

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

EAST NOBLE SCHOOL CORPORATION

NOBLE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
05/08/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Child Nutrition Cluster - Reporting	4-5
Finding 2018-002	
School Breakfast Program, National School Lunch Program - Cash Management	5-6
Finding 2018-003	
Child Nutrition Cluster - Equipment.....	6-8
Finding 2018-004	
Child Nutrition Cluster - Program Income	8-10
Corrective Action Plan.....	11-14
Audit Result and Comment:	
Prepaid Meal Accounts.....	15
Exit Conference.....	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Business Manager/Treasurer	Brian A. Leitch	01-01-16 to 12-31-19
Superintendent of Schools	Ann W. Linson	07-01-16 to 06-30-19
President of the School Board	Barbara Babcock John Wicker David Desper Dan Beall	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE EAST NOBLE SCHOOL CORPORATION, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the East Noble 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 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 10, 2019

EAST NOBLE SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Child Nutrition Cluster - Reporting
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 16-17, FY 17-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Condition

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

No evidence was presented for audit that indicated that someone other than the preparer of the Annual Financial Reports (AFR) and the School Food Authority Verification Summary Reports was reviewing these reports for accuracy prior to submission.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

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

Questioned Costs

There were no questioned costs identified.

EAST NOBLE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish an effective system of internal controls to ensure compliance with the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

FINDING 2018-002

Subject: School Breakfast Program, National School Lunch Program - Cash Management

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 16-17, FY 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Cash Management

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 Cash Management compliance requirement.

The School Corporation had not separated incompatible activities related to ensuring that the School Lunch fund's net cash resources were below the three months average expenditures threshold. The School Lunch fund's net cash resources exceeded three months average expenditures for 6 of the 24 months of the audit period. As of June 30, 2018, the School Lunch fund balance exceeded three months average expenditures by \$543,211. In addition, the School Corporation did not have an approved plan in place to spend down the excessive balance.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

EAST NOBLE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 210.14(b) states:

"*Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e) states in part:

". . . the School Food Authority shall, with respect to participating schools under its jurisdiction:
. . .

- (iv) Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

Cause

Management of the School Corporation had not designed or implemented an effective internal control system that would have ensured compliance with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Cash Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective system of internal controls to ensure compliance with the grant agreement and the Cash Management 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: Child Nutrition Cluster - Equipment

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 16-17, FY 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Equipment and Real Property Management

Audit Findings: Material Weakness, Other Matters

EAST NOBLE 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 Equipment and Real Property Management compliance requirement.

The School Corporation maintained property records; however, they did not contain all the necessary information outlined in 2 CFR section 200.313 part (d) subpart (1), such as the percentage of Federal participation in the project costs for the Federal award under which the property was acquired, and the use and condition of the property. Additionally, a physical inventory was not taken during the audit period.

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 200.313(d) states in part:

"*Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Equipment and Real Property Management compliance requirement.

EAST NOBLE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled material noncompliance with the grant agreement and the Equipment and Real Property Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective internal control system to ensure compliance with the grant agreement and the Equipment and Real Property Management 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 - Program Income

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 16-17, FY 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

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 the grant agreement and the Program Income compliance requirement.

Prior to December 2017, all funds collected for student meals were receipted into Fund 800 School Lunch. At the end of each month, a Student Balances report was generated by the Assistant Food Service Director. This report showed the student balances and was used to adjust Fund 2970 School Lunch Trust on a monthly basis.

This issue was corrected in December 2017. We determined prepayments were properly recorded in the Fund 2970 School Lunch Trust and meals charged were transferred to Fund 800 School Lunch.

Context

The lack of controls and the noncompliance were isolated to July 2017 to December 2017.

EAST NOBLE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

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."

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 225.6(e) states in part:

State-Sponsor Agreement. A sponsor approved for participation in the Program must enter into a permanent written agreement with the State agency. All sponsors must agree in writing to:

(12) Maintain a financial management system as prescribed by the State agency; . . ."

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)

EAST NOBLE SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

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

Effect

The failure to establish an effective internal control enabled noncompliance with the grant agreement and the Program Income compliance requirement.

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 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.

