

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF

SOUTH HARRISON COMMUNITY  
SCHOOL CORPORATION  
HARRISON COUNTY, INDIANA

July 1, 2016 to June 30, 2018



**FILED**  
04/24/2019



## 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	
Child Nutrition Cluster - Eligibility .....	5-6
Finding 2018-003	
Child Nutrition Cluster - Procurement and Suspension and Debarment .....	7-9
Finding 2018-004	
Child Nutrition Cluster - Reporting .....	9-10
Finding 2018-005	
Child Nutrition Cluster - Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) .....	11-12
Finding 2018-006	
Title I Grants to Local Educational Agencies - Procurement and Suspension and Debarment .....	13-14
Finding 2018-007	
Special Education Cluster (IDEA) - Internal Controls .....	14-16
Finding 2018-008	
Special Education Cluster (IDEA) - Allowable Costs/Cost Principles .....	16-18
Finding 2018-009	
Special Education Cluster (IDEA) - Procurement and Suspension and Debarment .....	18-20
Finding 2018-010	
Special Education Cluster (IDEA) - Reporting .....	20-22
Corrective Action Plan.....	23-27
Audit Result and Comment:	
Annual Financial Report Not Filed Timely .....	28
Exit Conference.....	29

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pamela L. Seipel Carolyn E. Wallace	01-01-16 to 01-08-19 01-09-19 to 12-31-19
Superintendent of Schools	Dr. Mark A. Eastridge	07-01-16 to 06-30-19
President of the School Board	Mary J. Mathes	01-01-16 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

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

This report is supplemental to our audit report of the South Harrison 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/](http://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

April 3, 2019

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2018-001***

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

*Repeat Finding*

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

*Condition*

There were deficiencies in the internal control system of the School Corporation related to the financial transactions and reporting of payroll transactions. The payroll deduction clearing bank account was used to account for employee withholding activity to four payroll vendors using an electronic payment method that did not require checks. These amounts were set up in the payroll system as payroll direct deductions. The receipt and disbursement activity was not recorded to the clearing accounts in the School Corporation's financial records. The deductions did not appear on the School Corporation's vendor history reports, revenue reports, or expense reports, and the deductions were not approved by the School Board.

Throughout the audit period, the Treasurer would make adjusting entries to the financial records. A system of controls was not in place to ensure that the adjusting entries were approved and contained proper documentation to support the reason for the adjustment.

*Context*

The lack of controls over financial transactions and reporting of the payroll transactions was a systemic issue throughout the audit period. The activity for the four payroll vendors totaled \$319,551 for fiscal year 2017 and \$349,825 for fiscal year 2018. Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement.

The lack of a control system in place to show the approval of adjusting entries and to ensure proper documentation to support the adjustments was also a systemic issue 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 HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payments of the claim. . . ."

Clearing Accounts serve as control accounts for certain areas of the accounting system. Therefore, they must be supported by receipts and disbursement entries in the general ledger and the subsidiary ledgers or other supporting records. The clearing accounts are subsidiary records only and should not be used in lieu of proper and prescribed reporting of receipts, disbursements, and balance of the funds of the school corporation in accordance with IC 5-11-1-2. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 7)

*Cause*

Management of the School Corporation had not established a proper system of internal control to ensure all financial activity was reported within the financial records and transactions were properly approved.

*Effect*

The failure to establish controls enabled misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls related to financial transactions and reporting to ensure all financial activity is properly reported within the financial records and that all transactions are properly approved.

*Views of Responsible Officials*

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

**FINDING 2018-002**

Subject: Child Nutrition Cluster - Eligibility  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Number and Year (or Other Identifying Number): 3190  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Eligibility  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of Finding 2016-006 from the immediately prior audit report.

SOUTH HARRISON 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 Eligibility compliance requirement. Determination of eligibility was made by one individual without any oversight or review by another individual.

