

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FREMONT COMMUNITY SCHOOLS

STEBEN COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
04/17/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	(Vacant) Shayne Tresenriter	06-01-16 to 10-16-16 10-17-16 to 12-31-19
Superintendent of Schools	Dr. William Stitt (interim) Dr. William Stitt	07-01-16 to 09-26-16 09-27-16 to 06-30-19
President of the School Board	Marty McNeal Gary Baker	01-01-16 to 12-31-17 01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE FREMONT COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

This report is supplemental to our audit report of the Fremont Community Schools (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 19, 2019

FREMONT COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

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

Condition

The School Corporation did not have a proper system of internal controls 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, which is a financial reporting system used to compile the School Corporation's SEFA. There was no evidence of a control process in place to ensure the accuracy of the information prior to submission.

Context

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were understated by \$37,778 and \$41,570 for fiscal years 2016-2017 and 2017-2018, respectively.
2. The Child and Adult Care Food Program expenditures were overstated by \$8,568 for fiscal year 2016-2017 and understated by \$26,691 for fiscal year 2017-2018.
3. The Special Education Cluster (IDEA) expenditures were overstated by \$19,123 and \$231,131 for fiscal years 2016-2017 and 2017-2018, respectively.
4. The Title I Grants to Local Educational Agencies expenditures were understated by \$13,247 for fiscal year 2016-2017 and overstated by \$19,093 for fiscal year 2017-2018.
5. The Supporting Effective Instruction State Grants expenditures were understated by \$43,327 for fiscal year 2016-2017 and overstated by \$21,589 for fiscal year 2017-2018.
6. The Head Start Grants were overstated by \$1,729 for fiscal year 2016-2017 and understated by \$195,700 for fiscal year 2017-2018.

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

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

FREMONT COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

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:

- (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.

FREMONT COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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 controls that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal controls 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 to prevent, or detect and correct, errors 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 2018-002

Subject: Child Nutrition Cluster - Procurement

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): FY 2016/2017, FY 2017/2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Finding: Material Weakness

Repeat Finding

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

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 Procurement and Suspension and Debarment compliance requirement.

FREMONT COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation utilized an educational service center for food service bids. The educational service center administered the bidding process as well as verified that the vendors were not suspended or debarred. The educational service center made a recommendation to the School Corporation for the winning bids. However, there were no controls in place to ensure that the School Corporation and School Board formally approved the bids or awarded the contracts to the successful bidders. An oversight, review, or approval process had not been established.

Context

The lack of properly designed and implemented controls was a systemic problem, which occurred throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

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

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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 compliance requirement listed above.

Views of Responsible Officials

For the reviews of responsible officials, refer to the Corrective Action Plan, which is a part of this report.

Fremont Community Schools

Indiana Performance Qualified School District

Dr. William Stitt, Ed.D.
Superintendent
Shayne Tresenriter
Corporation Treasurer
Valerie Schmidt
Corporation Accounts Payable
Caleb Frederick
Corporation Technology Director
Linda McCarty
Corporation Secretary

Board of School Trustees

Gary Baker
Kimberly Bennett
Jill Cox
Anna Creager
Laura McLatcher
Marty McNeal
Jena Stuckey

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Shayne Tresenriter
Contact Phone Number: 260-495-5005

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Fremont Community Schools now has a better understanding of the internal controls process. Once the federal award information is prepared, a second employee will overlook the information for accuracy before it is reported in Gateway. Both employees will initial/sign the documentation. We will now print all reports for SEFA from Gateway and both will sign the reports. A copy of the signed reports will be kept on file.

Anticipated Completion Date: We will start this process with the next SEFA reporting.

FINDING 2018-002

Contact Person Responsible for Corrective Action: Shayne Tresenriter
Contact Phone Number: 260-495-5005

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Fremont Community Schools will have the school food bids approved by the Board of School Trustees as soon as the bids are finalized.

Anticipated Completion Date: July 2019

Steph J. ...
(Signature)

TREASURER
(Title)

3-15-2019
(Date)

FREMONT COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

GUARANTEED SAVINGS CONTRACTS

The School Corporation did not seek out or advertise proposals prior to entering into guaranteed savings contracts for \$4,200,000 in February 2017 or \$1,945,000 in June 2017.

Indiana Code 36-1-12.5-5 states in part:

". . . (b) Before entering into an agreement to participate in a utility efficiency program or a guaranteed savings contract under this section, the governing body must publish notice under subsection (c) indicating:

- (1) that the governing body is requesting public utilities or qualified providers to propose conservation measures through:
 - (A) a utility efficiency program; or
 - (B) a guaranteed savings contract; and
- (2) the date, the time, and the place where proposals must be received.

(c) The notice required by subsection (b) must:

- (1) be published in two (2) newspapers of general circulation in the county where the school corporation or the political subdivision is located;
- (2) be published two (2) times with at least one (1) week between publications and with the second publication made at least thirty (30) days before the date by which proposals must be received; and
- (3) meet the requirements of [IC 5-3-1-1](#). . . ."

TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation failed to ensure that all employees, whose official duties included receiving, processing, disbursing, or otherwise having access to funds that belonged to the School Corporation, had received the training over the internal control standards adopted as required by Indiana code 5-11-1-27(g).

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

FREMONT COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The School Corporation certified on the Indiana Gateway for Government Units financial reporting system that all personnel defined by Indiana Code 5-11-1-27(c) had received training concerning the internal control standards adopted by the School Corporation; however, during the audit, documentation that all personnel had received training concerning the internal control standards was not provided.

Indiana Code 5-11-1-27(h) states:

"After June 30, 2016, the fiscal officer of a political subdivision shall certify in writing that:

- (1) the minimum internal control standards and procedures defined under subsection (e) have been adopted by the political subdivision; and
- (2) personnel, who are not otherwise on leave status, have received training as required by subsection (g)(2).

The certification shall be filed with the state board of accounts at the same time as the annual financial report required by section 4(a) of this chapter is filed. The certification shall be filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

OVERDRAWN CASH BALANCES

This is a repeat finding from the immediately prior Report B49588.

The financial statement included in the *Financial Statement and Federal Single Audit Report* of the School Corporation contained the following funds with overdrawn cash balances at June 30, 2017.

Fund	Amount Overdrawn June 30, 2017
P.L. 221 Professional Development	\$ 5,761
Day Care Program	111,953

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)

FREMONT COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 19, 2019, with Shayne Tresenriter, Treasurer; Dr. William Stitt, Superintendent of Schools; and Marty McNeal, School Board member.