

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

DELAWARE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
06/24/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Julie D. Wake	07-01-16 to 06-30-19
Superintendent of Schools	Bryan Rausch	07-01-16 to 06-30-19
President of the School Board	Keith Davis Robert Cook	01-01-16 to 12-31-18 01-01-19 to 12-31-19



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TO: THE OFFICIALS OF THE LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

This report is supplemental to our audit report of the Liberty-Perry 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 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 2, 2019

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
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 in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

The SEFA contained the following errors:

1. The School Breakfast Program expenditures for fiscal year 2016-2017 was overstated by \$1,059.
2. The National School Lunch Program Commodities for 2017-2018 totaling \$159,903 were omitted.
3. The Summer Food Service Program for Children expenditures for 2017-2018 totaling \$20,892 were omitted.
4. The Special Education Grants to States expenditures for 2016-2017 were understated by \$57,354 and overstated by \$27,926 in 2018.
5. The Special Education Preschool Grants expenditures for 2017-2018 totaling \$18,516 were omitted.

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

Criteria

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"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. . . ."

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.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit report regarding receipts and payroll disbursements. The prior audit finding number was 2016-002.

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts, disbursements, and financial reporting.

Receipts

The School Corporation had not designed or implemented proper segregation of duties related to receipts handled at the School Corporation level. The Treasurer issued receipts, recorded receipts, and deposited collections without evidence of an oversight, review, or approval process.

Payroll Disbursements

The School Corporation had not designed or implemented proper segregation of duties related to payroll disbursements. The Payroll Clerk input the payroll information into the ledger without a system of oversight, review, or approval. During the audit period, payroll claims were not provided to the School Board for their review and approval.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Vendor Disbursements

Controls over vendor disbursements were not always properly implemented throughout the audit period. The accounts payable voucher register did not include all disbursements to be reviewed and approved by the School Board. Additionally, not all accounts payable registers were signed and approved by the School Board. Most of the checks excluded from the register were manual checks; therefore, a proper system of oversight, review, and approval over disbursements was not in place.

Financial Close and Reporting

An effective system of internal controls was not in place to ensure the accuracy of financial information used to compile the financial statement. The Form 9 reports provided by the School Corporation to the Indiana Department of Education (IDOE), accounting for all financial activity for each six month period, were not properly reviewed to ensure the accuracy of the cash balances for all funds. Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement.

Context

The lack of controls and noncompliance were systemic issues, 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. . . .

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. . . ."

Indiana Code 5-11-10-1.6 states in part:

" . . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

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](#)."

Cause

Management had not established a proper system of internal control related to financial transactions and reporting.

Effect

The failure to establish controls enabled misstatements or irregularities to remain undetected.

Recommendation

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

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 - 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 2017, FY 2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Special Tests and Provision - School Food
Accounts, Special Tests and Provision - Paid Lunch Equity

Audit Finding: Material Weakness

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is repeat finding from the immediately prior audit report. The prior audit finding number was 2016-006.

Condition

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

Cash Management

The School Corporation had not designed or implemented adequate policies or procedures to ensure that net cash resources of the School Lunch fund did not exceed a three months average of expenditures. The School Corporation did not perform calculations to verify that the net cash resources did not exceed three months average expenditures.

Special Tests and Provisions - School Food Accounts

The School Corporation had not established a system of internal controls over the review of the receipts and disbursements of the School Lunch fund to ensure only allowable receipts and disbursements are properly recorded in the fund.

Special Tests and Provisions - Paid Lunch Equity

The School Corporation had not designed or implemented adequate policies and procedures to ensure that there was a proper segregation of duties over the paid lunch equity calculations. The paid lunch equity calculations were prepared by the Food Service Director without a system of oversight, review, or approval before the recommendation of paid lunch prices to the School Board.

Context

The lack of internal controls was a systemic issue, 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 had not developed a system of internal controls that would have ensured compliance with the grant agreement and the compliance requirements listed above.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

FINDING 2018-004

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed,
Allowable Costs/Cost Principles, and 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 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Activities Allowed or Unallowed, Allowable
Costs/Cost Principles, Program Income
Audit Findings: Material Weakness, Modified Opinion

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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Program Income compliance requirements.

Context

From July 1, 2016 to June 30, 2018, the School Corporation purchased and sold approximately \$20,480 of food service products to employees or non-profit groups from their School Lunch fund at cost. This includes employees that purchased bacon, potatoes, and supplies for graduation open houses or other personal purposes from the School Corporation at cost. Non-profit groups such as the Latchkey Program and the Backpack Program also purchased food items for their programs from the School Corporation at cost. Receipts or invoices were not written to these individuals or groups at the time of sale. Cash and checks were collected by the Food Service Director for the sales, combined into one receipt labeled "refunds" or "other," and deposited into the School Lunch fund. Some of the larger transactions could be traced to an email requesting the item, while other times the source document was a scrap of paper. The food items sold were purchased out of the School Lunch fund at cost; therefore, no program income was being generated by this practice for the benefit of the School Corporation's School Lunch program.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Additionally, student refunds were being paid from the School Lunch fund. Refunds to students should be paid from the Prepaid Food fund.