*Context*

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

*Cause*

Management of the School Corporation had not developed a system of internal controls that segregated key functions to ensure compliance with the grant agreement and the Eligibility 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 Eligibility compliance requirement. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls related to 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.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2018-003***

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Number and Year (or Other Identifying Number): 3190  
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 of Finding 2016-005 from the immediately prior audit report.

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

*Procurement*

The School Corporation had not established effective controls to ensure that their purchasing method used complied with procurement requirements.

The School Corporation did not obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which required the use of small purchase procedures. The School Corporation also did not obtain a contract for one vendor for which the total disbursements exceeded \$150,000; the threshold for use of exceeding simplified acquisition procedures.

*Suspension and Debarment*

The School Corporation had not established an effective internal control system to ensure compliance with the suspension and debarment requirements. 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 the noncompliance were systemic issues throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

(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.

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming to all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c)(1) of this section apply. . . ."

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*

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Procurement and Suspension and Debarment 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 compliance requirement could have resulted in the loss of federal funds to the School Corporation.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance 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 2018-004**

Subject: Child Nutrition Cluster - Reporting  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Number and Year (or Other Identifying Number): 3190  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Reporting  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2016-006 from the immediately prior audit report.

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the requirement related to the grant agreement and the Reporting compliance requirement. The Annual Financial Reports and School Food Authority (SFA) Verification Collection reports were completed by one individual without any oversight or review by another individual.

The School Food Authority (SFA) Verification Collection report was not completed properly for fiscal year 2018. An application that was subjected to verification did not have its results included within the report.

*Context*

The lack of adequate internal controls was a systemic issue throughout the audit period. The non-compliance was isolated to the fiscal year 2018 School Food Authority (SFA) Verification Collection report.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

(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 245.6a(h) states in part:

*"Verification reporting and recordkeeping requirements.* By February 1, each local educational agency must report information related to its annual statutorily required verification activity, which excludes verification conducted in accordance with paragraph (c)(7) of this section, to the State agency in accordance with guidelines provided by FNS. . . . All verified applications must be readily retrievable on an individual school basis and include all documents submitted by the household for the purpose of confirming eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission. All relevant correspondence between the households selected for verification and the school or local educational agency must be retained. Local educational agencies are encouraged to collect and report any or all verification data elements before the required dates."

*Cause*

Management of the School Corporation had not developed a system of internal controls that segregated key functions and ensured compliance with the grant agreement and Reporting 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 Reporting 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 a system of internal controls related to 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.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2018-005***

Subject: Child Nutrition Cluster - Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Number and Year (or Other Identifying Number): 3190  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)  
Audit Findings: Material Weakness, Other Matters

*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 Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement. The proper procedures for eligibility verification were not performed.

During fiscal year 2017, one student's benefit eligibility status was not changed once the applicant failed to respond to the requested information for verification. Once the applicant was informed the eligibility benefit status would be changed to paid due to a failure to respond, a second application was submitted. The School Corporation determined the eligibility status should remain as free based upon the second application, without requesting documentation to verify the income shown on the application.

During fiscal year 2018, the School Corporation attempted to notify the applicant they were required to submit information for verification; however, the notification was returned by the postal service. No further action was taken to verify the application.

*Context*

The lack of internal controls and noncompliance was a systemic issue 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). . . ."

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

7 CFR 245.11(c) states in part:

*"Local educational agency requirements.* Beginning July 1, 2014, and each July 1 thereafter, local educational agencies selected by the State agency to conduct a second review of applications must ensure that the initial eligibility determination for each application is reviewed for accuracy prior to notifying the household of the eligibility or ineligibility of the household for free and reduced price meals. The second review must be conducted by an individual or entity who did not make the initial determination. This individual or entity is not required to be an employee of the local educational agency but must be trained on how to make application determinations. All individuals or entities who conduct a second review of applications are subject to the disclosure requirements set forth in § 245.6(f) through (k). . . ."

