

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION
HUNTINGTON COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
04/24/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Edette L. Eckert	01-01-16 to 12-31-19
Superintendent of Schools	J. Randell Harris	07-01-16 to 06-30-19
President of the School Board	Scott R. Hoffman Mathew J. Roth	01-01-16 to 12-31-16 01-01-17 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION, HUNTINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the Huntington County 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, incorporated within this report, was not verified for accuracy.

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

April 1, 2019

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

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): FY 2016/2017, FY 2017/2018
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.

Suspension and Debarment

The School Corporation did not have internal controls in place to ensure vendors that exceed \$25,000 in the aggregate were not suspended or debarred from participation in the federal program. The School Corporation entered into covered transactions with four vendors that exceeded \$25,000.

The School Corporation was also a member of the Region 8 Cooperative. The School used four vendors through the Region 8 Cooperative, but did not obtain School Board approval of the Region 8 vendors.

Context

The lack of controls and noncompliance were systemic issues, occurring 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). . . ."

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 180.300 states in part:

"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 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 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 placed the School Corporation at risk of 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 2018-002

Subject: School Breakfast Program, National School Lunch Program - Program Income
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016/2017, FY 2017/2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Findings: Material Weakness, Other Matters

Repeat Finding

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Program Income compliance requirement.

The School Corporation did not establish the Prepaid Lunch fund until November of 2017. Until that time, a single fund, the School Lunch fund, accounted for all activity for the food service program. When prepaid funds were received, they were receipted with the program income into the School Lunch fund as revenue. Therefore, prepaid amounts were reported as program income before meals were charged to the accounts.

Context

The lack of controls and noncompliance occurred during a majority of the 24-month 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 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; . . ."

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 210.14(f)(3) states: "All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority."

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). (The School Bulletin and Uniform Compliance Guidelines, September 2008)

2 CFR 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

Cause

Management had not developed a system of internal controls that would have ensured that prepaid receipts and program income receipts were segregated.

Effect

The failure to establish a system of internal controls that would have ensured that prepaid receipts and program income receipts were segregated enabled noncompliance to remain undetected. The failure to comply with the Program Income 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 with the grant agreement and the Program Income 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 2018-003

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): 14216-027-PN01, 14217-027-PN01,
18611-027-PN01, 45716-027-PN01,
47517-027-PN01, 18619-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

HUNTINGTON COUNTY 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 Reporting compliance requirement.

The Quarterly Proportionate Share Monitoring Reports were not completed and submitted during the audit period. There was no documented control in place to ensure the reports were being completed and submitted timely.

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 200.302(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.

(3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. . . ."

Cause

Management 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 an effective internal control system enabled noncompliance with the grant agreement and the Reporting compliance requirement.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 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.



CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Edette Eckert, Scott Bumgardner
Contact Phone Number: 260-356-8312

Views of Responsible Official:
We concur with the finding

Description of Corrective Action Plan:

The business team will run a report from the financial software each year of vendors that HCCSC paid in excess of \$25,000. An inquiry will be done on each vendor to ensure they have not been suspended or debarred from participation in a federal program. Each quarter a report will be run to ensure no new or additional vendors have been paid in excess of \$25,000. All documentation will be kept in a binder by calendar year. All purchase over \$25,000 will be taken to the School Board of Trustees for approval.

Anticipated Completion Date: March 2019

FINDING 2018-002

Contact Person Responsible for Corrective Action: Ken Akins, Edette Eckert
Contact Phone Number: 260-356-8312

Views of Responsible Official:
We concur with the finding

Description of Corrective Action Plan:

The Food Service Director will provide a signed monthly sales report from the food service software to the Treasurer. The Treasurer will transfer the actual sales number from the 8400 Prepaid Fund to the 800 School Lunch Fund. Once the transfer is complete the ending balances from the Food Service software program will be compared to the corporation's financial software program for any differences. If balance differences can be identified, an adjustment will be done.