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 210.2 states in part: ". . . *Nonprofit school food service* means all food service operations conducted by the school food authority principally for the benefit of schoolchildren, all of the revenue from which is used solely for the operation or improvement of such food services. . . ."

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."

2 CFR 200.80 states in part:

"Program income means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance except as provided in § 200.307 paragraph (f). (See § 200.77 Period of performance.) Program income includes but is not limited to income from fees for services performed, the use or rental or real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with Federal award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in Federal statutes, regulations, or the terms and conditions of the Federal award, program income does not include rebates, credits, discounts, and interest earned on any of them. See also § 200.407 Prior written approval (prior approval). See also 35 U.S.C. 200–212 'Disposition of Rights in Educational Awards' applies to inventions made under Federal awards."

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2 CFR 200.307(e) states in part:

"Use of program income. If the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award, or give prior approval for how program income is to be used, paragraph (e)(1) of this section must apply. For Federal awards made to IHEs and nonprofit research institutions, if the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award how program income is to be used, paragraph (e)(2) of this section must apply. In specifying alternatives to paragraphs (e)(1) and (2) of this section, the Federal awarding agency may distinguish between income earned by the recipient and income earned by subrecipients and between the sources, kinds, or amounts of income. When the Federal awarding agency authorizes the approaches in paragraphs (e)(2) and (3) of this section, program income in excess of any amounts specified must also be deducted from expenditures.

- (1) *Deduction.* Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the Federal awarding agency authorizes otherwise. Program income that the non-Federal entity did not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project. . . ."

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)

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Program Income compliance requirements.

Effect

The failure to establish an effective internal control system placed the School Corporation in noncompliance with the grant agreement and the compliance requirements listed above.

Questioned Costs

Known questioned costs of \$20,480 were identified, as detailed in the *Context*.

Recommendation

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-005

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement. The School Corporation did not have effective system of internal controls in place to ensure that the purchasing methods used complied with federal requirements or ensure that vendors were checked for suspension and debarment.

In 2006, the School Corporation entered into an interlocal agreement with a cooperative service center to solicit, evaluate, and award bids for food and supply products during the fiscal years 2017 and 2018 with 49 member school corporations. The School Corporation did not have a current signed contract, or current renewal of the contract from 2006, for 2017. There was a new agreement in 2018, but the agreement was only signed by the Food Service Director and was not approved by the School Board. The School Corporation purchased food products from one vendor for \$214,435.89 in 2017 and \$177,208.57 in 2018 that the service center awarded the bid for food and supply products to.

The School Corporation also failed to verify that the cooperative service center was not suspended or debarred from participation in federal programs. The School Corporation did not search the System for Award Management, obtain a certification from the entity, or ensure that a clause or condition was added to agreement with vendors.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance was an isolated issue related to cooperative service center transactions.

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). . . ."

LIBERTY-PERRY 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. . . .

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c)(1) of this section apply. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls that would ensure compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-006

Subject: School Breakfast Program, National School Lunch Program - Program Income
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Findings: Material Weakness, Modified Opinion

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.

The School Corporation had not accurately determined or recorded program income in accordance with the program requirements. The School Corporation made periodic transfers of revenue from the Prepaid Lunch fund to the School Lunch fund that were based on cash collected rather than daily sales.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 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; . . ."

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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."

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 grant agreement and the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and 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 grant agreement and the compliance requirement listed above.

Views of Responsible Officials

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

FINDING 2018-007

Subject: 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 2017, FY 2018

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is repeat finding from the immediately prior audit report. The prior audit finding number was 2016-006.

Condition

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

The School Corporation had not designed or implemented adequate policies and procedures to ensure that there was proper segregation of duties in regard to the Reporting compliance requirement. The Annual Financial Reports (AFR) were prepared and submitted by a food service employee without a system of oversight, review, or approval. The amounts reported in the AFRs were not supported by the School Corporation's records. Additionally, the Verification Summary Reports were prepared and submitted by the Food Service Director without a system of oversight, review, or approval.

Context

The lack of internal 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). . . ."

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 . . ."

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 grant agreement and the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Reporting compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls related to the grant agreement and the Reporting compliance requirement.

