

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

EAST PORTER COUNTY SCHOOL CORPORATION

PORTER COUNTY, INDIANA

July 1, 2017 to June 30, 2019



**FILED**  
02/10/2020



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lisa Rosinko (Vacant) Wendy Kulczyk	07-01-17 to 03-15-19 03-16-19 to 03-31-19 04-01-19 to 06-30-20
Superintendent of Schools	Dr. Rodney Gardin Dr. Robert Boyd Dr. Aaron Case	07-01-17 to 06-30-18 07-01-18 to 11-30-18 12-01-18 to 06-30-20
President of the School Board	Frank Dessuit Richard McSparin	07-01-17 to 12-31-17 01-01-18 to 12-31-20



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE EAST PORTER COUNTY SCHOOL  
CORPORATION, PORTER COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the East Porter County School Corporation (School Corporation), for the period of July 1, 2017 to June 30, 2019, and the related notes to the financial statement, which collectively comprise the School Corporation's financial statement and have issued our report thereon dated November 26, 2019, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School Corporation's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*  
(Continued)

***Compliance and Other Matters***


As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-002.

***East Porter County School Corporation's Response to Findings***

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

November 26, 2019, except for our report on the Schedule of Expenditures  
of Federal Awards, for which the date is January 22, 2020



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE EAST PORTER COUNTY SCHOOL CORPORATION, PORTER COUNTY, INDIANA

**Report on Compliance for Each Major Federal Program**

We have audited the East Porter County School Corporation's (School Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2017 to June 30, 2019. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of July 1, 2017 to June 30, 2019.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-004. Our opinion on each major federal program is not modified with respect to these matters.

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2019-003 and 2019-004, that we consider to be material weaknesses.

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE  
(Continued)

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statement of the School Corporation, as of and for the period of July 1, 2017 to June 30, 2019, and the related notes to the financial statement. We issued our report thereon dated November 26, 2019, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.

  
Paul D. Joyce, CPA  
State Examiner

January 22, 2020

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

EAST PORTER COUNTY SCHOOL CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended June 30, 2018 and 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-18	Total Federal Awards Expended 06-30-18	Passed Through to Subrecipient 06-30-19	Total Federal Awards Expended 06-30-19
<b>Department of Agriculture</b>							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553	FY2017-2018	\$ -	\$ 30,400	\$ -	\$ -
School Breakfast Program		10.553	FY2018-2019	-	-	-	36,377
Total - School Breakfast Program				-	30,400	-	36,377
National School Lunch Program							
School Lunch Program	Indiana Department of Education	10.555	FY2017-2018	-	291,260	-	-
School Lunch Program		10.555	FY2018-2019	-	-	-	281,124
Commodities				-	95,185	-	110,230
Total - National School Lunch Program				-	386,445	-	391,354
Total - Child Nutrition Cluster				-	416,845	-	427,731
Total - Department of Agriculture				-	416,845	-	427,731
<b>Department of Education</b>							
Special Education Cluster (IDEA)							
Special Education Grants to States							
Special Education Grants to States	Indiana Department of Education	84.027	14216-089-PN01	-	1,484	-	-
Special Education Grants to States		84.027	14217-048-PN01	-	109,666	-	-
Special Education Grants to States		84.027	14217-048-PN01	-	-	-	2,016
Special Education Grants to States		84.027	18611-048-PN01	-	431,368	-	-
Special Education Grants to States		84.027	18611-048-PN01	-	-	-	101,725
Special Education Grants to States		84.027	19611-048-PN01	-	-	-	436,261
Total - Special Education Grants to States				-	542,518	-	540,002
Special Education Preschool Grants							
Special Education Preschool Grants to States	Indiana Department of Education	84.173	18619-048-PN01	-	10,410	-	91
Special Education Preschool Grants to States		84.173	19619-048-PN01	-	-	-	10,947
Special Education Preschool Grants to States		84.173	45717-048-PN01	-	254	-	-
Total - Special Education Preschool Grants				-	10,664	-	11,038
Total - Special Education Cluster (IDEA)				-	553,182	-	551,040

