

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CLAY COMMUNITY SCHOOLS

CLAY COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
06/07/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting and Preparation of the Schedule of Expenditures of Federal Awards	4-5
Finding 2018-002	
Child Nutrition Cluster - Program Income	5-7
Finding 2018-003	
Child Nutrition Cluster - Cash Management	7-9
Finding 2018-004	
Child Nutrition Cluster - Eligibility, Procurement and Suspension and Debarment	9-10
Corrective Action Plan.....	11-13
Audit Results and Comments:	
Prepaid School Lunch Account	14
Training on Internal Control Standards	14
Certification on Internal Control Standards	14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Business Affairs	Mark Shayotovich	07-01-16 to 06-30-19
Superintendent of Schools	Jeffery Fritz	07-01-16 to 06-30-19
President of the School Board	Ronald Scherb Kevin Kumpf Tom Reberger	07-01-16 to 12-31-16 01-01-17 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 CLAY COMMUNITY SCHOOLS, CLAY COUNTY, INDIANA

This report is supplemental to our audit report of the Clay Community 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/.

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 15, 2019

CLAY COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting and Preparation of
the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding numbers were 2016-001 and 2016-002.

Condition

The School Corporation had not separated incompatible activities related to receipts and the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Receipts

The School Corporation had not separated incompatible activities related to receipts. There were no controls designed and implemented by the School Corporation for processing, recording, and reporting receipts. The School Corporation did not provide evidence of a review or approval process to ensure that material misstatements would have been prevented, or detected and corrected, in a timely manner.

Schedule of Expenditures of Federal Awards

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 federal award information was entered into Indiana Gateway for Government Units (Gateway) financial system, which is the source of the SEFA. The Treasurer submitted the grant information into Gateway without an oversight, review, or approval process to ensure federal awards information was entered and submitted correctly.

Context

The lack on controls was a systemic issue, which occurred 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. . . .

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. . . .

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 controls over receipts and the preparation of the SEFA.

Effect

The failure to establish a system of internal controls could have enabled misstatements or irregularities with receipts and the reporting of the SEFA to remain undetected.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting over receipts and 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.

Section III - Federal Award Findings and Questioned Costs

FINDING 2018-002

Subject: Child Nutrition Cluster - 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): FY17 and FY18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
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 2016-004.

FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the grant agreement and the Program Income compliance requirement. The School Corporation had not designed or implemented an adequate system of internal controls to ensure program income was correctly recorded. An oversight, review, or approval process had not been established.

The School Corporation established a single fund, the School Lunch Fund, to account for all activity of the food service program. When prepaid funds were received, they were receipted into the School Lunch Fund as revenue, with no distinction between the prepaid accounts and the program income generated from the food service programs from July 1, 2016 to December 31, 2017. Due to the method of record-keeping, it could not be determined if the School Corporation was in compliance with the Program Income compliance requirement.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. The lack of adequate supporting documentation prevented the determination of the School Corporation's compliance with the Program Income compliance requirement from July 1, 2016 to December 31, 2017.

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 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."

FEDERAL FINDINGS
(Continued)

2 CFR 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and be supported by documentation."

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 of the School Corporation had not developed a system of internal controls that would have ensured compliance with the grant agreement and that adequate supporting documentation was maintained and available for audit related to the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system and retain adequate supporting documentation prevented the determination of the School Corporation's compliance with the Program Income 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 to ensure compliance with the Program Income compliance requirement and that adequate supporting documentation is maintained and available for audit.

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 - 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): FY17 and FY18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matters

FEDERAL FINDINGS
(Continued)

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 in order to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement.

The School Corporation had not designed or implemented an adequate internal control system to ensure that the School Lunch Fund monthly cash balances (net cash resources) did not exceed 3 months average expenditures for the fund. There was no oversight, review, or monitoring of the cash net cash resources.

Context

The lack of internal controls was a systemic issue, which occurred throughout the audit period until corrected on April 30, 2018. The noncompliance was isolated to the first 13 months of 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 210.14(b) states: "*Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction: . . ."

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

Cause

The School Corporation had not designed or implemented a system of internal controls that would have ensured compliance with the grant agreement and the Cash Management compliance requirement.

FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to remain undetected. Noncompliance with the grant agreement and the Cash Management 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 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 2018-004

Subject: Child Nutrition Cluster - Eligibility, Procurement and Suspension and Debarment
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): FY17 and FY18
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Eligibility, Procurement and Suspension and Debarment
Audit Finding: Material Weakness

Repeat Finding

This is a repeat of finding 2016-006 from the immediately prior audit report regarding the Procurement and Suspension and Debarment compliance requirement.

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 following compliance requirements:

Eligibility

The School Corporation did not have a system of internal controls over the eligibility determinations. There was no oversight, review, or approval process to ensure the accuracy of eligibility determinations made.

Procurement and Suspension and Debarment

The School Corporation did not have a system of internal controls in place over Procurement and Suspension and Debarment. There was no oversight, review, or approval process to ensure that the proper procurement methods were being followed or that applicable vendors were not suspended or debarred from participation in federal programs.

FEDERAL FINDINGS
(Continued)

Context

The lack of controls was a 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). . . ."

Cause

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

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 compliance requirements listed above.

