

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX COMMUNITY SCHOOL CORPORATION

STARKE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
06/07/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherry Sue Fort	07-01-16 to 04-08-18
	Dawn Bailey	04-09-18 to 01-09-19
	(Vacant)	01-10-19 to 02-03-19
	Rose Workman	02-04-19 to 02-27-19
	(Vacant)	02-28-19 to 03-06-19
Superintendent of Schools	Kasey Clark	03-07-19 to 06-30-19
	A.J. Gappa	07-01-16 to 04-20-17
	(Vacant)	04-21-17 to 04-25-17
	Jim Dermody (interim)	04-26-17 to 07-31-17
	Dr. William Reichhart	08-01-17 to 06-30-19
President of the School Board	William K. Bennet	01-01-16 to 12-31-16
	Gary Dulin	01-01-17 to 12-31-18
	Kirk Bennett	01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE KNOX COMMUNITY SCHOOL
CORPORATION, STARKE COUNTY, INDIANA

This report is supplemental to our audit report of the Knox Community School Corporation (School Corporation), for the period from July 1, 2016 to June 30, 2018. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

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 is the source of the School Corporation's SEFA. One employee prepared and submitted the grant information without an oversight or review process to detect and correct errors before submission.

Context

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

Criteria

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

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

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

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

Cause

The School Corporation's 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 could have remained undetected.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure that federal expenditures will be properly reported on 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: Child Nutrition Cluster - Internal Controls

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 Requirements: Cash Management, Eligibility, Program Income, Special Tests and
Provisions - Verification of Free and Reduced Price Applications
(NSLP), Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-001.

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 compliance requirements listed above.

Cash Management

The School Corporation established controls and procedures to monitor the School Lunch fund monthly cash balances (net cash resources) to ensure that they were limited to three months average expenditures; however, the review and monitoring process was not documented.

Eligibility - (School Breakfast Program and National School Lunch Program)

The School Corporation established controls and procedures to verify that the Direct Certification list and the Income Eligibility Guidelines uploaded into the software used to determine eligibility; however, the process was not documented.

Program Income

The School Corporation had not designed or implemented adequate internal controls to verify that the transfer between the Prepaid Meals fund and the School Lunch fund were accurate. One employee transferred the program income into the School Lunch fund on a daily basis without an oversight, review or approval process, or other compensating control.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

*Special Tests and Provisions - Verification of Free and Reduced Price Applications
(NSLP) (School Breakfast Program and National School Lunch Program)*

The School Corporation did not establish controls and procedures to ensure that the Verification Summary Report was accurate prior to submission. In addition, the verification of the applications were solely performed by one Food Service employee.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program Only)

The School Corporation had not designed or implemented adequate internal controls to ensure that the paid lunch equity calculation was accurate and that the response to the determination was properly made. One employee prepared the paid lunch equity calculation without an oversight or review process to ensure the accuracy of the calculation.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

Cause

Management had not developed a system of internal controls to ensure compliance with the compliance requirements listed above.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements listed above. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the Cash Management, Eligibility, Program Income, Special Tests and Provisions - Verification of Free and Reduced Priced Applications (NSLP), and Special Tests and Provisions - Paid Lunch Equity 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 2018-003

Subject: Child Nutrition Cluster - Procurement

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

Condition

The School Corporation had not established effective controls to ensure proper procurement policies were followed. The School Corporation did not have effective internal controls in place to ensure that the purchasing methods used complied with 2 CFR 200.320.

The School Corporation did not always obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures. The School Corporation also did not document the rationale for the method of procurement, especially when a noncompetitive proposal method was used.

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). . . ."

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 200.318 states in part:

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

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the procurement requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the procurement 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 and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-004

Subject: School Breakfast Program, National School Lunch Program - Reporting
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: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-001.

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.

There were no controls in place to ensure that the Verification Summary Report was accurate prior to submission.

The submitted Verification Summary Report did not agree to the supporting documentation for the fiscal year 2017-2018.