EAST PORTER COUNTY SCHOOL CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended June 30, 2018 and 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-18	Total Federal Awards Expended 06-30-18	Passed Through to Subrecipient 06-30-19	Total Federal Awards Expended 06-30-19
Title I Grants to Local Educational Agencies							
	Indiana Department of Education						
Title I Basic Grant		84.010	S010A150014	-	75,146	-	-
Title I Basic Grant		84.010	S010A180014	-	164,471	-	30,767
Title I Basic Grant		84.010	S010A150014	-	-	-	142,294
Total - Title I Grants to Local Educational Agencies				-	239,617	-	173,061
Title I State Agency Program for Neglected and Delinquent Children and Youth							
	Indiana Department of Education						
Title I Del 2017-2018		84.013	S010A150014	-	11,659	-	-
Title I Del 2018-2019		84.013	S010A150014	-	-	-	4,694
Total - Title I State Agency Program for Neglected and Delinquent Children and Youth				-	11,659	-	4,694
Supporting Effective Instruction State Grants							
	Indiana Department of Education						
Title II, Part A FY 16-18		84.367	S367A160013	-	17,899	-	-
Title II, Part A FY 17-19		84.367	S367A170013	-	27,348	-	18,682
Title II, Part A FY 17 Summer of eLearning		84.367	FY 2017	-	13,416	-	-
Title II, Part A FY 18-20		84.367	S367A180013	-	-	-	34,299
Total - Supporting Effective Instruction State Grants				-	58,663	-	52,981
Student Support and Academic Enrichment Program							
	Indiana Department of Education						
Title IV, Part A		84.424	S424A180015	-	-	-	11,170
Total - Department of Education				-	309,939	-	241,906
Total federal awards expended				\$ -	\$ 1,279,966	\$ -	\$ 1,220,677

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

EAST PORTER COUNTY SCHOOL CORPORATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2018 and 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the School Corporation, it is not intended to and does not present the financial position of the School Corporation.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

**B. Other Significant Accounting Policies**

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

**Note 2. Indirect Cost Rate**

The School Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3. Special Education Cooperative**

The School Corporation is a member of a Special Education Cooperative (Cooperative). As a result, some activity for the Special Education Cluster (IDEA) that is presented as federal awards expended in the SEFA is not presented as receipts and disbursements in the financial statement for the School Corporation. This activity is reported on the financial statement of the Cooperative.

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Child Nutrition Cluster	Unmodified
Special Education Cluster (IDEA)	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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**Section II - Financial Statement Findings**

**FINDING 2019-001**

Subject: Financial Transactions  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2017-001.

*Condition and Context*

There was a deficiency in the internal control system of the School Corporation related to financial transactions. The School Corporation had not separated incompatible activities related to receipts. An oversight or review process was not documented to ensure the accuracy and completeness of receipt transactions.

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Criteria*

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

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

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

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

*Cause*

Management of the School Corporation had not established a proper system of internal control.

*Effect*

The failure to establish a system of internal controls could have enabled material misstatements or irregularities to remain undetected.

*Views of Responsible Officials*

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

**FINDING 2019-002**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Noncompliance

*Condition and Context*

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 grant information entered and submitted in the Indiana Gateway for Government Units financial reporting system was the source of the SEFA. An oversight or review process had been implemented; however, the review was not timely and was not effective as evidenced by the errors on the SEFA identified below.

Due to the lack of effective internal controls, the following errors resulted in the overstatement of the total federal awards expended on the SEFA by \$175,580 as of June 30, 2019:

1. The School Breakfast Program expenditures were understated by \$22,524 as of June 30, 2019.

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2. The National School Lunch Program expenditures, including commodities, were overstated by \$170,713 as of June 30, 2019.
3. The Title I Grants to Local Educational Agencies expenditures were overstated by \$27,391 as of June 30, 2019.

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:

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

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

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

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

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

2 CFR 200.508 states in part:

"The auditee must: . . .

- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs."

*Cause*

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 *Condition and Context*.

*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 2019-003**

Subject: Child Nutrition Cluster - Internal Controls  
Federal Agency: Department of Agriculture  
Federal Program: National School Lunch Program  
CFDA Number: 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2017-2018, FY 2018-2019  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity  
Audit Finding: Material Weakness

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition and Context*

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 Special Tests and Provisions - Paid Lunch Equity compliance requirement.

The Treasurer completed the paid lunch equity calculation without an effective oversight or review process to ensure the accuracy of the calculation.

The lack of controls was isolated to fiscal year 2018-2019 paid lunch equity calculation.

*Criteria*

2 CFR section 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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 properly developed a system of internal control to ensure compliance with the paid lunch equity requirements.

*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 requirement. A lack of segregation of duties within an internal control system could also have allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*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 Special Tests and Provisions - Paid Lunch Equity compliance requirement.

*Views of Responsible Officials*

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

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2019-004**

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed,  
Allowable Costs/Cost Principles, 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): FY2017-2018, FY2018-2019  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirements: Activities Allowed or Unallowed, Allowable  
Costs/Cost Principles, Program Income  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2017-002.

*Condition and Context*

An effective internal control system, which would include segregation of duties, 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: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Program Income.