Per USDA Eligibility Manual for School Meals Determining and Verifying Eligibility dated July 18, 2017, page 59:

"Households affected by a reduction or termination of benefits may reapply for benefits at any time during the school year, and schools should remind families their children may become eligible for free meals if the household unit experiences a change in financial circumstances (i.e., household size goes up or income goes down). However, if benefits to a household have been terminated because of failure to complete the verification or verification for cause process and the household reapplies in the same school year, the household is required to submit income documentation or proof of participation in Assistance Programs at the time of reapplication [7 CFR 245.6a(f)(7)]. These are not considered new applications."

*Cause*

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to remain undetected. Noncompliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement could have resulted in the loss of federal funds.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirement.

*Views of Responsible Officials*

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

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2018-006***

Subject: Title I Grants to Local Educational Agencies - Procurement and Suspension and Debarment  
Federal Agency: Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers and Years (or Other Identifying Numbers): 16-3190, 17-3190, 18-3190  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Procurement and Suspension and Debarment  
Audit Findings: Material Weakness, Other Matters

*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 requirement.

The School Corporation had adopted a procurement policy that is in accordance with federal guidelines under Uniform Guidance; however, they were unable to provide supporting documentation for small purchases (greater than \$3,500 but less than \$150,000).

The School Corporation did not verify that one vendor with purchases greater than \$25,000 had not been suspended or debarred from receiving federal monies.

*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. . . ."

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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

*Effect*

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls related to 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 2018-007**

Subject: Special Education Cluster (IDEA) - Internal Controls

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): 14216-026-PN01, 45716-026-PN01,  
14217-026-PN01, 45717-026-PN01,  
18619-026-PN01, 18611-026-PN01

Pass-Through Entity: Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Cash Management, Period of Performance

Audit Finding: Material Weakness

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Repeat Finding*

This is a repeat of Finding 2016-009 from the immediately prior audit report.

*Condition*

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

*Activities Allowed or Unallowed*

There were no controls in place to ensure expenditures charged to the federal programs were for allowable activities. Summary total amounts referencing descriptions, payroll transactions, and FICA were not reviewed to ensure that the underlying detailed transactions actually related to the description and were allowable activities. Supporting documentation for adjustment transactions was not reviewed to verify that the underlying transactions were for allowable activities.

*Cash Management*

An effective internal control system was not in place to verify that the amounts requested were in agreement with the underlying financial records or that the grant expenditures had been paid prior to making the request.

*Period of Performance*

There were no controls in place to ensure the obligation for salary and benefit expenditures charged to the federal programs were within the period of performance. Supporting documentation for adjustment transactions was not reviewed to verify that the underlying transactions were within the period of performance.

*Context*

The lack of adequate internal controls was a systemic issue 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). . . ."

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the School Corporation had not developed an effective system of internal controls that segregated key functions.

*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. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds.

*Questioned Costs*

There were no known questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls related to the grant agreement and the compliance requirements listed above.

*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) - 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): 14216-026-PN01, 45716-026-PN01,  
14217-026-PN01, 45717-026-PN01,  
18619-026-PN01, 18611-026-PN01

Pass-Through Entity: Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2016-011 from the immediately prior audit report.

*Condition*

The School Corporation had not established an effective internal control system related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Proper controls were not in place to ensure costs associated with salaries and benefits were properly charged and allocated to the grant programs. Salaries and benefits were approved by summary total only. Details of the salary and benefit transactions were not reviewed to verify that employees' costs expended were for employees that had performed work for the grant programs and were in agreement with the amounts reported on supporting time records.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

Proper controls were not in place to ensure that detailed documentation supporting all adjustment and transfer transactions was being reviewed and approved prior to recording the transactions. Adjustments and transfers were approved by summary total only. Additionally, controls were not in place to ensure that when salary adjustment and transfer transactions were made, that similar adjustment transactions were made for any related employee benefit costs.

