

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
EAST WASHINGTON SCHOOL CORPORATION
WASHINGTON COUNTY, INDIANA
July 1, 2016 to June 30, 2018



FILED
04/25/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jodi Cole	01-01-16 to 12-31-19
Superintendent of Schools	(Vacant) Dennis Stockdale	07-01-16 to 07-24-16 07-25-16 to 07-24-20
President of the School Board	Theresa Gottbrath Hector Nale Tom Coats	01-01-16 to 12-31-16 01-01-17 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 EAST WASHINGTON SCHOOL
CORPORATION, WASHINGTON COUNTY, INDIANA

This report is supplemental to our audit report of the East Washington 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.

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 3, 2019

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

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 financial transactions and reporting.

Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to receipts for the School Lunch fund. The School Lunch fund was maintained on the extracurricular records. Financial activity of the School Lunch fund was compiled by the School Lunch fund Treasurer and submitted to the School Corporation for inclusion in the School Corporation's financial statement. The School Lunch fund Treasurer is responsible for verifying collections with the daily register reports, issuing receipts, recording receipts, preparing deposit tickets, and making bank deposits. There was no evidence of a proper oversight, review, or approval process over the School Lunch fund receipts.

Context

The lack of internal controls was 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. . . ."

Cause

Management of the School Corporation had not established a proper system of internal controls over the financial transactions and reporting of the School Lunch fund receipts.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

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

Recommendation

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting of the School Lunch fund receipts.

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 - Internal Controls

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Reporting, Program Income

Audit Finding: Material Weakness

Repeat Finding

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

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:

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the Monthly Sponsor Claims were accurate prior to submission. One person prepared and submitted the reports without any oversight, review, or approval process to ensure their accuracy.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded. There was no evidence presented for audit that anyone other than the School Lunch fund Treasurer reviewed program income to ensure that it was accurately reported.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a systemic problem 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 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. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, review, and approval over the activities of the programs.

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 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.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-003

Subject: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 16-17, FY 17-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of finding number 2016-004 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 Special Tests and Provisions - Paid Lunch Equity compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the paid lunch equity calculations were correct. The weighted average lunch meal price required to be charged for fiscal year 2017-2018 was \$2.63, but the actual weighted average amount charged was \$2.56.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance was isolated to 2017-2018.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 210.14(e) states in part:

"*Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

(1) *Calculation procedures.* Each school food authority shall:

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.
 - (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (i.e., the reimbursement difference);
 - (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section. . . .
- (3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:
- (i) 2 percent; and
 - (ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the FEDERAL REGISTER announcing the national average payment rates, from the prior year.
- (4) *Price Adjustments—*
- (i) *Maximum required price increase.* The maximum annual average price increase required under this paragraph shall not exceed ten cents.
 - (ii) *Rounding of paid lunch prices.* Any school food authority may round the adjusted price of the paid lunches down to the nearest five cents.
 - (iii) *Optional price increases.* A school food authority may increase the average price by more than ten cents. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Questioned Costs

There were no questioned costs identified.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity 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: 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): 14215-056-PN01, 14216-054-PN01,
14217-054-PN01, 18611-054-PN01,
45715-056-PN01, 45716-054-PN01,
45717-054-PN01, 18619-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-007.

Condition

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

The School Corporation was a participating member school corporation of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds. Because the grant agreements were between the Indiana Department of Education (IDOE) and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

The required Final Financial Reports were not completed and submitted to the IDOE.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance was isolated to the Final Financial Reports.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

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

"The auditee shall: . . .

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

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 . . ."

Cause

Management had not developed a system of internal controls related to 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.

Questioned Costs

There were no questioned costs identified.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

FINDING 2018-005

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

Federal Agency: Department of Education

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

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-056-PN01, 14216-054-PN01,
14217-054-PN01, 18611-054-PN01,
45715-056-PN01, 45716-054-PN01,
45717-054-PN01, 18619-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-009.

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.

The School Corporation was a participating member school corporation of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements. The School Corporation was relying on the Cooperative for compliance with requirements pertaining to Procurement and Suspension and Debarment.

Procurement - General Procurement Standards

The Cooperative had a written procurement policy; however, it did not reflect the required state and federal laws and regulations.

The Cooperative did not maintain written standards of conduct covering conflicts of interest concerning employees engaged in the selection, award, and administration of contracts supported by federal awards.

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Suspension and Debarment

The Cooperative's Director signed the Application and Assurance Plan as a condition of federal assistance, which stated that the Cooperative would verify that contractors were not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded by any federal agency or by any department, agency, or political subdivision of the State of Indiana. However, the School Corporation did not have procedures in place to monitor that the Cooperative verified that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a covered transaction with them.

Context

The lack of an adequate written procurement policy and the lack of a written conflict of interest policy were isolated to fiscal year 2017-2018.

There were three contracts during 2016-2017 and five contracts during 2017-2018 that exceeded \$25,000; however, the Cooperative could not provide documentation that a verification that the vendor was not suspended and debarred was performed prior to entering into covered transactions with these vendors.

Criteria

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

"The auditee shall: . . .

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 3016.36(b) states in part: "*Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . ."

2 CFR 200.318(a) states: "The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part."

EAST WASHINGTON SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.318(c)(1) states in part: "The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. . . ."

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 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 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 and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

East Washington School Corporation



"All for one and one for all"

1050 North Eastern School Road ♦Pekin, IN 47165
Phone 812-967-3926 ♦Fax 812-967-5797

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Views of Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:

Building treasurers will receipt money in, post, and create daily deposit tickets. One of the treasurers will take the deposit to the bank. The Lunch Treasurer will maintain the Lunch Fund and reconcile the account each month. The Food Service Director will verify all reports and processes.

Anticipated Completion Date: July 2018

FINDING 2018-002

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Views of Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:

Proper rules and procedures will be reviewed and implemented. The Food Service Director will review the claims before they are submitted and the Food Service Director and Lunch Treasurer will sign off on the claims. The transfers made from the prepaid lunch fund to the 0800 fund will be reconciled by the Lunch Treasurer and reviewed by the Food Service Director.

Anticipated Completion Date: July 2018

FINDING 2018-003

Contact Person Responsible for Corrective Action: Greg Hopkins
Contact Phone Number: 812-967-3926

Views of Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:
Management will receive further training on this process to ensure the correct calculation. The treasurer will review the calculation with the Food Service Director and submit to the DOE as required.

Anticipated Completion Date: March 2019

FINDING 2018-004

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Views of Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:
Reports will be generated by the Cooperative and signed by the Board President and verified by the Superintendent.

Anticipated Completion Date: December 2019

FINDING 2018-005

Contact Person Responsible for Corrective Action: Jodi Cole
Contact Phone Number: 812-967-3926

Views of Responsible Official:
We concur with the finding.

Description of Corrective Action Plan:
Contracts and subcontracts will be presented by the Cooperative to the SCASEC Board of Directors, Superintendents, and be reviewed by the corporation's superintendent prior to approval. The Cooperative will update their policy to reflect the required state and federal laws.

Anticipated Completion Date: Suspension and Debarment September 2018
: Procurement December 2019.

Jodi Cole
(Signature)

Corporation Treasurer
(Title)

3/18/19
(Date)

EAST WASHINGTON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 3, 2019, with Dennis Stockdale, Superintendent of Schools; Jodi Cole, Treasurer; Tom Coats, President of the School Board; and Greg Hopkins, Assistant Superintendent of Schools.