

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

DEKALB COUNTY CENTRAL
UNITED SCHOOL DISTRICT
DEKALB COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
06/03/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stephen W. Snider	01-01-16 to 12-31-19
Superintendent of Schools	Steven Teders	07-01-16 to 06-30-19
President of the School Board	Bruce L. Buttermore Heather M. Krebs	01-01-16 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 DEKALB COUNTY CENTRAL UNITED
SCHOOL DISTRICT, DEKALB COUNTY, INDIANA

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

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

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

Any Corrective Action Plan for the Federal Findings 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

May 13, 2019

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
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 finding from the immediately prior audit report. The prior audit finding number was 2016-001.

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 School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The School Corporation did create an approval process involving the Director of Business Operation's review of the SEFA prepared by the Treasurer to ensure the SEFA was accurate. However, the approval process did not detect the errors on the SEFA.

Context

The SEFA contained the following errors:

1. The National School Lunch Program expenditures included expenditures that should have been reported as Summer Food Service Program for Children. The expenditures were \$41,439 and \$54,544 for fiscal years 2016-2017 and 2017-2018, respectively.
2. The National School Lunch Program Afterschool Snack expenditures of \$3,585 were not reported for 2016-2017.
3. The National School Lunch Program Commodities were not reported, totaling \$144,370 and \$140,651 for 2016-2017 and 2017-2018, respectively.
4. The State Energy Program expenditures of \$14,921 were not reported for 2016-2017.
5. The Special Education Grants to States expenditures of \$901,228 were not reported for 2016-2017 and were understated by \$10,018 for 2017-2018.
6. The Special Education Preschool Grant expenditures were understated by \$35,641 for 2016-2017.
7. The Title I Grants to Local Educational Agencies expenditures were overstated by \$1,314 for 2017-2018.
8. The Supporting Effective Instruction State Grants expenditures were understated by \$10,000 and \$14,000 for 2016-2017 and 2017-2018, respectively.

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

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

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. . . .

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.

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

- (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.

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: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting over bank account reconciliations.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to bank account reconciliations.

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

2. Monitoring of Controls: The School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the School Corporation to monitor and assess the quality of the system of internal control.

Context

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

Criteria

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

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

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. . . ."

Cause

Management of the School Corporation had not established a proper system of internal control that would have ensured proper reporting of cash and investments.

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, misstatements in a timely manner.

Recommendation

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting over bank account reconciliations.

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
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 2018-003

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 requirements related to the grant agreement and the Program Income compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records. The School Corporation did not transfer the correct amount of sales from the Prepaid Food Accounts fund. The transfer from the Prepaid Food Accounts fund (8400) to the School Lunch fund (800) was the difference between the ending balance in the 8400 fund and the ending prepaid food trust account balance from the food service computer program. The actual program income generated from food service operations per the Sales Activity Reports did not agree with the amounts transferred from fund 8400.

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). . . ."

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
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."

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)

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the Program Income compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Program Income compliance requirement.

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
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.

Auditor's Response

Transfers from the Prepaid Food Accounts fund (8400) to the School Lunch fund (800) should be based upon revenue as accounted for in the point-of-sale system rather than the change in the balance in students' trust accounts. Monthly reports of sales from the point-of-sale system were not the basis of the transfer in to the School Lunch fund as required.

FINDING 2018-004

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
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 2016-003.

Condition

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

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the fiscal year 2016-2017 Annual Financial Report (AFR) filed with the Indiana Department of Education Division of School and Community Nutrition Services agreed with the School Corporation's financial records. The beginning fund balance was overstated by \$96,669, the income total was overstated by \$99,375, and the ending balance was overstated \$196,044. The ending balance was later adjusted to correct these errors.

Context

The lack of controls and noncompliance were an isolated instance, which occurred only in 2016-2017. This was corrected in 2017-2018.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
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 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:
. . .

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

2 CFR 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed . . ."

Indiana Department of Education's *General Instructions: Annual Financial Report* states:

"All data reported is on a School Food Authority basis. It should include all financial transactions from July 1 through June 30, thereby accurately reflecting the financial position of the School Food Service Fund as of June 30. Accurate supporting documentation must be maintained by appropriate accounting officials whether consolidated Corporation-level accounting is used, or one or more Extra-Curricular accounts at separate schools are used. The income total and expense total boxes should agree exactly with total revenues and total expenditures recorded in the SFA's accounting records. All expenses need to be allocated appropriately to all existing programs."

