

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ROCHESTER COMMUNITY SCHOOL CORPORATION

FULTON COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED

04/03/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting	4-5
Finding 2018-002	
Preparation of the Schedule of Expenditures of Federal Awards	5-7
Finding 2018-003	
Child Nutrition Cluster - Internal Controls	8-9
Finding 2018-004	
School Breakfast program, National School Lunch Program - Eligibility	9-11
Finding 2018-005	
Child Nutrition Cluster - Procurement and Suspension and Debarment	11-13
Finding 2018-006	
Child Nutrition Cluster - Allowable Costs/Cost Principles, Program Income, Special Tests and Provisions - School Food Accounts	13-16
Finding 2108-007	
Child Nutrition Cluster - Reporting	16-18
Finding 2018-008	
Special Education Cluster (IDEA) - Procurement and Suspension and Debarment	18-20
Corrective Action Plan.....	21-28
Audit Results and Comments:	
Overdrawn Cash Balances	29
Timely Recording.....	29
Exit Conference.....	30

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Valerie Gillespie	07-01-16 to 06-30-18
	Denise Chandler	07-01-18 to 07-16-18
	Todd VanDerWeele	07-17-18 to 12-31-19
Superintendent of Schools	Jana K. Vance	07-01-16 to 12-31-19
President of the School Board	Thomas L. Schwenk	01-01-16 to 12-31-16
	John Bradley Weaver	01-01-17 to 12-31-18
	Thomas L. Schwenk	01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE ROCHESTER COMMUNITY SCHOOL
CORPORATION, FULTON COUNTY, INDIANA

This report is supplemental to our audit report of the Rochester 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 Results and Comments 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 Results and Comments contained herein describe the identified reportable instances 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 Results and Comments, incorporated within this report, were not verified for accuracy.

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

March 14, 2019

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had implemented controls over financial reporting but they were not effective in preventing errors.

A holding corporation issued bonds pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation in 2015 and 2018. The financial transactions of the holding corporation were included on the School Corporation's financial statement for the year ended June 30, 2018.

Context

Due to the lack of effective controls, receipts and disbursements for the 2015 Construction Account fund were overstated by \$360,797 and \$155,070, respectively, and the 2018 Construction Account fund by \$3,076,083 and \$644,214, respectively, for the year ended June 30, 2018.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement.

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. . . .

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. . . ."

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

". . . The statement will include the funds of the reporting entity only. No funds from outside organizations associated with the entity shall be included. . . ." (Accounting and Financial Reporting Regulation Manual, Part III)

Cause

Management of the School Corporation had not established a proper system of internal control.

Effect

The failure to properly implement controls enabled material noncompliance related to the financial statement to remain undetected. The financial statement contained the errors identified in the *Context*.

Recommendation

We recommended that the School Corporation establish an effective system of internal controls that will ensure accurate 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. 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 is the source of the School Corporation's SEFA. One employee prepared and submitted the grant information without an oversight or review process to detect and correct errors before submission.

Context

Due to the lack of effective controls, the SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were not reported by program, but in total for the Cluster. In addition, expenditures were understated by \$370,740 for the year ended June 30, 2017, and \$129,094 for the year end June 30, 2018.
2. The Special Education Grants to States expenditures were understated by \$127,252 for the year ended June 30, 2017, and \$3,355 for the year ended June 30, 2018.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

3. The Special Education Preschool Grants expenditures were understated by \$1,873 for the year ended June 30, 2017.
4. The CFDA numbers were incorrect or missing. Pass-Through Agencies and Identifying Numbers were not always correct or were missing.

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. . . .

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. . . ."

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:

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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

The School Corporation's management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

The failure to establish internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the School Corporation's management establish controls to ensure accurate reporting 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.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-003

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Special Tests and Provisions - Verification of Free and
Reduced Price Applications (NSLP), Special Tests and Provisions -
Paid Lunch Equity

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit regarding cash management and verification of free and reduced price applications. The prior audit finding numbers were 2016-003 and 2016-005.

