

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCOTT COUNTY SCHOOL DISTRICT 2

SCOTT COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
05/17/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Preparation of the Schedule of Expenditures of Federal Awards	4-6
Finding 2018-002	
Title I Grants to Local Education Agencies - Procurement and Suspension and Debarment	6-7
Finding 2018-003	
Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking	7-8
Finding 2018-004	
School Breakfast Program, National School Lunch Program - Cash Management	9-10
Finding 2018-005	
School Breakfast Program, National School Lunch Program - Eligibility	10-11
Finding 2018-006	
Child Nutrition Cluster - Procurement and Suspension and Debarment	12-14
Finding 2018-007	
School Breakfast Program, National School Lunch Program - Program Income	14-15
Finding 2018-008	
Child Nutrition Cluster - Reporting	16-17
Finding 2018-009	
School Breakfast Program, National School Lunch Program - Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)	17-19
Finding 2018-010	
National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity	19-21
Corrective Action Plan	22-25
Exit Conference	26

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melinda Sparkman Christy C. Corum	07-01-16 to 12-17-18 12-18-18 to 06-30-19
Superintendent of Schools	Dr. Marc Slaton	07-01-16 to 06-30-19
President of the School Board	Jason Kendall Christy Roberts	07-01-16 to 12-31-18 01-01-19 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

TO: THE OFFICIALS OF THE SCOTT COUNTY SCHOOL DISTRICT 2, SCOTT COUNTY, INDIANA

This report is supplemental to our audit report of the Scott County School District 2 (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 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 24, 2019

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS

FINDING 2018-001

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

Repeat Finding

This is a repeat of Finding 2016-001 from the immediately prior audit report.

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). No evidence was presented for audit that indicated someone other than the person entering the federal grant information into the Indiana Gateway for Government Units financial reporting system's online data collection platform was reviewing the information for completeness and accuracy.

Context

The SEFA contained the following errors:

1. All grants in fiscal year 2016-2017 were entered using the local name only and were all shown as direct grants. The federal grantor agency, pass-through entity name, cluster name (if applicable), program name, CFDA number, and pass-through entity identification number were not properly identified for any grant.
2. In 2016-2017, six nonfederal grants were incorrectly included on the SEFA, resulting in an overstatement of expenditures in the amount of \$232,834.
3. Thirteen grants were incorrectly reported, resulting in an overstatement of expenditures in the amount of \$710,963.

The net amount of errors resulted in an overstatement of federal expenditures in the amount of \$943,797.

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

Criteria

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

"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. . . .

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

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. . . ."

2 CFR 200.508 states in part:

"The auditee must: . . .

(b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the School Corporation's management establish controls related to the preparation of the SEFA.

Views of Responsible Officials

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

FINDING 2018-002

Subject: 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): S010A150014, S010A160014,
S010A170014

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Finding: Material Weakness

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 Procurement and Suspension and Debarment compliance requirement.

The School Corporation did not have proper controls in place to ensure that federal laws, state laws, and the School Corporation's "Procurement - Federal Grants/Funds" policy were followed.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

SCOTT COUNTY SCHOOL DISTRICT 2
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). . . ."

Cause

Management had not developed a 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 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 2018-003

Subject: Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking

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): 14217-138-PN01, 18611-138-PN01,
45717-138-PN01, 18619-138-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Finding: Material Weakness

Condition

The School Corporation had established a control environment in order to ensure compliance with requirements related to the grant agreement and the Matching, Level of Effort, Earmarking - Maintenance of Effort (MOE) requirements. One employee prepares the MOE report, while another reviews and approves the report prior to submission. However, there was no evidence of an oversight, review, or approval process for either year of the audit period.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of supporting documentation prevented the determination of the School Corporation's system of internal controls related to the MOE requirements.

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 did not retain signed copies of the MOE reports that documented the oversight, review, or approval process.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Matching, Level of Effort, Earmarking 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 retain supporting documentation related to the grant agreement and the Matching, Level of Effort, Earmarking compliance requirement.

Views of Responsible Officials

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

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

FINDING 2018-004

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

Repeat Finding

This is a repeat of Finding 2016-003 from the immediately prior audit report.

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 Cash Management compliance requirement.

The School Corporation had not designed or implemented a system of internal controls to ensure that the School Lunch fund monthly cash balances (net cash resources) were limited to 3 months average expenditures in accordance with cash management requirements. There was no oversight, review, or monitoring of the cash balances.