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the Reporting compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the 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.

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
FEDERAL FINDINGS
(Continued)

Auditor's Response

We are aware of the officials' concern regarding the timing of the prior finding and the date of the filing of the 2016-2017 AFR, which was after the prior finding was issued. Since the audit period covered both years, we are required to audit both annual reports and report the findings of the audit. Our testing revealed the 2016-2017 AFR was not supported by the School Corporation's records. The 2017-2018 AFR was supported by the School Corporation's records.



CORRECTIVE ACTION PLAN

FINDING 2018-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Steve Snider, CFO

Contact Phone Number: 260-920-1011

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

The CFO currently completes the Annual Financial Report, which includes the SEFA. An additional party will review the AFR, along with a copy of prior audit findings (to be aware of past problems) prior to submission. Training has already occurred with the SBOA auditor to locate the commodity numbers. There has also already been communication with the Special Ed LEA regarding accurate numbers being forwarded each year.

Anticipated Completion Date: August 2019

FINDING 2018-002

Subject: Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Steve Snider, CFO

Contact Phone Number: 260-920-1011

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

There are already dual signatures on each bank reconciliation, but nothing to detect additional accounts. A master spreadsheet showing all school bank accounts will become part of the approval process each month, showing all accounts have been recorded in the financial software.

Anticipated Completion Date: April 2019

FINDING 2018-003

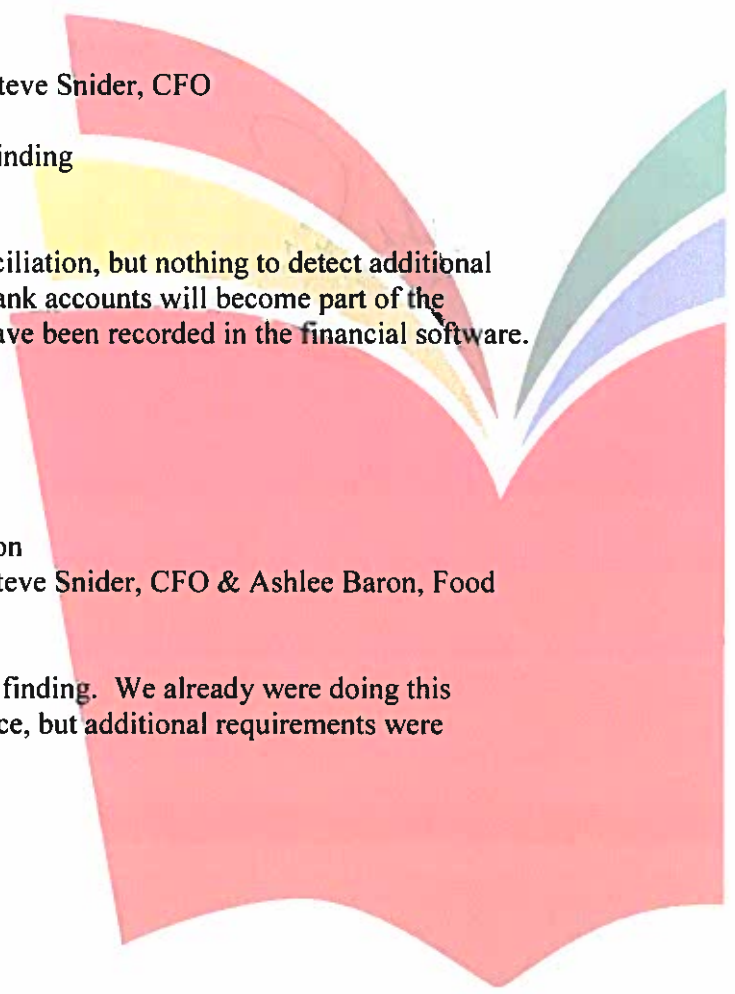
Subject: Child Nutrition Cluster – Program Income

Pass Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Steve Snider, CFO & Ashlee Baron, Food Service Director

Contact Phone Number: 260-920-1011

Views of Responsible Official: We disagree with the finding. We already were doing this reconciliation using the Prepaid Food Accounts balance, but additional requirements were requested by SBOA during this audit.





Description of Corrective Action Plan: Reports from Meal Magic will now become part of the reconciliation process between the School Lunch Fund and the Prepaid Food Accounts Fund.

