri Roesler	01-01-16 to 12-31-19
Superintendent of Schools	Dr. Darrel L. Bobe	07-01-16 to 06-30-19
President of the School Board	Elaine Pepmeier	01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

This report is supplemental to our audit report of the North Knox 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 26, 2019

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: School Breakfast Program, National School Lunch Program - Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Application (NSLP)

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): 16-17, 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Audit Finding: Material Weakness

Repeat Finding

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

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 Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

There was no segregation of duties, such as an oversight, review, or approval process, over the verifications performed or the preparation of the School Food Authority (SFA) Verification Collection Reports filed. The School Lunch Director was responsible for all duties related to verification and reporting.

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 of the School Corporation had not developed a system of internal controls, including segregation of duties, which would have ensured compliance with the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Application (NSLP) compliance requirements.

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Application (NSLP) compliance requirements. A lack of segregation of duties within an internal control system could have enabled noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviewal, or approval 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, including segregation of duties, related to the grant agreement and the Reporting and Special Tests and Provisions – Verification of Free and Reduced Price Application (NSLP) 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 2018-002

Subject: Child Nutrition Cluster - Equipment and Real Property
Management, Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: School Breakfast Program, National School Lunch
Program, Summer Food Service Program

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): 16-17, 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Equipment and Real Property Management, Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of Finding 2016-002 from the immediately prior audit report.

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, the Equipment and Real Property Management compliance requirement, and Allowable Costs/Cost Principles compliance requirement.

The School Corporation did not have controls in place to ensure that assets purchased for the food service programs were properly inventoried and were included in the Capital Asset Listing of the School Corporation. The School Corporation did not perform or reconcile a physical inventory of equipment at least once every two years. The Capital Asset Listing did not include the following required information: serial number, source of funding, titleholder, and disposition data if applicable.

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation did not request approval from Indiana Department of Education prior to making purchases greater than \$5,000.

Context

The lack of controls and noncompliance were systemic problems 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). . . ."

2 CFR 200.313(d) states in part:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

2 CFR 200.439(b)(2) states: "Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity."

Cause

Management of the School Corporation had not established an effective internal control system that would have ensured compliance with the grant agreement, the Equipment and Real Property Management compliance requirement, and the Allowable Costs/Costs Principles compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. The failure to comply with the grant agreement, the Equipment and Real Property Management compliance requirement, and the Allowable Costs/Costs Principles compliance requirement could have resulted in the loss of federal funds to the School Corporation.

NORTH KNOX SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective system of internal controls to ensure compliance with the grant agreement, the Equipment and Real Property Management compliance requirement, 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.

NORTH KNOX SCHOOL CORPORATION

Board of School Trustees

Elaine Pepmeier
President

L. Vaughn Huey
Vice-President

Jared Saucerman
Secretary

V. Max Nickless
Member

Michael McKinley
Member

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CORRECTIVE ACTION PLAN

Dr. Darrel L. Bobe
Superintendent

Terri L. Roesler
Treasurer

Debbie Utt
Payroll/Personnel

Allyson Bowers
Secretary / Transportation Director

Ethan Singleton
Technology Coordinator

Kevin Curtis
Director of Buildings & Grounds

FINDING 2018-001

Contact Person Responsible for Corrective Action: **Terri Roesler, Treasurer**
Contact Phone Number: **812-735-4434**

Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

The Food Services Supervisor verifies the Free and Reduced Price Applications (NSLP) each year. A percentage of the Free and Reduced Price Applications are then reviewed and initialed by the Food Service Director. The Corporation Treasurer reviews the verifications and initials all School Food Authority (SFA) Verification Collections Reports prior to their submission.

In the absence of the Corporation Treasurer, the Building Principal will review and initial the School Food Authority (SFA) Verification Collections Report.

Anticipated Completion Date:

The corrective plan went into effect immediately following the conclusion of the 2014-16 audit. The Corporation Treasurer reviewed the 2018-19 School Food Authority (SFA) Verification Collections Report prior to its submission in October 2018.



(Signature)

Corporation Treasurer

(Title)

3/14/19

(Date)

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Technology Coordinator

Kevin Curtis
Director of Buildings & Grounds

FINDING 2018-002

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer

Contact Phone Number: 812-735-4434

Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

An inventory list of food service equipment was developed by the Corporation Treasurer immediately following the 2014-16 audit. New equipment is added to the inventory as it is purchased. The Food Service Supervisor also maintains an inventory list for each kitchen. The Corporation Treasurer and Food Service Supervisor review inventory sheets once a year to check for accuracy.

The Corporation Treasurer will include Serial/Model numbers for items, source of funding, holder title, etc., for all additional equipment that is purchased. The Food Service Supervisor will conduct a walk-through once a year of each kitchen's equipment inventory and document the condition of equipment on the inventory sheet.

The Corporation Treasurer made contact with the Indiana Department of Education for purchases greater than \$5,000 effective with the 2018 calendar year. We will continue to contact the Indiana Department of Education for approval prior to making purchases over \$5,000 as well as for guidance with disposal procedures for items that are no longer of any value

Anticipated Completion Date:

Effective immediately.



(Signature)

Corporation Treasurer

3/14/19 (Title)

(Date)

NORTH KNOX SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 26, 2019, with Terri Roesler, Treasurer; Dr. Darrel L. Bobe, Superintendent of Schools; and Elaine Pepmeier, President of the School Board.