Condition

Cash Management

The School Corporation had not designed or implemented adequate internal controls to ensure that the School Lunch fund monthly cash balances (net cash resources) were limited to three months average expenditures in compliance with cash management requirements.

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

The School Corporation had not designed or implemented adequate internal controls to ensure that the verifications of eligibility determinations for free and reduced priced meals were accurate. One employee prepared the School Food Authority (SFA) Verification Collection Reports to be submitted and performed the verifications. There was no documentation of a control in place, such as an oversight, review, or approval process, or other compensating control.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)

The School Corporation had not designed or implemented adequate internal controls to ensure that the Paid Lunch Equity calculation was accurate and that the response to the determination was properly made. One employee prepared the Paid Lunch Equity calculation without an oversight or review process to ensure the accuracy of the calculation.

Context

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

ROCHESTER 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). . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the compliance requirements listed above.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals 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 related to the grant agreement and the Cash Management, Special Tests and Provisions - Verification of Free Reduced Price Applications (NSLP), and Special Tests and Provisions - Paid Lunch Equity 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 2018-004

Subject: School Breakfast Program, National School Lunch Program - Eligibility
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): SY 16-17, SY 17-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
Audit Findings: Material Weakness, Other Matters

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-004.

Condition

The School Corporation utilized software which processed the eligibility determination dependent on the application information input. The School Corporation implemented internal controls, but they were not effective and did not ensure that the free and reduced meal application information was input accurately.

The School Corporation did not comply with the eligibility requirements. Errors were noted in some of the applications tested.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. Three of the fifty-two applications tested included inaccurate information, which resulted in one incorrect eligibility determination.

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 245.3 states in part:

(a) Each State agency, or FNSRO where applicable, shall by July 1 of each year announce family-size income standards to be used by local educational agencies, as defined in § 245.2, under the jurisdiction of such State agency, or FNSRO where applicable, in making eligibility determinations for free or reduced price meals and for free milk. Such family size income standards for free and reduced price meals and for free milk shall be in accordance with Income Eligibility Guidelines published by the Department by notice in the FEDERAL REGISTER.

(b) Each participating local educational agency and all participating schools under its jurisdiction must adhere to the eligibility criteria specified in this part. . . ."

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 245.6(c)(4) states:

"Calculating income. The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable."

Cause

Management had not developed an effective system of internal controls that would have ensured compliance with the eligibility requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the eligibility requirements could have resulted in the loss of funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the grant agreement and the Eligibility 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: Child Nutrition Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): SY 16-17, SY 17-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit regarding suspension and debarment. The prior audit finding number was 2016-007.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

Procurement

The School Corporation had not established effective controls to ensure that proper procurement policies were followed. The food service director obtained quotes or bids for items with a single cost over \$5,000 with no review or approval process in place. The School Corporation did not always obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures.

Suspension and Debarment

There were no controls in place to ensure that vendors were not suspended or debarred from participation in federal programs.

The School Corporation did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and noncompliance were systemic issues 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 200.320 states in part:

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

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

2 CFR 180.300 states:

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

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

You do this by:

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

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the procurement and suspension and debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the grant agreement and the procurement and suspension and debarment requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

FINDING 2018-006

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles, Program
Income, Special Tests and Provisions - School Food Accounts

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Allowable Costs/Cost Principles, Program Income, Special
Tests and Provisions - School Food Accounts

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit regarding program income. The prior audit finding number was 2016-006.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective control system to ensure that program income was properly assessed and recorded, that expenditures were for allowable costs, and that funds were used for the purpose of operating and improving the food service program.

The School Corporation did not properly assess program income for all adult meals; principals and custodians were allowed free meals.

The School Corporation transferred program income into the School Lunch fund; however, they did not properly record amounts for each program within the School Lunch fund (i.e. breakfast, lunch, adult, ala carte).

Based upon the payroll operating costs tested, the School Corporation included percentages of administrative and custodian salaries and wages as food service operating costs in the School Lunch fund. This compensation related to food service operations, which was not supported by time records, totaled \$41,284. These undocumented expenditures were considered questioned costs.