The School Corporation had not designed or implemented adequate internal controls to ensure that payroll disbursements were only for food service operating costs, that the supporting documentation agreed with the payroll disbursements recorded as food service operating costs, and that program income was deducted from allowable costs to determine net allowable costs of the program.

The School Corporation included percentages of administrative and custodian salaries and wages as food service operating costs in the School Lunch fund. This compensation, which was not supported by time cards, totaled \$14,142. Compensation charged to the School Lunch fund for these positions ended as of May 11, 2018. Additionally, trash services were charged to the fund in the amount of \$2,415 without proper supporting documentation.

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

*Criteria*

2 CFR section 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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). . . ."

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(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 sub recipients 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. . . ."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

7 CFR 210.14(a) states in part: ". . . Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. . . ."

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: . . .

- (ii) . . . use all revenues received by such food service only for the operation or improvement of that food service . . .
- (iii) Revenues received by the nonprofit school food service shall not be used to purchase land or buildings or to construct buildings; . . ."

EAST PORTER COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Cause*

Management had not developed a system of internal control 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 enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Program Income compliance requirements.

*Views of Responsible Officials*

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

#### AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the School Corporation. The documents are presented as intended by the School Corporation.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

***FINDING 2017-001 Financial Transactions and Reporting***

Fiscal year in which the finding initially occurred: 07/01/2015 to 06/30/2017

Contact Person Responsible for Corrective Action:

Wendy Kulczyk, Director of Business Affairs and Human Resources

Contact Phone Number: 219-766-2214

Status of Audit Finding: As an internal control, the Director of Business Affairs and Human Resources is reviewing and signing the monthly bank reconciliations prepared by the Deputy Treasurer. The monthly reconciliation includes review of all receipts and accounts payable vouchers to the financial ledgers. Supporting schedules such as the Receipt Audit Report, Summary of Receipts and Expenditures, Schedule of Fund Balances, and the bank statements are included in the file with the monthly bank reconciliation. The documentation and review processes noted above were implemented in September of 2019. For payroll rate changes a report is printed that is reviewed by the Director of Business Affairs and Human resources to verify that any changes in the payroll system were made correctly.

Wendy Kulczyk  
(Signature)

Director of Business Affairs and HR  
(Title)

November 13, 2019  
(Date)



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

***FINDING 2017-002 Allowable Costs/Cost Principles, Program Income***

Federal Grantor Agency: Department of Agriculture

Fiscal year in which the finding initially occurred: 07/01/2015 to 06/30/2017

Contact Person Responsible for Corrective Action:

Wendy Kulczyk, Director of Business Affairs and Human Resources

Contact Phone Number: 219-766-2214

Status of Audit Finding: As an internal control, the school corporation does not charge non–food service related wages and benefits such as administrative or custodial costs to the Child Nutrition Program or Food Service Fund. This process was not implemented until July 2018.

Wendy Kulczyk  
(Signature)

Director of Business Affairs and HR  
(Title)

November 13, 2019  
(Date)



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

***FINDING 2017-003 Nutrition Cluster – Eligibility***

Federal Grantor Agency: Department of Agriculture

Fiscal year in which the finding initially occurred: 07/01/2015 to 06/30/2017

Contact Person Responsible for Corrective Action:

Wendy Kulczyk, Director of Business Affairs and Human Resources

Contact Phone Number: 219-766-2214

Status of Audit Finding: As an internal control, free and reduced applications are calculated by the school elementary principal, verified correct by the school secretary and school treasurer for accuracy. Verification of calculation is documented by the signature from the elementary principal and initial by the school secretary and school treasurer. Additionally, the eligibility benefit recorded in the student software system is printed, reviewed, and signed by the elementary principal and school secretary.

Wendy Kulczyk  
(Signature)

Director of Business Affairs and HR  
(Title)

November 13, 2019  
(Date)



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### ***FINDING 2017-004 Nutrition Cluster – Reporting***

Federal Grantor Agency: Department of Agriculture

Fiscal year in which the finding initially occurred: 07/01/2015 to 06/30/2017

Contact Person Responsible for Corrective Action:

Wendy Kulczyk, Director of Business Affairs and Human Resources

Contact Phone Number: 219-766-2214

Status of Audit Finding: As an internal control, the kitchen managers prepare the daily deposits and sends to the Deputy Treasurer a duplicate deposit ticket and a signed Daily Meal Activity Report. The Deputy Treasurer reviews the deposit and detail report and signs the report. The Food Service Director reviews and signs the monthly summary and detailed meal reports. The Food Service Director keeps a copy of the reports and sends copies of the summary and detailed meal reports to the Director of Business Affairs and Human Resources or the Deputy Treasurer for signature and second review of the summary and detailed meal reports. The Food Service Director submits the claim for reimbursement. The Deputy Treasurer matches the deposit to the claim when the reimbursement is deposited into the bank.