Context

The lack of controls was a systemic issue throughout the audit period. Noncompliance occurred in 2017-2018.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

KNOX COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . ."

Cause

Management of the School Corporation 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 material noncompliance to go undetected, which 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 related to the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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



Dr. William Reichhart, Superintendent

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wreichhart@knox.k12.in.us

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Kasey Clark Corporate Treasurer/Business Manager
Contact Phone Number: 574-772-1604

Views of Responsible Official: The SEFA had no internal controls with a another set of eyes on the report to make sure that the report was checked for accuracy.

Description of Corrective Action Plan: The SEFA will be complied by the Corporate Treasurer/Business Manager and the Deputy Treasurer will review the SEFA of the Corporate Treasurer and verify the SEFA for accuracy.

Anticipated Completion Date: The is put into place immediately.



(Signature)

Corporate Treasurer/Business Manager



(Date)



Dr. William Reichhart, Superintendent

(574) 772-1601
FAX: (574) 772-1608
wreichhart@knox.k12.in.us

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Kasey Clark & Food Service Director
Contact Phone Number: 574-772-1604

Views of Responsible Official: There has been a lack of internal controls with cash management, procurement, program income, eligibility and special testing.

Description of Corrective Action Plan:

- A) Cash management: A cash report will be ran from all the registers daily and verified not only by the person running their drawer and put on SA-8 form with a signature and then will be turned over to the Food Service Director or Food Service Treasurer and will be verified accurate and initialed reviewed.
- B) Eligibility: The Food service director will review the Direct Certification list and the income eligibility guidelines and the Food Service Treasurer will then initial and verify the information, before uploading into software.
- C) Program Income: The Food Service Treasurer will initiate the transfer from prepaid accounts and will transfer daily and then the Food Service Director or Corporate Treasurer/Business Manager will oversee and initial the transfer.
- D) The Paid Lunch Equity calculation will be done by the Food Service Director or Food Service Treasurer and will be verified buy the Corporate Treasurer/Business Manager.

Anticipated Completion Date: Immediately.

(Signature)

Corporate Treasurer/Business Manager

(Title)

(Date)



Dr. William Reichhart, Superintendent

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wreichhart@knox.k12.in.us

CORRECTIVE ACTION PLAN

FINDING 2018-003

Contact Person Responsible for Corrective Action: Kasey Clark and Food Service Director-
Contact Phone Number: 574-772-1604

Views of Responsible Official: Procurement was not documented to have more than one quote for the food and for the kitchens. The bidding will be done with 3 different sources for food service items since that is a contract over more than \$3,500-\$150,000

Description of Corrective Action Plan: The Food Service Director will get 3 quote for food procurement and will then review with the Corporate Treasurer/Business Manager will review with the Food Service Director and together decide a plan for best products for the price. Both will initial and sign off on the plan.

The Kitchen Manager will place the order for the food and the Food Service Director or head cook will receive the food and check off the correct food order and to make sure that food is only being used in the kitchen and not for any other use.

Anticipated Completion Date: Immediately

(Signature)

Corporate Treasurer/Business Manager
(Title)

4/24/19

(Date)



Dr. William Reichhart, Superintendent

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CORRECTIVE ACTION PLAN

FINDING 2018-004

Contact Person Responsible for Corrective Action: Kasey Clark & Food Service Director
Contact Phone Number: 574-772-1604

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: The Summary report will be completed and then verified by the Food Service Director and the Corporate Treasurer/Business Manager or Food Service Treasurer and initialed for verification and compliance.

The Grant Guidelines will be followed by the Food Service Director and will be initialed off by the Food Service Treasurer or Corporate Treasurer/Business Manager.

Anticipated Completion Date: Immediately

(Signature)

Corporate Treasurer/Business Manager
(Title)

(Date)

KNOX COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2019, with Kasey Clark, Treasurer; Dr. William Reichhart, Superintendent of Schools; and Wendy McIntire, Vice President of the School Board.