

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

SOUTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION
MONTGOMERY 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	Kristin Charles	07-01-16 to 06-30-19
Superintendent of Schools	Dr. Shawn E. Greiner	07-01-14 to 06-30-19
President of the School Board	Brad Monts	07-01-16 to 12-31-19



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AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE SOUTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

This report is supplemental to our audit report of the South Montgomery 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 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.

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

March 19, 2019

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-001.

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. There was a lack of segregation of duties, as the School Corporation had not separated incompatible activities related to receipts and reporting.

Receipts

One employee was responsible for recording the receipts and preparing the daily deposits into the depository accounts. There were no controls in place such as oversight, review, or approval process over the receipts posted to the ledger.

Reporting

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the financial statement. An effective internal control system was not in place to ensure the accuracy between the transactions in the records and what was reported on the financial statement.

Context

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

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. . . .

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. . . .

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

Cause

Management had not established a proper system of internal control related to financial transactions and reporting.

Effect

The failure to establish a proper system of internal control could have enabled misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting.

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: 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 2016-002.

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.

Context

The SEFA presented for audit contained the following errors:

1. Three federal programs were listed incompletely.
2. One item was incorrectly included as a federal program.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

3. Federal expenditures were overstated for four programs.

4. Federal expenditures were understated for ten programs.

In total, the SEFA was understated by \$1,399,579.

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. . . .

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.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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.

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. We also recommended that the School Corporation's management accurately report the expenditures on 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 2018-003

Subject: School Breakfast Program, National School Lunch Program - 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): FY 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

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

SOUTH MONTGOMERY 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 Program Income compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records. The School Corporation did not establish the School Lunch Clearing Fund (8400) to account for prepaid school lunch account balances. All monthly receipts from sales, as well as prepayments, were recorded directly in the School Lunch fund (800). The documentation to support the program income recorded was not presented for audit.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of adequate supporting documentation prevented the determination of the School Corporation's compliance with the Program Income compliance requirement.

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 220.7(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; . . ."

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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(a) states in part:

"Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. . . ."

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 source documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that supporting documentation related to the Program Income compliance requirement was maintained and made available for audit.

Effect

The failure to establish an effective internal control system and provide sufficient supporting documentation prevented the determination of the School Corporation's compliance with the grant agreement and the Program Income compliance requirement.

Questioned Costs

There were no questioned costs identified.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure that documentation related to the grant agreement and the Program Income compliance requirement will be maintained and made available for audit.

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: School Breakfast Program, National School Lunch Program - 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): FY 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Finding: Material Weakness

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 compliance requirement.

The Food Service Director provided reports and supporting documentation for the reimbursement requests to the Director of Operations; however, there was no documentation to show that a proper oversight, review, or approval process had occurred.

Context

This 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 Reporting compliance requirement.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 Reporting 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 Reporting 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 2018-005

Subject: Special Education Cluster (IDEA) - Reporting

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-076-PN01, 14216-076-PN01,
14217-076-PN01, 45716-076-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

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 compliance requirement.

The School Corporation did not present the following reports for audit: one of seven reimbursement requests, all of the Final Financial Reports, and seven of nine Quarterly Proportionate Share Monitoring Reports. The magnitude of the reports not presented for audit did not allow the testing for the Reporting compliance requirement.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of supporting documentation prevented the determination of the School Corporation's compliance with the Reporting compliance requirement.

SOUTH MONTGOMERY 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 200.302(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 source documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that supporting documentation related to the grant agreement and the Reporting compliance requirement was maintained and made available for audit.

Effect

The failure to establish an effective internal control system and provide sufficient supporting documentation prevented the determination of the School Corporation's compliance with the grant agreement and the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective internal control system to ensure that supporting documentation related to the grant agreement and the Reporting compliance requirement will be maintained and available for audit.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2018-006

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-076-PN01, 14216-076-PN01,
14217-076-PN01, 45716-076-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

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.

Supporting documentation for the compensation - personal services selected item of cost was not maintained for all employees paid from Special Education Cluster (IDEA) grant funds.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of supporting documentation prevented the determination of the School Corporation's compliance with the Allowable Costs/Cost Principles compliance requirement.

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 200.302(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 source documentation."

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

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);
- (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and . . .
- (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 a system of internal controls that would have ensured that supporting documentation related to the Allowable Costs/Cost Principles compliance requirement was maintained and made available for audit.

Effect

The failure to establish an effective internal control system and provide sufficient supporting documentation prevented the determination of the School Corporation's compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

There were no questioned costs identified.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure that documentation related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement will be maintained and available for audit.

Views of Responsible Officials

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

FINDING 2018-007

Subject: Special Education Cluster (IDEA) - Period of Performance

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-076-PN01, 14216-076-PN01,
14217-076-PN01, 45716-076-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Period of Performance

Audit Findings: Material Weakness, Modified Opinion

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 Period of Performance compliance requirement.

Federal funds for the Special Education Cluster (IDEA) were not separated for each grant year. The intermingling of funds did not allow the testing of the Period of Performance compliance requirement.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of supporting documentation prevented the determination of the School Corporation's compliance with the Period of Performance compliance requirement.

