

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BROWN COUNTY SCHOOLS

BROWN COUNTY, INDIANA

July 1, 2016 to June 30, 2018



**FILED**  
05/21/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Carol S. Owens Julia Smith	07-01-16 to 07-31-17 08-01-17 to 06-30-19
Superintendent of Schools	Dr. Laura Hammack	07-01-16 to 06-30-21
President of the School Board	Judy Hardwick Stephanie Kritzer Steve Miller, Jr.	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 BROWN COUNTY SCHOOLS, BROWN COUNTY, INDIANA

This report is supplemental to our audit report of the Brown County Schools (School Corporation), for the period from July 1, 2016 to June 30, 2018. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

April 25, 2019

BROWN COUNTY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2018-001***

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Other Matters

*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). The Treasurer prepared the SEFA; however, there were no controls in place to verify the accuracy of the information prior to submission.

*Context*

The SEFA contained the following errors:

1. The expenditures for the Child Nutrition Cluster were understated in the amounts of \$97,554 and \$89,776 for fiscal years 2016-2017 and 2017-2018, respectively.
2. The expenditures for a state grant were incorrectly included on the SEFA, resulting in expenditures being overstated in the amount \$48,848 for fiscal year 2016-2017.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

*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. . . .

BROWN COUNTY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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*

The School Corporation's management had not established a proper system of internal control that would have ensured proper reporting of the SEFA.

BROWN COUNTY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish a system of internal controls enabled material misstatements of the SEFA. The SEFA contained the errors identified in the *Context*.

*Recommendation*

We recommended that the School Corporation's management establish a system of internal controls to prevent, or detect and correct errors 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: School Breakfast Program, National School Lunch Program - 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

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2017, FY 2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Modified Opinion

*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 in order to ensure that program income was properly recorded.

Records were not retained from the food service point of sale system to determine program income. Additionally, receipts for prepaid meals were posted directly to the School Lunch fund (Fund 800), rather than to the Foodservice Pre Pay Fund (Fund 8400). There were no periodic transfers made that would have identified when meals were served and charged to the prepaid accounts.

*Context*

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of adequate supporting documentation prevented the School Corporation's compliance with the Program Income compliance requirement.

BROWN COUNTY SCHOOLS  
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). . . ."

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. . . ."

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; . . ."

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)

BROWN COUNTY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Cause*

The School Corporation's management had not developed a system of internal controls to ensure compliance with the grant agreement and that adequate supporting documentation was maintained and made available for audit for the Program Income compliance requirement.

*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 Program Income requirement.

*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 that documentation is maintained and made available for audit for 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.



# BROWN COUNTY SCHOOLS

World Class Opportunities. Small School Relationships. Lifelong Impact.

## CORRECTIVE ACTION PLAN

### **FINDING 2018-001**

Contact Person Responsible for Corrective Action: Julia Smith  
Contact Phone Number: 812-988-6601 x 1130

Views of Responsible Official:  
We concur with this finding

#### Description of Corrective Action Plan:

The Treasurer will obtain copies for all grant documents and note which ones are federal grants. The Treasurer will prepare the Schedule of Expenditures of Federal Awards (SEFA). In order to improve the corporation's system of internal controls, the SEFA will be reviewed by the Superintendent and/or Director of the federal program to ensure reliability of the information maintained of the SEFA.

Anticipated Completion Date:  
Effective immediately at the conclusion of the 2018-2019 school year.

(Signature)

Treasurer

(Title)

4/9/2019

(Date)

357 E. Main Street ▪ P.O. Box 38 ▪ Nashville, IN 47448

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[www.browncountyschools.com](http://www.browncountyschools.com)

Superintendent: Dr. Laura Hammack

Treasurer: Mrs. Julia Smith

Brown County Schools Board of School Trustees:

President: Steve Miller, Jr. Vice President: Marlene Barnett Secretary: Carol Bowden

Members: Stephanie Kritzer and Vicki Harden



# BROWN COUNTY SCHOOLS

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## CORRECTIVE ACTION PLAN

### **FINDING 2018-002**

Contact Person Responsible for Corrective Action: Julia Smith  
Contact Phone Number: 812-988-6601 x 1130

Views of Responsible Official:  
We concur with this finding

#### Description of Corrective Action Plan:

The Foodservice Director will print and keep monthly reports from the Foodservice Point of Sale System and keep those records until audited. An 8400 account was set up in June 2018 and prepaid monies have been recorded in that fund and transferred to lunch as meals were acquired.

#### Anticipated Completion Date:

Effective immediately at the conclusion of the 2018-2019 school year, we will file the monthly reports for the audit. The 8400 account has been in place since June 2018

(Signature)

Treasurer

(Title)

4/9/2019

(Date)

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BROWN COUNTY SCHOOLS  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

This is a repeat finding from the immediate prior Report B50867, entitled *APPROPRIATIONS*.

Expenditures of the School Bus Replacement fund exceeded the budgeted appropriations by \$188,570 during fiscal year 2016-2017.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**PREPAID SCHOOL MEAL ACCOUNTS**

Prepaid lunch receipts were recorded directly into the School Lunch fund (Fund 800), instead of a clearing account for prepaid meals (Fund 8400), during 23 months of the audit period. The Foodservice Pre Pay Fund was created in June 2018 within the School Corporation records.

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)

BROWN COUNTY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on April 25, 2019, with Dr. Laura Hammack, Superintendent of Schools; Steve Miller Jr., President of the School Board; Julia Smith, Treasurer; Bob Harris, interim Business Manager; and Jason Kirchhofer, Food Service Director.