Proper controls were not in place to ensure that adequate supporting documentation was maintained for all grant disbursements and that costs were allocated properly. During fiscal year 2018, expenses charged to the program in the amount of \$12,290 could not be identified with specific transactions. Shipping costs in the amount of \$45 were charged to the grant program; however, the goods associated with the shipping costs were charged to a different grant program. These costs were considered questioned costs. When the errors were projected to the population, likely questioned costs are \$57,551.

*Context*

The lack of controls and noncompliance were systemic issues throughout the audit period. No detailed payroll distributions records or supporting documentation for adjustment/transfer transactions were presented to the School Board for review prior to payment.

*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 200.403 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 limitation or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

*Cause*

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Effect*

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

*Questioned Costs*

Known questioned costs in the amount of \$12,335 were identified.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

*Views of Responsible Officials*

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

**FINDING 2018-009**

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): 14216-026-PN01, 45716-026-PN01,  
14217-026-PN01, 45717-026-PN01,  
18619-026-PN01, 18611-026-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

*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.

*Procurement*

Proper controls were not in place to ensure that procured goods and services were purchased using the small purchase method. The required price or rate quotations for small purchases were not retained for audit.

*Suspension and Debarment*

Proper controls were not in place to ensure that suspension and debarment procedures were followed. Documentation was not retained to verify that vendors were not suspended or debarred prior to entering into a contract.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Context*

The lack of internal controls was a systemic problem throughout the audit period. Supporting documentation was not kept that could support that the required procedures for small purchases were being followed. Supporting documentation was also not available to determine if the School Corporation verified if a vendor was suspended or debarred from receiving federal monies prior to entering into a contract with them.

*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 200.318(i) states:

"The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

2 CFR 200.320(b) states:

"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."

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."

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the School Corporation had not developed an effective system of internal controls to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

*Effect*

The failure to establish an effective system of internal controls enabled material noncompliance to remain undetected. The failure to comply with the grant agreement and the Procurement and Suspension and Debarment 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 related to 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 2018-010**

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): 14215-028-PN01, 14216-026-PN01,  
45716-026-PN01, 14217-026-PN01,  
45717-026-PN01, 18619-026-PN01,  
18611-026-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2016-010 from the immediately prior audit report.

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. There were no controls in place to ensure that supporting documentation attached to the reports was in agreement with amounts reported on the submitted Final Financial Expenditure reports. In addition, there were no controls in place to verify that the amounts requested on the Cash Request for Reimbursement agreed to the underlying financial records.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The submitted Final Expenditure Report and Cash Request for Reimbursement did not agree with the underlying financial reports for the grant funds.

*Context*

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

The submitted fiscal year 2017 and fiscal year 2018 Final Expenditure Reports did not match the School Corporation's expenditure reports that were attached as supporting documentation. Expenditures were recorded to the financial records in excess of the grant awards' budget amounts. As a result of overspending the award amounts, the grant funds had deficit balances. Management resolved the deficits in the grant funds by transferring monies from local sources or transferring expenses to other grant funds.

Two Cash Request for Reimbursement reports submitted during fiscal year 2018 did not match the School Corporation's expenditure reports that were attached as supporting documentation. The total amount on one Cash Request for Reimbursement was less than the amount shown as expended in the ledger, while another request was greater than the amount expended in the ledger. The School Corporation was forced to request amounts that differed from the actual amounts reported in the ledger.