Views of Responsible Officials

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

FINDING 2018-008

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

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 2017

Pass-Through Entity: Indiana Department of Education

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

Audit Findings: Material Weakness, Modified Opinion

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the requirements related to the grant agreement and Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirement.

The School Corporation had not designed or implemented adequate policies and procedures to ensure a proper system of review was in place for the verification of free and reduced price applications. When testing the applications selected by the School Corporation for verification, 1 of the 7, or 14 percent of the applications, were not calculated properly. Therefore, eligibility status was incorrectly determined by the School Corporation. The student was changed from "free" to "reduced," but should have been changed to "paid."

Context

The lack of controls and noncompliance were isolated to fiscal year 2016-2017.

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 245.6a(f)(7) states:

"*Eligibility changes.* Based on the verification activities, the local educational agency shall make appropriate modifications to the eligibility determinations made initially. The local educational agency must notify the household of any change. Households must be notified of any reduction in benefits in accordance with paragraph (j) of this section. Households with reduced benefits or that are longer eligible for free or reduced price meals must be notified of their right to reapply at any time with documentation of income or participation in one of the eligible programs in paragraph (a)(1) of this section."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Priced Applications (NSLP) compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Priced Applications (NSLP) compliance requirement.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions – Verification of Free and Reduced Priced Applications (NSLP) compliance requirement.

Views of Responsible Officials

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



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

FINDING 2018-001


Contact Person Responsible for Corrective Action: Julie Wake
Contact Phone Number: 765-282-5615

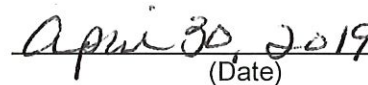
Description of Corrective Action Plan:

We concur with the finding and we will include the School Lunch commodities in the SEFA report and also make sure the Summer Food Service expenditures are correct. When doing the SEFA report I will use the GRIC schedule for the Special Ed and PreSchool Special Ed.

Anticipated Completion Date: July of 2019


(Signature)


(Title)


(Date)



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Julie Wake
Contact Phone Number: 765-282-5615


Description of Corrective Action Plan:

The individual who goes to the bank will sign the receipt from the bank and the individual that fills out the deposit slips will sign it also. We will do a review of the receipts from the bank statements to the revenue accounts.

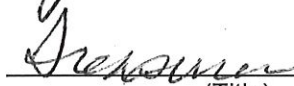
We will provide the board with claim dockets of the payroll monthly. The Treasurer will also will review the payroll distributions.

As Treasurer I will take more care in insuring that all payments made are on the Board docket for approval. I will also check my Form 9 balance to my fund report balance to insure they are the same.

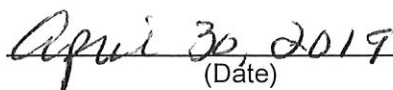
Anticipated Completion Date: July of 2019



(Signature)



(Title)



(Date)



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

FINDING 2018-003

Contact Person Responsible for Corrective Action: Mrs. Layne
Contact Phone Number: 765-282-5615


Description of Corrective Action Plan:


We will calculate our 3 month average expenditures and review them when Mr. Rausch and Mrs. Layne go over the cash management for the month we will both sign it and keep on file.

Mr. Rausch and Mrs. Layne will review the school food account to insure only allowable expenditures are posted to this account.

After the calculation of the paid lunch equity tool is reviewed by Mr. Rausch it will be approved by the school board.

Anticipated Completion Date: May 30, 2019


(Signature)


(Title)


(Date)



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN


FINDING 2018-004

Contact Person Responsible for Corrective Action: Mrs. Layne
Contact Phone Number: 765-282-5615

Description of Corrective Action Plan:

We are in the process of contacting the IDOE on how to provide food items to our non-profit groups and to our staff

Anticipated Completion Date: May 30, 2019



(Signature)

Food Service Director

(Title)

5/1/19

(Date)



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

FINDING 2018-005

Contact Person Responsible for Corrective Action: Mrs. Layne
Contact Phone Number: 765-282-5615


Description of Corrective Action Plan:

We will talk to East Central Educational Service Center about getting an updated contract and have it signed by the board.

Going forward the board will approve vendors recommended by East Center Educational Service Center and Mrs. Layne will search the excluded parties list systems through the System of Award Manager center.

Anticipated Completion Date: September, 2019


(Signature)


(Title)


(Date)



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

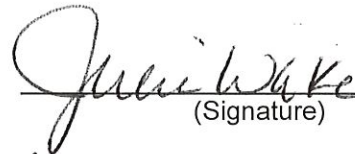
FINDING 2018-006

Contact Person Responsible for Corrective Action: Julie Wake
Contact Phone Number: 765-282-5615

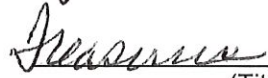
Description of Corrective Action Plan:

In September 2018 we started transferring monthly sales from the prepaid account to the lunch account. Starting in May of 2019 we will attempt to reconcile our Prepaid account monthly to the best of our ability,

Anticipated Completion Date: June 30, 2019



(Signature)



(Title)



(Date)



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

CORRECTIVE ACTION PLAN

FINDING 2018-007


Contact Person Responsible for Corrective Action: Mrs. Layne
Contact Phone Number: 765-282-5615

Description of Corrective Action Plan:

When the annual report is completed we will either have Mrs. Daughery or Mrs. Layne double-check the figures in the report.