CORRECTIVE ACTION PLAN

FINDING 2018- 001

Contact Person Responsible for Corrective Action:

Brian Leitch, Business Manager/ Treasurer
260-347-2502 ext.: 10017

Marcos Reyna, Dining Director
260-347-2502 ext.: 10011


Views of Responsible Official: We concur with finding

Description of Corrective Action Plan:

I created a Financial Log/ Business Manager Log, that the Business Manager will sign off on monthly. This log will contain AFR, PLE, Monthly financial reports, Equipment log, Free/ Reduced applications, Verification/ DC applications, etc.

This information will be submitted to Business Manager, Brian Leitch, Monthly, for review and signature.

Anticipated Completion Date: 8/10/2019



Marcos Reyna, Dining Director

4/10/2019

CORRECTIVE ACTION PLAN

FINDING 2018- 002

Contact Person Responsible for Corrective Action:

Brian Leitch, Business Manager/ Treasurer
260-347-2502 ext.: 10017

Marcos Reyna, Dining Director
260-347-2502 ext.: 10011

Views of Responsible Official: We concur with finding

Description of Corrective Action Plan:

Created a monthly budgetary financial report. I will use financial date, to represent accurate representation of all NSLP, NSLB, and Summer program expenses and revenues. This report will also track any revenues that exceed the three-month, expense, threshold.

This information will be submitted to Business Manager, Brian Leitch, Monthly, for review and signature.

Anticipated Completion Date: 8/10/2019



Marcos Reyna, Dining Director

4/10/2019

CORRECTIVE ACTION PLAN

FINDING 2018- 003

Contact Person Responsible for Corrective Action:

Brian Leitch, Business Manager/ Treasurer
260-347-2502 ext.: 10017

Marcos Reyna, Dining Director
260-347-2502 ext.: 10011

Views of Responsible Official: We concur with finding

Description of Corrective Action Plan:


Created an Equipment and Property Log for all sites. This log will have a legend, that shows what and where the equipment is located, and its value.

This will be reviewed every two years by Food Service Manager.

Each manager will sign off if log is accurate and current.

This information will be submitted to Business Manager, Brian Leitch, Yearly, for review and signature.

Anticipated Completion Date: 8/10/2019



Marcos Reyna, Dining Director

4/10/2019

CORRECTIVE ACTION PLAN

FINDING 2018-004

Contact Person Responsible for Corrective Action:

Brian Leitch, Business Manager/ Treasurer
260-347-2502 ext.: 10017

Marcos Reyna, Dining Director
260-347-2502 ext.: 10011

Views of Responsible Official: We concur with finding


Description of Corrective Action Plan:

Meal Magic software was installed 4/1/2019. This software archives all student and adult, information, related to the NSLP, for five years, also the Financial Activity Report, as well as, the Z-Report will give an accurate representation of all funds collected for student/ adult meals. At the end of each month, a Student Balances report will be generated by the Food Service Director. This report shows the student/ adult balances and will be used to adjust Fund 2970 School Lunch Trust on a monthly basis.

Prepayments will be properly recorded in the Fund 2970 School Lunch Trust and meals charged will be transferred out to Fund 800 School Lunch.

This information will be submitted to Business Manager, Brian Leitch, Monthly, for review and signature.

Anticipated Completion Date: 8/10/2019



Marcos Reyna, Dining Director

4/10/2019

EAST NOBLE SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

PREPAID MEAL ACCOUNTS

Proper procedures were not in place to ensure financial activity related to program income was properly recorded in the School Lunch Trust fund. The control account in the financial ledger was not reconciled with the detail meal subsidiary records to ensure that all financial activity recorded in the subsidiary record had been properly identified and recorded in the financial ledger.

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)

EAST NOBLE SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 10, 2019, with Brian A. Leitch, Business Manager/Treasurer; Ann W. Linson, Superintendent of Schools; Dan Beall, President of the School Board; Mary Casselman, Deputy Treasurer; Dr. Becca Lamon, Assistant Superintendent of Schools; Matt Stinson, Special Education Coordinator; Marcos Reyna, Food Service Director; and Melissa Gibson, Human Resources Specialist.