The following differences existed between the amounts reported on the Final Financial Expenditure Reports and the Cash Request for Reimbursements, with the total fund expenditures per the School Corporation's ledger:

<i>Final Financial Expenditure Report</i>						
Fund Number	Grant Award Number	Report Filed	Grant Award Amount	Final Expenditure Report Amount	Total Grant Expenditures Per Funds Ledger	Difference
5203	14215-028-PN01	12-15-16	\$ 1,355,867	\$ 1,355,867	\$ 1,450,903	\$ (95,036)
5409	45716-026-PN01	05-06-17	35,965	35,965	47,423	(11,458)
5204	14216-026-PN01	12-22-17	1,362,755	1,362,755	1,483,930	(121,175)

<i>Request for Reimbursement Report</i>						
Fund Number	Grant Award Number	Report Filed	Grant Award Amount	Cash Reimbursement Report Amount	Total Grant Expenditures Per Funds Ledger	Difference
5204	14216-026-PN01	06-29-17	\$ 1,362,755	\$ 120,905	\$ (362,386)	\$ 483,291
5205	14217-026-PN01	06-29-17	1,422,222	180,365	593,623	(413,258)

*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. . . ."

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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). . . ."

34 CFR 80.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . ."

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 . . . ."

*Cause*

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

*Effect*

The failure to establish a system of internal controls enabled material noncompliance to remain undetected. The failure to comply with the grant agreement and the Reporting 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 a system of internal controls related to 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.



## South Harrison: Safe ♦ Supportive ♦ Successful

---

### CORRECTIVE ACTION PLAN

#### FINDING 2018-001

Contact Person Responsible for Corrective Action:	Dr. Mark A. Eastridge, Superintendent Carolyn Wallace, Director of Business Operations
Contact Phone Number:	(812) 738-2168
View of Responsible Official:	We concur with the finding; however we would like to note that these deductions are reconciled on a monthly basis which provides the detail for the amounts ultimately recorded in the financial statements.
Description of Corrective Action Plan:	The payroll deduction clearing account will be integrated into the financial reporting system and transactions will be recorded therein.
Anticipated Completion Date:	Prior to June 30, 2019

#### FINDING 2018-002

Contact Person Responsible for Corrective Action:	Dr. Mark A. Eastridge, Superintendent Carolyn Wallace, Director of Business Operations
Contact Phone Number:	(812) 738-2168
View of Responsible Official:	We concur with the finding.
Description of Corrective Action Plan:	Control procedures will be implemented to assure that determination of eligibility of selected applications will be reviewed by someone other than the person making the determination.
Anticipated Completion Date:	Internal reviews of 2018-2019 applications will be conducted prior to June 30, 2019 with reviews continuing for subsequent periods.

**FINDING 2018-003**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The following control procedures will be implemented:  
(1) The Board of School Trustees is reviewing the policy which will increase the small purchases threshold from \$3,500 to \$10,000 – the second reading of the proposed change is April 9, 2019. The School Corporation will seek and maintain documentation for purchases that exceed this threshold beginning immediately.  
(2) The School Corporation will seek to enter into contractual agreements for vendors with disbursements that exceed the simplified acquisition threshold of \$150,000.  
(3) The Suspension and Debarment listing will continue being searched to verify that vendors are not included therein each year for recurring vendors.  
(4) Vendors will be verified against the Suspension and Debarment listing before entering into a new contract.

Anticipated Completion Date: (1) April 9, 2019; (2) Review of current disbursements against contracts to be conducted by June 30, 2019 and contractual arrangements will be created for new vendors whose disbursements may exceed the threshold of \$150,000; (3) Ongoing; (4) Immediately, with all new vendors

**FINDING 2018-004**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Control procedures have been implemented to assure that annual financial reports and verification collection reports are reviewed by someone other than the person preparing the reports.

## **South Harrison: Safe ♦ Supportive ♦ Successful**

---

Anticipated Completion Date: Immediate; effective for the annual financial report for the period ended June 30, 2018 and the verification collection report completed for the 2018-2019 application processing period.

### **FINDING 2018-005**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: Control procedures have been implemented to assure that the verification of free and reduced price application process is reviewed by someone other than the person preparing the reports.

Anticipated Completion Date: Complete, for the verification of free and reduced priced application process for the 2018-2019 application processing period.