Anticipated Completion Date: April 2019

FINDING 2018-004

Subject: Child Nutrition Cluster - Reporting

Pass Through Entity: Indiana Department of Education

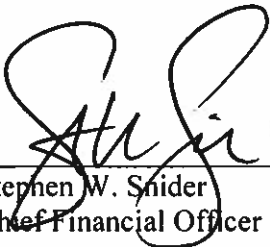
Contact Person Responsible for Corrective Action: Steve Snider, CFO & Ashlee Baron, Food Service Director

Contact Phone Number: 260-920-1011

Views of Responsible Official: We disagree with the finding since this results from the Food Service AFR submitted in August of 2017, prior to the audit results of the 2014-2016 SBOA audit. The following year was corrected and this is the one which should be audited.

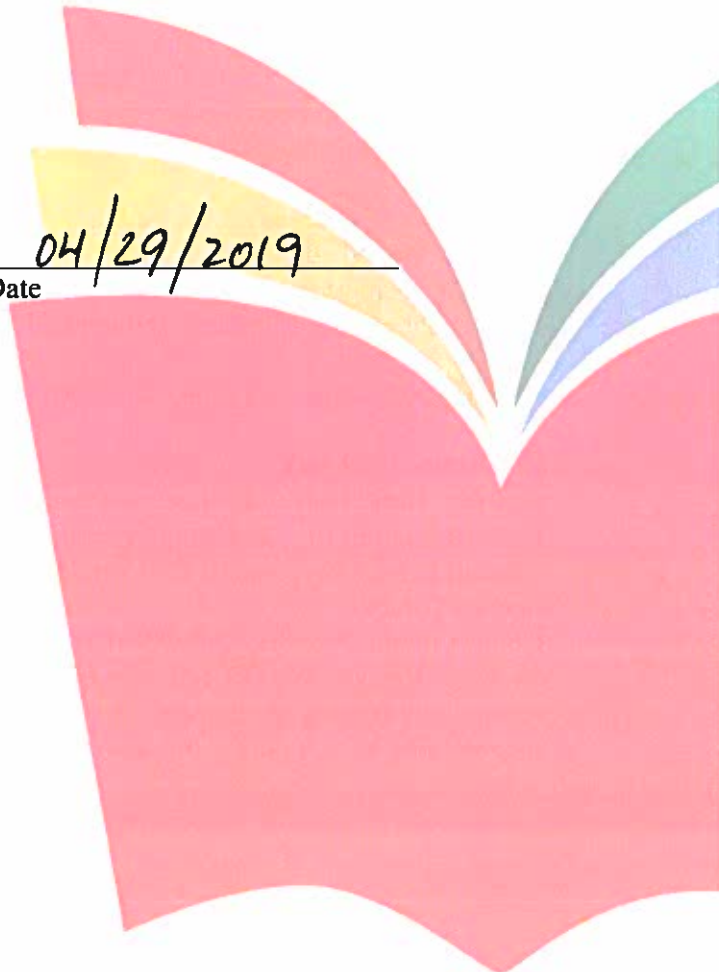
Description of Corrective Action Plan: We will continue with our current process of using reports from our food service financial software, as well as our district financial software, to complete the Food Service Annual Financial Report. Both the Food Service Director and the CFO will sign off upon submission.

Anticipated Completion Date: August 2018



Stephen W. Snider
Chief Financial Officer

04/29/2019
Date



DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Bank reconcilements were prepared on a monthly basis; however, two bank accounts were not included in the reconcilements. At June 30, 2018, one account had \$250,000 more than the ledger due to a \$250,000 transfer from the Debt Service fund to the Construction Fund 2 on January 26, 2018. This transaction was recorded as a disbursement in the Debt Service fund timely, but not recorded as a receipt to the Construction Fund 2 until July 31, 2018. At June 30, 2018, the second account had \$66,182 more than the ledger due to not recording receipts in a timely manner.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

SUPPORTING DOCUMENTATION

We reviewed three Food Service sales reports reflecting a one month summary of the result of operations during the audit period. Supporting documentation of the three sales report summaries, detailing the prices charged to students for meals, could not be produced for audit.

Due to the unavailability of detailed sales records, we could not definitively verify whether the School Board approved meal prices were being charged consistently throughout the audit period.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

DEKALB COUNTY CENTRAL UNITED SCHOOL DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2019, with Stephen W. Snider, Treasurer; Steven Teders, Superintendent of Schools; Lori Vaughn, Assistant Superintendent of Schools; Heather M. Krebs, President of the School Board; and Timothy E. Haynes, School Board member.