Context

The lack of controls and noncompliance were systemic issues 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(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; . . ."

ROCHESTER COMMUNITY 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:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

7 CFR 210.2 states in part: ". . . . *Nonprofit school food service* means all food service operations conducted by the school food authority principally for the benefit of schoolchildren, all of the revenue from which is used solely for the operation or improvement of such food services. . . ."

7 CFR 210.14(a) states in part: "*Nonprofit school food service*. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, . . ."

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."

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; . . .
- (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. . . ."

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed an effective system of internal controls that would have ensured compliance with the requirements listed above.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements listed above could have resulted in the loss of funds to the School Corporation.

Questioned Costs

Known questioned costs of \$41,284 were identified in the *Condition*.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts 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 2018-007

Subject: Child Nutrition Cluster - Reporting

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-004.

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 completed and submitted the required reports, including the Monthly Sponsor Claims for Reimbursement, School Food Authority (SFA) Verification Collection Reports, and Annual Financial Reports, without an oversight, review, or approval process, to ensure the accuracy of the reports.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation did not fully comply with the reporting requirements regarding the Annual Financial Reports. There were errors on both reports submitted for the audit period. The amounts reported did not agree to the School Corporation's records.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance was limited to both Annual Financial Reports submitted for 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 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:
. . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

2 CFR 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed . . ."

Indiana Department of Education's *General Instructions: Annual Financial Report* states:

"All data reported is on a School Food Authority basis. It should include all financial transactions from July 1 through June 30, thereby accurately reflecting the financial position of the School Food Service Fund as of June 30. Accurate supporting documentation must be maintained by appropriate accounting officials whether consolidated Corporation-level accounting is used, or one or more Extra-Curricular accounts at separate schools are used.

The income total and expense total boxes should agree exactly with total revenues and total expenditures recorded in the SFA's accounting records. All expenses need to be allocated appropriately to all existing programs."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the reporting requirements.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system placed the School Corporation in non-compliance with the grant agreement and the reporting requirements. Noncompliance with the grant agreement and the reporting requirements could have resulted in the loss of funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the 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 2018-008

Subject: Special Education Cluster (IDEA) - Procurement and Suspension and Debarment

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): 14215-112-PN01, 45715-112-PN01,
14216-112-PN01, 45716-112-PN01,
14217-112-PN01, 45217-112-PN01,
18611-112-PN01, 18619-112-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit regarding suspension and debarment. The prior audit finding number was 2016-007.

Condition

Procurement

The School Corporation had not established effective controls to ensure that proper procurement policies were followed. One employee chose vendors without an oversight or review process.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Suspension and Debarment

The School Corporation did not have adequate policies or procedures in place to ensure that vendors were not suspended or debarred from participation in federal award programs. The School Corporation did not perform any procedures to ensure compliance with requirements regarding verification that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

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

Criteria

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

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 180.300 states:

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

You do this by:

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

Cause

Management had not developed an effective system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

ROCHESTER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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



Rochester Community School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2018-001 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Initially, expenses for the bond project were taken from the wrong bank accounts. With assistance from our bank, Building Corporation expenses are submitted for payment with an affidavit, while School Corporation expenses are submitted with a depository agreement. Additionally, In February of 2019, all accounts of the Building Corporation were removed from the 2018 Bond fund and will be tracked separately. Further, all invoices, affidavits and depository agreements will be reviewed before submission to our financial institution.

Anticipated Completion Date: March 2019

(Signature)

Business Manager

(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-002 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: In order to eliminate the opportunity for erroneous reporting, all aspects of the SEFA will be reviewed by Department and/or Administrator responsible for the respective grant. Once accuracy is confirmed, the respective administrator will sign off on the SEFA, and the Business Manager will maintain supporting documents. Upon completion, and before submission, the SEFA will be reviewed by the Superintendent to not only ensure that reporting is complete and accurate, but that documents proving accuracy and verification are maintained.