Anticipated Completion Date: March 2019

<i>Superintendent</i>	Randy Harris
<i>Business Manager</i>	Scott Bumgardner
<i>Assistant Superintendent for Instruction</i>	Charles Daugherty

FINDING 2018-003

Contact Person Responsible for Corrective Action: Megan Horsley

Contact Phone Number: 260-356-8312

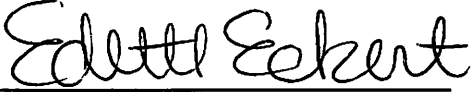
Views of Responsible Official:

We concur with the finding

Description of Corrective Action Plan:

To ensure Special Services Quarterly Reports are submitted by the due date, a calendar reminder will be set on the Director's and Administrative Assistant's Calendar. Staff working with the non-public schools will complete time sheets to document all services provided. Any materials and supplies purchased for non-public schools will be collected in a file with the time documentation. All proportionate share reports will be signed by the special education director and the district financial officer.

Anticipated Completion Date: March 2019



(Signature)

Treasurer

(Title)

03/07/19

(Date)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PREPAID SCHOOL MEAL ACCOUNTS RECONCILEMENT

A similar comment appeared in prior Reports B45351 and B48991, entitled *PREPAID FOOD CLEARING ACCOUNT*.

Prepaid lunch receipts were not recorded in a Prepaid School Lunch fund, a clearing account, until November 2017. Instead, the receipts were recorded in the School Lunch fund. The School Lunch fund was not maintained in a way that would allow determination of which receipts were related to prepaid amounts.

After the Prepaid School Lunch fund was established, the transfer of income from the Prepaid School Lunch account to the School Lunch fund was not handled properly. Transfers of income from the Prepaid School Lunch fund were not supported by school lunch subsidiary sales records. Amounts transferred were calculated based on the difference between the Food Service Department's Prepaid Liability Report ending cash balance and the School Corporation's Prepaid Lunch fund ending balance.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts, which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 Other Food Services and receipt this into fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following fund with an overdrawn cash balance at June 30, 2018:

Fund	Amount Overdrawn
2018 Construction - HNHS & RO	\$ 485,459

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

***OUTSIDE ORGANIZATIONS (HUNTINGTON NORTH
HIGH SCHOOL EXTRACURRICULAR ACCOUNT)***

Funds in the Choir Extracurricular (ECA) account were co-mingled with the Choir Booster Club funds. The Choir ECA account did not have adequate records to determine what money is owed to the ECA from the Choir Booster Club or the identification of funds actually collected by the ECA.

During the 2016-2017 school year, the cash balance in the Choir ECA account decreased by \$14,335 from the beginning of the year to the end of the year, with only an increase of \$1,372 during the 2017-2018 school year. The decrease in cash is due to money owed for uniforms and other items that were collected by the Choir Booster Club, but were not remitted to the ECA. The ECA purchased the uniforms and other items, but did not receive the student payments for the uniforms.

Based on an inquiry of the ECA Treasurer, the Choir Booster Club was collecting money from students for uniforms, but was not remitting the money back to the Choir ECA Account. This was evidenced by invoices that the Choir Director handed over to the ECA at the end of the 2017-2018 school year that the Choir Booster Club was unable to collect. Amongst the items listed on the invoices, the Choir Booster Club was trying to collect money due for uniforms and other items purchased by the ECA. Since the uniforms were purchased by the ECA, the money due from students for the uniforms should have been collected by the ECA and not the Choir Booster Club, and any amounts collected by the Choir Booster Club should have been remitted back to the ECA.

Detailed records were not presented to determine what money is owed to the ECA for items purchased or what money had been collected for items purchased. The ECA has no knowledge or record of what money was collected by the Choir Booster Club to be remitted to the ECA.

Indiana Code 20-41-1-7(a) states in part:

"The treasurer has charge of the custody and disbursement of any funds . . .

- (2) incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers); . . ."

Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organization's monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 1, 2019, with Edette L. Eckert, Treasurer; J. Randell Harris, Superintendent of Schools; Scott Bumgardner, Business Manager; Brian Warpup, School Board member; Kevin Yarger, School Board member; and Matt Melcher, School Board member.