The net cash resources for the School Lunch fund exceeded the 3 months average expenditures for 2 of the 24 months during the audit period.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The non-compliance was isolated to the months of July 2016 and June 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(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)."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

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 resource 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 had not designed or implemented an effective internal control system that would have ensured compliance with the grant agreement and the Cash Management 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 Cash Management compliance requirement could have resulted in a loss of funds to the School Corporation.

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 and comply 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 2018-005

Subject: School Breakfast Program, National School Lunch Program - Eligibility
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: Eligibility
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 2016-002.

SCOTT COUNTY SCHOOL DISTRICT 2
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.

Of the free and reduced price applications examined during fiscal year 2016-2017, six did not include any adult household members, and were therefore incomplete.

Context

The lack of effective 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). . . ."

7 CFR 245.6(a)(6) states in part: "*Household members and social security numbers.* The application must require applicants to provide the names of all household members. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the grant agreement and the Eligibility 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 Eligibility 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 to ensure compliance and comply with 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.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

FINDING 2018-006

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 16/17, FY 17/18
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 2016-004.

Condition

Management of the School Corporation had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Procurement

The School Corporation did not have internal controls in place to ensure the purchasing method used complied with federal requirements. The School Corporation did not require obtaining an adequate number of quotes for all small purchases with estimated costs above \$3,500. Eight purchases of like-kind items exceeding \$3,500 were made without obtaining an adequate number of price or rate quotations.

Suspension and Debarment

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 covered transaction.

Context

The lack of effective controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

SCOTT COUNTY SCHOOL DISTRICT 2
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. . . ."

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 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 material noncompliance to remain undetected. Noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement could have resulted in a loss of 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 to ensure compliance and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

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: 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 16/17, FY 17/18
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 2016-002.

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 had not designed a system of internal controls to ensure that financial activity derived from student meals were properly recorded in the School Lunch fund. One employee prepared the monthly transfer from the Prepaid Food fund to the School Lunch fund and posted the receipt of the monthly program income into the School Lunch fund. An oversight, review, or approval process had not been established.

Transfers from the Prepaid Food fund to the School Lunch fund did not agree to the monthly income reports from the School Corporation's food service software for 18 of the 22 transfers selected for testing.

Context

The lack of effective 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). . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

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."

Cause

Management had not developed a system of internal controls that provided proper oversight, review, and approval over the Program Income 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 Program Income compliance requirement could have resulted in a loss of funds to the School Corporation.

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 and comply 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.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

FINDING 2018-008

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 Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-005.

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. The School Corporation did not have proper oversight and monitoring of the preparation and reporting of the Monthly Sponsor Claims (claim for reimbursement) and the Annual Financial Report (AFR).

The amounts reported in the income sections of the AFR for both fiscal years and the amounts reported in the expense section for fiscal year 2017-2018 did not agree with the School Corporation's financial records. For both fiscal years, the beginning and ending balances reported in the account balance section of the AFR did not agree with the balances of the School Lunch fund per the fund report.

Context

The lack of effective 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:

. . .

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

- (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 had not developed a system of internal controls that that would have insured compliance with the grant agreement and the 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 a loss of 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 to ensure compliance and comply 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 2018-009

Subject: School Breakfast Program, National School Lunch Program - Reporting, 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 Numbers and Years (or Other Identifying Numbers): FY 16/17, FY 17/18

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-002.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

The Verification Collection Reports for fiscal years 2016-2017 and 2017-2018 indicated that 18 and 11 applications, respectively, were verified; however, documentation supporting the verification process and which applications were actually reviewed was not available for audit.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of supporting documentation prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

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 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."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation had not developed a system of internal controls to ensure compliance and that documentation was maintained and made available for audit related to the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Effect

The failure to retain or provide appropriate supporting documentation prevented the determination of the School Corporation's compliance with the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporations' management establish a system of internal controls and ensure that documentation is maintained and made available for audit related to the grant agreement and the Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

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: 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 finding from the immediately prior audit report. The prior audit finding number was 2016-006.

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.

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

The Paid Lunch Equity Calculator for fiscal year 2017-2018 indicated a required weighted average paid lunch price of \$2.30; however, the School Corporation only increased the price to \$2.25. After notification from the Indiana Department of Education, the price was increased to \$2.30 on October 3, 2017, and was effective as of January 2018.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance was isolated to fiscal year 2017-2018, until January 2018 when the School Corporation adjusted its weighted average paid lunch price.

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:

- (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:

SCOTT COUNTY SCHOOL DISTRICT 2
FEDERAL FINDINGS
(Continued)

(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 material noncompliance to remain undetected. Noncompliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity 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 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.