Mrs. Hoots will check the verification before it is submitted to the state. We will both sign and keep a copy on file.

Anticipated Completion Date June 30, 2019



(Signature)

Food Service Director

(Title)

5/1/19

(Date)



CORRECTIVE ACTION PLAN


FINDING 2018-008

Contact Person Responsible for Corrective Action: Mrs. Layne
Contact Phone Number: 765-282-5615

Description of Corrective Action Plan:

When doing the verifications the second reviewer will not see the first reviewers calculation she will calculator free and reduction eligibility on her own. Then they will review them together

Anticipated Completion Date: October 2019



(Signature)

Food Service Director

(Title)

5/1/19

(Date)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

SUBMISSION OF ANNUAL FINANCIAL REPORT

The School Corporation did not file an Annual Financial Report (AFR) for fiscal year 2017-2018 year. Although the Treasurer entered the AFR information for 2017-2018 into the Indiana Gateway for Government Units financial reporting system, it was never submitted. In addition, the School Corporation's AFR information for 2016-2017 was not filed electronically until September 7, 2017, a week past the due date.

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](#)."

TIMELY AND ACCURATE RECORDING OF RECEIPTS

The School Corporation did not record the receipt of some state and local distributions to the correct funds or record the electronic fund transfers in a timely manner.

During our audit, we identified five state and local distributions totaling \$45,215.10 that were recorded to incorrect funds with no correcting entries made. Additionally, three local distributions totaling \$75,540.20 were originally posted to incorrect funds and, subsequently, corrected.

We also identified six state distributions deposited by electronic fund transfers totaling \$65,331.44 that were not recorded timely. These distributions were recorded to the financial records from 32 to 107 days after they were deposited into the bank account.

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

TEXTBOOK RENTAL CLEARING FUND

The School Corporation set up a Textbook Rental Clearing fund (Fund 9680) where it receipted the amounts received from the State for Textbook Rental Reimbursement instead of receipting them into the state prescribed Textbook Rental Fund 900. This fund was not properly established by resolution or ordinance. The School Corporation made transfers out of the Textbook Rental Clearing fund to both the Debt Service fund and the Capital Projects fund. The School Corporation also purchased I Pads from the Clearing fund and distributed funds to the Extracurricular Textbook Rental funds for the Elementary Schools purchase of textbooks. The School Corporation did not report the Textbook Rental Clearing fund activity on its Form 9, Biannual Financial Report it files with the Indiana Department of Education.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

"A fund, as used in the manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. The funds established by law for Indiana school corporations are: General Fund, Debt Service Fund, Capital Projects Fund, School Transportation Fund, School Bus Replacement Fund, Special Education Preschool Fund, School Lunch Fund, Textbook Rental Fund . . ." (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 4)

The Textbook Rental Fund, designated Fund Number 0900 in the prescribed accounting system when established in the school corporation account, is to be used to record all receipts of fees collected for rent of textbooks and workbooks furnished to students; also, to record all disbursements for purchase of textbooks, for repair of textbooks and for workbooks to be used with rented textbooks furnished to students for a designated fee. Disbursements from the fund may be made without appropriation or the application of other laws relating to budgets of municipal corporations. A detail of the receipt and expenditure accounts will be found in Parts 4 and 5. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 4)

TRANSFERS

During the audit period, a total of \$466,834 was transferred between funds and \$186,957 in temporary loans were made between funds without approval of the School Board by resolution or ordinance.

Indiana Code 36-1-8-4(a) states:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred."

RECONCILEMENT OF THE PREPAID FOOD FUND

This same comment also appeared in prior Reports B45387 and B51442.

The School Corporation maintains a Prepaid Food fund. The detail student balances on hand in the School Corporation's point of sale software and subsidiary records were not reconciled to the cash balance in the Prepaid Food fund at the end of each month. As a result, numerous posting errors remained undetected causing the total reported Prepaid Food fund balance to be \$17,868.04 less than the detail student account listing at June 30, 2017, and \$1,700.15 more than the detail student account listing at June 30, 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)

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)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 2, 2019, with Julie D. Wake, Treasurer; Bryan Rausch, Superintendent of Schools; and Robert Cook, President of School Board.