Wendy Kulczyk  
(Signature)

Director of Business Affairs and HR  
(Title)

November 13, 2019  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2019-001 FINANCIAL TRANSACTIONS**

Contact Person Responsible for Corrective Action: Wendy Kulczyk, Director of Business Affairs & HR  
Contact Phone Number: (219) 766-2214

Views of Responsible Official:  
I concur with the finding and it has been corrected.

Description of Corrective Action Plan:

As an internal control, the Director of Business Affairs and Human Resources is reviewing and signing the monthly bank reconciliations prepared by the Deputy Treasurer. The monthly reconciliation includes review of all receipts and accounts payable vouchers to the financial ledgers. Supporting schedules such as the Receipt Audit Report, Summary of Receipts and Expenditures, Schedule of Fund Balances, and the bank statements are included in the file with the monthly bank reconciliation.

Anticipated Completion Date:

The correction was completed with the September 2019 Bank Reconciliation.

Wendy Kulczyk  
\_\_\_\_\_  
(Signature)

Director of Business Affairs & HR  
\_\_\_\_\_  
(Title)

November 25, 2019  
\_\_\_\_\_  
(Date)



CORRECTIVE ACTION PLAN

***FINDING 2019-002 Schedule of Expenditures of Federal Awards***

Contact Person Responsible for Corrective Action: Wendy Kulczyk, Director of Business Affairs & HR  
Contact Phone Number: (219) 766-2214

Views of Responsible Official:  
I concur with the finding and it has been corrected.

Description of Corrective Action Plan:

As an internal control, the Director of Business Affairs and Human Resources has reviewed the State Board of Accounts School Bulletin and Uniform Compliance Guideline Volume 221; Page 7 dated March 2018 describing the method to abstract the correct amount of commodities. The Deputy Treasurer will review and document review of expenditures entered on the Schedule of Expenditures of Federal Awards (SEFA). The review process will prevent and detect errors entered on the SEFA.

Anticipated Completion Date:

The correction of the 2018 SEFA has been completed and documented by the initials of the Deputy Treasurer.

Wendy Kulczyk  
\_\_\_\_\_  
(Signature)

Director of Business Affairs & HR  
\_\_\_\_\_  
(Title)

January 16th, 2020  
\_\_\_\_\_  
(Date)



CORRECTIVE ACTION PLAN

***FINDING 2019-003 Child Nutrition Cluster Internal Controls***

Contact Person Responsible for Corrective Action: Wendy Kulczyk, Director of Business Affairs & HR  
Contact Phone Number: (219) 766-2214

Views of Responsible Official:

I concur with the finding and it will be corrected with the completion of the next paid lunch equity calculation.

Description of Corrective Action Plan:

As an internal control, the Director of Food Service will prepare the paid lunch equity calculation and the Director of Business Affairs and HR will review and initial the calculation.

Anticipated Completion Date:

The correction of the finding will be demonstrated by the calculation by the Food Service Director and the review by the Director of Business Affairs and HR of the next required paid lunch equity tool.

Wendy Kulczyk  
(Signature)

Director of Business Affairs & HR  
(Title)

January 16th, 2020  
(Date)



CORRECTIVE ACTION PLAN

***FINDING 2019-004 Child Nutrition Cluster Activities Allowed or Unallowed***

Contact Person Responsible for Corrective Action: Wendy Kulczyk, Director of Business Affairs & HR  
Contact Phone Number: (219) 766-2214

Views of Responsible Official:

I disagree with the repeat finding as it was corrected in July of 2018. The original finding was not final until the exit conference dated May 24<sup>th</sup>, 2018.

Description of Corrective Action Plan:

The prior Director of Business Affairs and HR noted in her corrective action plan response to the 2017—002 Finding that the action plan implementation date would be June 1, 2018. No nonfood service workers were paid from the Food Service Fund 0800 after July of 2018. The current federal audit period ended June 30, 2019. Therefore, the correction was demonstrated for a year after it was first reported by the State Board of Accounts.

Anticipated Completion Date:

The correction of the finding was demonstrated in July of 2018 through the current payroll dated January 17, 2020. The district has no plans to pay any staff that does not work directly in food service with Food Service Funds.

Wendy Kulczyk  
\_\_\_\_\_  
(Signature)

Director of Business Affairs & HR  
\_\_\_\_\_  
(Title)

January 16th, 2020  
\_\_\_\_\_  
(Date)

## OTHER REPORTS

In addition to this report, other reports may have been issued for the School Corporation. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.