Scott County School District 2

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Christy Corum

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

A schedule will be prepared for use as a checklist to ensure the listing of federal awards have been compared back to the Funds Report from the accounting system and used in the preparation of the Schedule of Expenditures of Federal Awards (SEFA). Once completed by Business Office Manager or staff, the Business Manager sign upon review for completeness and accuracy then forward schedule to the Superintendent or Asst. Superintendent for final review and signature.

Anticipated Completion Date: August 2019

FINDING 2018-002

Contact Person Responsible for Corrective Action: Casey Brewster

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

An additional section will be added to PO Request forms requiring the presentation of three or more quotes for small purchases with estimated costs above \$3,500 or the signed acknowledgement of the requestor and the approver of estimated costs below \$3,500.

The Title I Director and Business Manager will ensure a Procurement Suspension and Debarment Compliance file is maintained and verified for vendors selected for procured products.

Anticipated Completion Date: June 2019

FINDING 2018-003

Contact Person Responsible for Corrective Action: Casey Brewster

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Title I director will ensure that signed copies of the MOE reports that document the oversight, review and approval process are retained in the Director's office.

Anticipated Completion Date: June 2019

FINDING 2018-004

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

A monthly report will be provided by the Business Manager to the Food Service Director that shows monthly expenses and revenue to monitor the cash balance. This was initiated by the prior Business Manager but was not continued by the incoming Business Manager. This reporting will resume in June 2019 and starting for the 2019-20 the Food Service Director will perform the calculation every quarter and the Business Manager will approve.

Anticipated Completion Date: August 2019

FINDING 2018-005

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

An internal control system has been implemented to ensure that Food Service Director maintains complete free and reduced priced meal applications to ensure that all relevant household members including all adult household members are also included on the application. The Student Service Assistant and/or the Business Manager will routinely monitor the free and reduced applications to ensure complete and accurate data is being used and maintain the review log.

Anticipated Completion Date: June 2018

FINDING 2018-006

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Food Service Director will review the requirements with the DOE Field Rep and attended training in June 2018. All of our vendors are done through HPS (Hospital Purchasing Services), which approves the vendor per the DOE requirements. HPS requires suspension and debarment certification as part of their contract. The Food Service will obtain 3 quotes for purchases over \$3500 and verify that vendors are not or have not been suspended or disbarred from participation in federal programs.

The Food Service Director and Business Manager will ensure a Procurement Suspension and Debarment Compliance file is maintained and verification through cooperative purchasing agents or signed certification by vendors selected for procured products are updated annually.

Anticipated Completion Date: August 2019

FINDING 2018-007

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

An internal control system will be established between the Food Service Director, Student Services Assistant and Business manager to ensure appropriate recording, oversight, review and approval procedures are implemented and maintained. Transfers from the Prepaid Lunch fund to the School Lunch Fund will be reconciled with the monthly income reports.

Anticipated Completion Date: June 2019

FINDING 2018-008

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official : We concur with the finding.

Description of Corrective Action Plan:

An internal control system will be established to between the Food Service Director, Student Services Assistant and Business manager to ensure appropriate recording, oversight, review and approval procedures are implemented and maintained as related to the Monthly Sponsor Claim for Reimbursement, Annual Financial Report and the Verification Summary Reports for the School Lunch Fund.

The amounts reported in the Income Section of the Annual Financial Report the amounts reported in the Income and Expense Sections of the Annual Financial Report will be reconciled to ensure agreement with the School Corporation's financial records. The beginning and ending balances reported in the Account Balance section of the Annual Financial Report will be reconciled to agree with the balances of the School Lunch fund per the fund report.

Anticipated Completion Date: June 2019

FINDING 2018-009

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

An internal control system will be established to ensure documentation pertaining to the Reporting and Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP) is maintained by the Food Service Director and made available for audit.

Anticipated Completion Date: June 2019

FINDING 2018-010

Contact Person Responsible for Corrective Action: Sue Hart

Contact Phone Number: 812-752-8921

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Scott 2 is currently using the PLE tool and will continue to analyze. This procedure is on the DOE School Nutrition website as well as other procedures. The Food Service Director monitors this site to ensure all procedures are performed and will maintain the calculations for review. The Business Manager will review and approve the calculations and ensure Board of School Trustees are aware of any required pricing adjustments.

Anticipated Completion Date: June 2019


(Signature)

Business Manager/Treasurer

(Title)

4/22/2018

(Date)

SCOTT COUNTY SCHOOL DISTRICT 2
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2019, with Christy C. Corum, Treasurer; Christy Roberts, President of the School Board; Casey Brewster, Assistant Superintendent of Schools; and Dr. Marc Slaton, Superintendent of Schools.