Anticipated Completion Date: April 2019



(Signature)

Business Manager
(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-003 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: The Food Service Director will receive monthly lunchroom reports from the Business Manager. The report will include revenue and expenditures. The Food Service Director will continue to use these figures to ensure the amounts don't exceed three months average expenditures. The Food Service Director will look at each school building on a monthly basis to determine how to spend excess funds. The Food Service Director will implement a plan for equipment and cafeteria refurbishment to IDOE for approval.

The Food Service Director will select applications in accordance with NLSP. The director will proceed to the Direct Certification website and verify through direct verification. The applications that are not verified through Direct Certification will be sent letters to obtain income documentation. The Director will input the income verification received into the food service software. The Business Manager will review all the information and sign the verification part as well as the Director.

The Food Service Director will gather information and figures from NutriKids, and then enter that information into a working copy of the USDA tool. The Business Manager will verify these figures, the the Food Service Director will enter these figures into the USDA provided tool.

Anticipated Completion Date: May 2019


(Signature)

Food Service Director
(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-004 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Food Service Director will receive Free and Reduced applications. The Director will input the information into the food service software. The Business Manager will review 10% of the applications verifying information and results are accurate and will sign the applications.

Anticipated Completion Date: May 2019



(Signature)

Food Service Director
(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-005 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Purchasing procurement and consortium associations that the School Corporation utilizes comply with the Suspension and Disbarment requirements. To ensure compliance at the district level, the School Corporation will ensure that all vendors utilized for goods and services are not prohibited per Federal requirements by incorporating required practices into school policy. To ensure vendors are not suspended or disbarred, proof of eligibility will be obtained and included with purchasing documents maintained by the School Corporation.

When purchasing items with a per item cost over \$5,000.00 or purchases over \$3,500.00, the Food Service Director will obtain three quotes or bids. These quotes or bids will be reviewed and verified by the Business Manager.

Anticipated Completion Date: May 2019


(Signature)

Food Service Director
(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-006 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Food Service Director and the Business Manager have established a separate account for prepaid. Since establishing and separate account, reporting is more accurate and transparent. A transfer from prepaid to student lunches is done monthly.

The free meal program for custodians and principals has been discontinued. The Food Service Director will periodically review collections of school lunch to ensure income is properly assessed and recorded.

The portion of the Business Manager's salary that was taken from the food service fund has ended. The Food Service Director will periodically review costs to ensure these costs are for the operation of the program.

Anticipated Completion Date: May 2019


(Signature)

Food Service Director
(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-007 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: The Food Service Director will prepare all required reports. Prior to submission these reports will be reviewed for accuracy by the Business Manager.

Anticipated Completion Date: April 2019



(Signature)

Food Service Director
(Title)



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CORRECTIVE ACTION PLAN

FINDING 2018-008 (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Todd VanDerWeele, Business Manager

Contact Phone Number: (574) 223.2159 x5006

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Purchasing procurement and consortium associations that the School Corporation utilizes comply with the Suspension and Disbarment requirements. To ensure compliance at the district level for required grants, the School Corporation will ensure that all vendors utilized for goods and services are not prohibited per Federal requirements by incorporating required practices into school policy. To ensure vendors are not suspended or disbarred, proof of eligibility will be obtained and included with purchasing documents maintained by the School Corporation.

Anticipated Completion Date: May 2019

(Signature)

Business Manager

(Title)

ROCHESTER COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

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

Fund	Amount Overdrawn	
	June 30, 2017	June 30, 2018
Payroll Clearing	\$ 24,176	\$ 14,296
Secured Schools Safety Grant	74,665	94,137
Donations	-	50,963
Formative Assessment	-	9,531

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 Indiana Public School Corporations, Chapter 1)

TIMELY RECORDING

Of the receipts tested, 79 percent were recorded and deposited more than 4 days after receipt by the School Corporation. The longest delay was 62 days.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Schools, Chapter 1)

Indiana Code 5-13-6-1(c) states in part:

" . . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . ."

ROCHESTER COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 14, 2019, with Todd VanDerWeele, Treasurer; Jana K. Vance, Superintendent of Schools; Jennifer Smith, School Board member; Brenda Troyer, HR/Payroll; and Kathy Wilkinson, Food Service Director.