Views of Responsible Officials

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

Mr. Jeffery Fritz, Superintendent
Dr. Timothy Rayle, Assistant Superintendent for Curriculum & Instruction
Mr. Michael Howard II, Director of Extended Services
Mrs. Kathy Knust, Curriculum and Grants Coordinator
Mr. Mark Shayotovich, Director of Business Affairs
Mr. Ernie Simpson, Director of Human Resources

1013 S. Forest Avenue
Brazil, IN 47834
Phone: 812-443-4461
Fax: 812-442-0849

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Mark Shayotovich, Director of Business Affairs

Contact Phone Number: 812-442-0610

Description of Corrective Action Plan

Beginning in May 2018, we added two additional internal control measures to our receipts function:

1. All mail coming in, or patrons who come in to pay in person, will be handled by front office personnel. Front office personnel will take payment and write receipts. Front office Personnel will record payments on book rental or laptop damages into PowerSchool and turn over cash and checks to the deputy treasurer for deposit in the bank and receipt into Komputrol.
2. After receipting payments into the bank, receipts are input into Komputrol by the deputy treasurer, reviewed and verified by the insurance clerk. The insurance clerk will sign off on applicable reports.
3. Beginning in May 2018, a list of all federal awards will be compiled with the assistance of the Deputy Treasurer, Assistant Superintendent, Director of Special Services, Curriculum and Grants Coordinator, Director of Food Services, Director of Extended Services, and Director of Human Resources. In addition to ongoing conversations to best identify federal grants, the deputy treasurer will perform an annual review of all notifications of deposit. A list will be prepared of all deposits that have a corresponding CFDA #. The Director of Business Affairs will review the list in addition to the notifications of deposit to ensure the list's completeness. The director of Business Affairs will prepare the Schedule of Expenditures of Federal Awards as required at the end of each fiscal year. The Deputy Treasurer will be provided with the finalized list of all federal awards for the fiscal year (referenced in the above paragraph) and cross reference it with the SEFA to ensure its completeness. Once considered complete by both the Deputy Treasurer and the Director of Business Affairs, the SEFA will be submitted by the Director of Business Affairs as part of the Annual Financial Report through Gateway. The Director of Business Affairs will formally document this procedure once completed

Implementation/Anticipated Completion Date: May 2018 / July, 2019

FINDING 2018-002

Contact Person Responsible for Corrective Action: Mark Shayotovich, Director of Business Affairs

Contact Phone Number: 812-442-0610

Description of Corrective Action Plan

Beginning in January, 2018 Clay Community Schools implemented the use of Fund 8400 to account for prepaid food service. This occurred concurrently with our district beginning to accept online credit card payments through the use of a third party. Appropriate receipt accounts have been set up and are being utilized. At the end of each semester, the Director Business Affairs and the Deputy Treasurer will perform appropriate reconciliations and consequent revenue recognition in Fund 800 for food service dollars earned in the period.

Implementation Date: January, 2018

FINDING 2018-003

Contact Person Responsible for Corrective Action: Mark Shayotovich, Director of Business Affairs

Contact Phone Number: 812-442-0610

Description of Corrective Action Plan

Beginning in May 2018, we will add two additional internal control measures to the School Lunch Fund Cash Management Function.

1. The Director of Food Services will begin preparing the Monthly Food Services Report. In addition to other functional data, the report will include a calculation of three month average expenditures and a related comparison to the month ending cash balance in the school lunch fund.
2. The Monthly Food Services Report will be reviewed by the Director of Human Resources. The Director of Human Resources will sign off on the report and pass it along to the Director of Business Affairs who will review the calculation and comparison, and determine if action needs to be taken.

Implementation Date: August, 2018

FINDING 2018-04

Contact Person Responsible for Corrective Action: Mark Shayotovich, Director of Business Affairs

Contact Phone Number: 812-442-0610

Description of Corrective Action Plan

Procurement, Suspension and Debarment

In March 2018, The Food Services Director began using SAM to review vendors for potential debarment or suspension. This will become an annual procedure to take place in August prior to the start of school, and will be written into the Child Nutrition Procurement Plan referenced above.

Eligibility

On August 7, 2017 we implemented a new Child Nutrition Procurement Plan. This plan expanded upon our general corporation procurement procedures by adding additional Child Nutrition Program related procedures which included the documenting of eligibility reviews by the Director of Food Services or the Director of Human Resources

Implementation Date: March, 2018 / August 2018



Mark Shayotovich, Director of Business Affairs



Date

CLAY COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

PREPAID SCHOOL LUNCH ACCOUNT

A similar comment also appeared in prior Reports B45118 and B50071, entitled *PREPAID SCHOOL LUNCH ACCOUNT*.

Receipts from students who prepaid for food were receipted directly into the School Lunch fund (Fund 800) instead of a clearing account for prepaid food (Fund 8400) from July 1, 2016 to December 31, 2017. A clearing account fund for prepaid meals was established in the School Corporation records in January 2018.

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)

TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation had not ensured that all required personnel received the training concerning the internal control standards.

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

CERTIFICATION ON INTERNAL CONTROL STANDARDS

The Treasurer certified on the Annual Financial Report (AFR) that an internal control policy had not been adopted; however, the School Corporation adopted the internal control policy on August 11, 2016. Therefore, the AFR as submitted was incorrect.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

CLAY COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on May 15, 2019, with Jeffery Fritz, Superintendent of Schools; Mark Shayotovich, Director of Business Affairs; Ernie Simpson, Director of Personnel, Data, and Food Service; Tom Reberger, President of the School Board; Kevin Kumpf, School Board member; Lynn Romas, School Board member; and Andrea Baysinger, School Board member.