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). . . ."

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 source documentation."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that supporting documentation related to the Period of Performance compliance requirement was maintained and made available for audit.

Effect

The failure to establish an effective internal control system and provide sufficient supporting documentation prevented the determination of the School Corporation's compliance with the grant agreement and the Period of Performance compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that documentation related to the grant agreement and the Period of Performance compliance requirement will be maintained and available for audit.

Views of Responsible Officials

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



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**Corrective Action Plan – South Montgomery Community School Corporation
Audit Period- 7/1/2016 through 6/30/2018**

Finding 2018-001

Contact Person Responsible for CAP: Kristin Charles

Contact Phone Number: 765-866-0203

Views of Responsible Official: We agree with this finding and have made enormous strides to insure the proper oversight.

CAP: We have corrected this as of 2017. Our new process covers the segregation of duties by having multiple people in the office doing different parts of the task to ensure that there is oversight in all areas.

Finding 2018-002

Contact Person Responsible for CAP: Kristin Charles

Contact Phone Number: 765-866-0203

Views of Responsible Official: We agree with this finding and have made enormous strides to insure the proper oversight.

CAP: We have corrected this as of 2018. Our new process covers the segregation of duties by having multiple people in the office doing different parts of the task to ensure that there is oversight in all areas. We are also ensuring that funds are being kept separate and items are being put in the right place. We utilize our Google platform so that these are shared drives of information amongst the proper members of the team.

Finding 2018-003

Contact Person Responsible for CAP: Kristin Charles & Brett Higgins

Contact Phone Number: 765-866-0203

Views of Responsible Official: We agree with this finding for the time that is being audited and have made enormous strides to insure the proper oversight.



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CAP: We have corrected this as of October 2018. We established the 8400 fund and all monies for payments on accounts or meal purchases are deposited into 8400 and monthly we are moving out what was spent on meals per a FSS report. We will be adding an additional statement to our reimbursement request to ensure that all areas are being covered each month.

Finding 2018-004

Contact Person Responsible for CAP: Kristin Charles, Brett Higgins, John Triller

Contact Phone Number: 765-866-0203

Views of Responsible Official: We agree with this finding and had added the signature line to one area and not the other.

CAP: We will be sure that we will always have a documented review of the reimbursement requests.

Finding 2018-005

Contact Person Responsible for CAP: Kristin Charles & Anna Roth

Contact Phone Number: 765-866-0203

Views of Responsible Official: We understand this finding and have no concerns in getting the CAP in place as some of the corrections have already occurred

CAP: This will be fully implemented with corrections by July 2019. We have shifted the responsibility to someone else in the office with Federal Grant experience to ensure that we are meeting all deadlines and requirements as stated in the grant. The Special Ed Grant person and the Director of Business will work together to ensure that are matters of the grant are met.

Finding 2018-006

Contact Person Responsible for CAP: Kristin Charles & Anna Roth

Contact Phone Number: 765-866-0203

Views of Responsible Official: We understand this finding and have no concerns in getting the CAP in place as some of the corrections have already occurred.

CAP: This will be fully implemented with corrections by July 2019. We have shifted the responsibility to someone else in the office with Federal Grant experience to ensure that we are meeting all deadlines and requirements as stated in the grant. The Special Ed Grant person and the Director of Business will work together to ensure that are matters of the grant are met.



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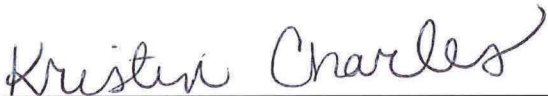
Finding 2018-007

Contact Person Responsible for CAP: Kristin Charles & Anna Roth

Contact Phone Number: 765-866-0203

Views of Responsible Official: We agree with this finding and have no concerns in getting the CAP in place as some of the corrections have already occurred.

CAP: This will be fully implemented with corrections by July 2019. We have shifted the responsibility to someone else in the office with Federal Grant experience to ensure that we are meeting all deadlines and requirements as stated in the grant. The Special Ed Grant person and the Director of Business will work together to ensure that all matters of the grant are met.



Kristin Charles
Director of Business & HR



Dr. Shawn Greiner
Superintendent

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

This same comment also appeared in prior Report B50478.

The financial statement, presented in the Financial Statement and Federal Single Audit Report, included the following funds with an overdrawn cash balance at June 30, 2017, and June 30, 2018, that were not related to a reimbursable grant fund.

Fund	Amount Overdrawn As of June 30, 2017	Amount Overdrawn As of June 30, 2018
Payroll Clearing	\$ 2,444,534	\$ 3,132,622
School Lunch	5,542	-
Textbook Rental	1,243	-
M.C.E.F. 2017-2018	-	591
Lily Grant - Comprehensive Council	-	5,162
Fire and Rescue	-	267
Joint Services and Supply - Area Vocational School	-	10,692
Construction	-	27,156

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Schools, Chapter 1)

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2019, with Kristin Charles, Treasurer; Dr. Shawn E. Greiner, Superintendent of Schools; Daryl Hutson, School Board member; Brett Higgins, Director of Operations and Technology; and Anna Roth, Director of Curriculum.