### **FINDING 2018-006**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The following control procedures will be implemented:  
(1) The Board of School Trustees is reviewing the policy which will increase the small purchases threshold from \$3,500 to \$10,000 – the second reading of the proposed change is April 9, 2019. The School Corporation will seek and maintain documentation for purchases that exceed this threshold beginning immediately.  
(2) The Suspension and Debarment listing will be searched to verify that vendors are not included therein each year.

Anticipated Completion Date: (1) April 9, 2019; (2) Recurring vendors will be annually reviewed against the suspension and debarment listing beginning before June 30, 2019 and new vendors will be verified.

**FINDING 2018-007**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The following control procedure has been implemented:  
Detailed expenditure reports will be included with all reimbursement requests, transfer and/or final reports. This documentation will be reviewed by the program director or another person prior to submission for purposes of verifying allowable cost and period of performance.

Anticipated Completion Date: Immediate; detailed expenditure reports are currently included with and reviewed by another for all prepared reports and/or transfers.

**FINDING 2018-008**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The following control procedures will be implemented:  
Detailed salary and benefit transactions will be reviewed by the program director or by someone other than the preparer to verify allowable costs prior to the submission of reimbursement requests and/or completion of transfers.

Anticipated Completion Date: Immediate; detailed expenditure reports are currently included with and reviewed by another for all prepared reports and/or transfers.

**FINDING 2018-009**

Contact Person Responsible for Corrective Action: Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number: (812) 738-2168

View of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The following control procedures will be implemented:

- (1) The Board of School Trustees is reviewing the policy which will increase the small purchases threshold from \$3,500 to \$10,000 – the second reading of the proposed change is April 9, 2019. The School Corporation will seek and maintain documentation for purchases that exceed this threshold beginning immediately.
- (2) The Suspension and Debarment listing will be searched to verify that vendors are not included therein each year and new vendors will be verified prior to entering of contract.

Anticipated Completion Date:

- (1) April 9, 2019; (2) Recurring vendors will be annually reviewed against the suspension and debarment listing beginning before June 30, 2019 and new vendors will be verified.

## **FINDING 2018-010**

Contact Person Responsible for Corrective Action:

Dr. Mark A. Eastridge, Superintendent  
Carolyn Wallace, Director of Business Operations

Contact Phone Number:

(812) 738-2168

View of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

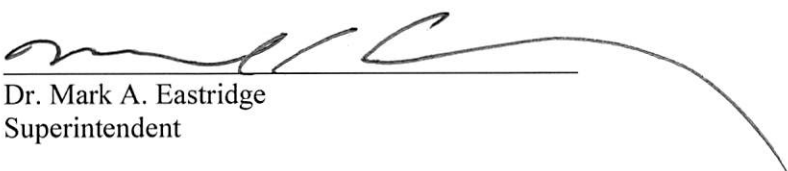
The following control procedure has been implemented:

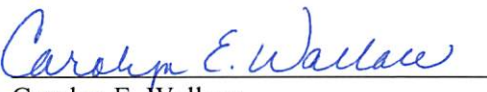
Detailed expenditure reports will be included with all reimbursement requests, transfer and/or final reports. This documentation will be reviewed by the program director and/or another person prior to submission for purposes of verifying proper reporting.

Anticipated Completion Date:

Immediate; detailed expenditure reports are currently included with and reviewed by another for all prepared reports and/or transfers.

Signatures:

  
\_\_\_\_\_  
Dr. Mark A. Eastridge  
Superintendent

  
\_\_\_\_\_  
Carolyn E. Wallace  
Director of Business Operations

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
AUDIT RESULT AND COMMENT

***ANNUAL FINANCIAL REPORT NOT FILED TIMELY***

The School Corporation's Annual Financial Report for fiscal year ending June 30, 2017, was not filed electronically until November 8, 2017, which was 71 days past the due date.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on April 3, 2019, with Dr. Mark A. Eastridge, Superintendent of Schools; Mary J. Mathes, President of the School Board; Carolyn E. Wallace, Treasurer; and Pamela L. Seipel, former Treasurer.