

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

FEDERAL COMPLIANCE AUDIT REPORT
OF
SOUTH SPENCER COUNTY SCHOOL CORPORATION
SPENCER COUNTY, INDIANA
July 1, 2017 to June 30, 2019



FILED
02/18/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melissa S. Davis	07-01-17 to 12-31-19
Superintendent of Schools	Richard Rutherford	07-01-17 to 12-31-19
President of the School Board	Scott Richard Matt Bunner Cevin Collins	07-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19



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 SOUTH SPENCER COUNTY SCHOOL
CORPORATION, SPENCER 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 South Spencer 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 December 18, 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 item 2019-001, that we consider to be a material weakness.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001.

South Spencer County School Corporation's Response to Findings

The School Corporation's response to the finding 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

December 18, 2019, except for our report on the Schedule of Expenditures
of Federal Awards, for which the date is January 28, 2020



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 SOUTH SPENCER COUNTY SCHOOL CORPORATION, SPENCER COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the South Spencer 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 its major federal program for the period of July 1, 2017 to June 30, 2019. The School Corporation's major federal program is 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 the School Corporation's major federal program based on our audit of the types of compliance requirements referred to above. Except as discussed below, 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 the major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

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

Basis for Qualified Opinion on the Child Nutrition Cluster

As described in items 2019-003 and 2019-004 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the School Corporation with the Child Nutrition Cluster regarding Eligibility and Program Income. Consequently, we were unable to determine whether the School Corporation complied with these requirements applicable to the program.

Qualified Opinion on the Child Nutrition Cluster

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on the Child Nutrition Cluster* paragraph 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 the Child Nutrition Cluster for the period of July 1, 2017 to June 30, 2019.

Other 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 2019-002, 2019-003, and 2019-004, that we consider to be material weaknesses.


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

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.

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 December 18, 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 28, 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.

SOUTH SPENCER 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
Department of Agriculture							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553					
School Breakfast Program			FY 17/18	\$ -	\$ 64,864	\$ -	\$ -
School Breakfast Program			FY 18/19	-	-	-	59,732
Total - School Breakfast Program				-	64,864	-	59,732
National School Lunch Program							
School Lunch Program	Indiana Department of Education	10.555					
School Lunch Program			FY 17/18	-	283,450	-	-
School Lunch Program			FY 18/19	-	-	-	266,741
School Lunch Program - Snacks			FY 17/18	-	6,140	-	-
School Lunch Program - Snacks			FY 18/19	-	-	-	6,849
School Lunch Program - Commodities			FY 17/18	-	53,933	-	-
School Lunch Program - Commodities			FY 18/19	-	-	-	51,986
Total - National School Lunch Program				-	343,523	-	325,576
Summer Food Service Program For Children							
Summer Food Program	Indiana Department of Education	10.559					
Summer Food Program			FY 17/18	-	1,257	-	-
Summer Food Program			FY 18/19	-	-	-	5,144
Total - Summer Food Service Program for Children				-	1,257	-	5,144
Total - Child Nutrition Cluster				-	409,644	-	390,452
Total - Department of Agriculture				-	409,644	-	390,452
Department of Education							
Title I Grants to Local Educational Agencies							
Title I Grant	Indiana Department of Education	84.010					
Title I Grant			FY 16/17	-	33,539	-	-
Title I Grant			FY 17/18	-	181,926	-	29,738
Title I Grant			FY 18/19	-	-	-	189,034
Total - Title I Grants to Local Educational Agencies				-	215,465	-	218,772
Special Education Cluster (IDEA)							
Special Education_Grants to States	Indiana Department of Education	84.027					
Special Education_Grants to States			14216009PN01	-	7,408	-	-

SOUTH SPENCER 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
Special Education_Grants to States			14217009PN01	-	174,944	-	2,423
Special Education_Grants to States			18611009PN01	-	124,910	-	156,173
Special Education_Grants to States			19611009PN01	-	-	-	127,163
Total - Special Education_Grants to States				-	307,262	-	285,759
Special Education_Preschool Grants	Indiana Department of Education	84.173					
Special Education_Preschool Grants			18619009PN01	-	2,981	-	9,460
Special Education_Preschool Grants			19619009PN01	-	-	-	7,264
Special Education_Preschool Grants			45717009PN01	-	9,989	-	73
Total - Special Education_Preschool Grants				-	12,970	-	16,797
Total - Special Education Cluster(IDEA)				-	320,232	-	302,556
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
Title II Grant			FY 16/17	-	10,942	-	-
Title II Grant			FY 17/18	-	40,859	-	4,158
Title II Grant			FY 18/19	-	-	-	20,056
Total - Supporting Effective Instruction State Grants				-	51,801	-	24,214
Total - Department of Education				-	587,498	-	545,542
<u>Department of Health and Human Services</u>							
Assistance Programs for Chronic Disease Prevention and Control	Indiana Department of Education	93.945	A70-5-071076				
State Public Health Actions Wellness Grant				-	1,419	-	-
Total - Department of Health and Human Services				-	1,419	-	-
Total federal awards expended				\$ -	\$ 998,561	\$ -	\$ 935,994

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

SOUTH SPENCER 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. Exceptional Children's Cooperative

The School Corporation is a member of the Exceptional Children's Cooperative (Cooperative). The Cooperative operates the special education program for the School Corporation. As a result, some activity for the Special Education Cluster (IDEA) that is presented on the SEFA is not presented as receipts and disbursements in the financial statements of the School Corporation.

SOUTH SPENCER 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 program:	
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 Program and type of auditor's report issued on compliance for it:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Child Nutrition Cluster	Qualified

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: 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 controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation failed to properly review the grant information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the SEFA.

SOUTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were overstated by \$21,844.
2. The Title I Grants to Local Educational Agencies expenditures were understated by \$33,539.
3. The Special Education Cluster (IDEA) expenditures were understated by \$7,264.
4. The Supporting Effective Instruction State Grants expenditures were understated by \$10,942.
5. The Assistance Programs for Chronic Disease Prevention and Control program was omitted, resulting in an understatement of \$1,419.

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. . . ."

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. . . ."

SOUTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 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

The School Corporation's management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA 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.

SOUTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

FINDING 2019-002

Subject: Child Nutrition Cluster - Internal Controls
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 17/18, FY 18/19
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Cash Management, Special Tests and Provisions -
Verification of Free and Reduced Price Applications
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

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 - During fiscal year 2017-2018, an effective internal control system was not in place to ensure that the balance in the School Lunch fund, which represents the net cash resources, did not exceed a three month average of School Lunch fund expenditures.

Special Tests and Provisions - Verification of Free and Reduced Price Applications - Verification Summaries were performed annually by the assistant food service director, and reviewed and approved by the food service director; however, there was no documentation of the review and approval on five of the eight applications that were verified by the School Corporation during 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). . . ."

SOUTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Cause

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

Effect

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

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 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 2019-003

Subject: Child Nutrition Cluster - Eligibility
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 17/18, FY 18/19
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

The School Corporation had not established an effective internal control system related to the grant agreement and the Eligibility compliance requirement.

The School Corporation could not provide the original applications for students who applied for free and reduced meal benefits using a paper application. These students made up 39 of 152, and 33 of 205 total students who had applied for these benefits during fiscal years 2017-2018 and 2018-2019, respectively.

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

SOUTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

The School Corporation's management had not developed a system of internal controls to ensure that documentation was maintained and made available for audit relating to the Eligibility compliance requirement.

Effect

The failure to retain and provide appropriate supporting documentation for audit prevented the determination of the School Corporation's compliance with the Eligibility compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that documentation is maintained and made available for audit relating to the Eligibility compliance requirement.

Views of Responsible Officials

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

SOUTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2019-004

Subject: Child Nutrition Cluster - Program Income
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 17/18, FY 18/19
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Findings: Material Weakness, Modified Opinion

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 Program Income compliance requirement. Controls were not in place to ensure proper reporting of program income.

Program income could not be separately identified for a significant portion of the audit period. During fiscal year 2017-2018, the School Corporation did not separately account for prepaid school lunch fees, nor was program income separately identifiable within the School Lunch fund. The Prepaid School Lunch Accounts fund was established for 2018-2019; however, the School Corporation did not make the first transfer of program income to the School Lunch fund until December 2018.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

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."

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(Continued)

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall enter into a written agreement with the State agency or the Department through the FNSRO, as applicable that may be amended as necessary. . . . Such agreements shall provide that the School Food Authority shall, with respect to participating schools under its jurisdiction: . . .

- (12) Maintain a financial management system as prescribed by the State agency, or FNSRO where applicable; . . ."

7 CFR 225.6(e) states in part:

"*State-Sponsor Agreement.* A sponsor approved for participation in the Program must enter into a permanent written agreement with the State agency. All sponsors must agree in writing to: . . .

- (12) Maintain a financial management system as prescribed by the State agency; . . ."

Cause

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

Effect

The failure to establish an effective internal control system and the failure to separately identify program income during a significant portion of the audit period prevented the determination of the School Corporation's compliance with the Program Income compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to 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.

AUDITEE-PREPARED DOCUMENTS

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



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-001

Fiscal year in which the finding initially occurred: 2015

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Indiana Department of Education

Contact Person Responsible for Corrective Action: Richard Rutherford

Contact Phone Number: 812-649-2591

Status of Audit Finding: Corrected

Effective July 1, 2018 all receipts and disbursements are recorded by the Corporation Treasurer. The Food Service Director provides a recap of all monies received by each school building with a financial and income report. Those are receipted into Komputrol accordingly. The Food Service Director submits all invoices to the Corporation office where the Deputy Treasurer reviews each invoice and generates a payment claim voucher. The payment is processed by the Corporation Treasurer and submitted for approval during the monthly school board meeting. A monthly expenditure report is provided to the Food Service Director to be used for submitting the Annual Financial Report.

The Food Service Director provides supporting documentation for all reimbursable claims submitted; which are reviewed for accuracy by the Corporation Treasurer and kept in a binder with a log listing the dates of review as well as the dates the funds are received.

A spreadsheet showing the monthly fund balance is kept by the Treasurer to provide an ongoing check of the 3 month average. The Food Service Director reviews the final report and signs off on it at that time.

FINDING 2017-002

Fiscal year in which the finding initially occurred: 2015

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Indiana Department of Education

Contact Person Responsible for Corrective Action: Richard Rutherford

Contact Phone Number: 812-649-2591

Status of Audit Finding: Corrected

A shared folder on the Google drive was created in order for the Food Service Director to file the Suspension and Debarment Certificates each school year. Only vendors with a certificate on file are paid.

All Students ~ All the Time



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CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Richard Rutherford
Contact Phone Number: 812-649-2591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Corporation Treasurer will prepare the SEFA and present it to the Deputy Treasurer, along with supporting documentation, to be reviewed for accuracy. The final report will be presented to the Superintendent for approval prior to submitting the final report to the State via Gateway.

Anticipated Completion Date: August 2020

FINDING 2019-002

Contact Person Responsible for Corrective Action: Richard Rutherford
Contact Phone Number: 812-649-2591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The cash management repeat finding from the 2017 audit was corrected during the FY 2018/19 audit period. The Corporation Treasurer provides monthly expenditure and revenue reports to the Food Service director. A fund balance spreadsheet is used to calculate a 3 month average in the School Lunch fund. The spreadsheet is updated monthly by the Corporation Treasurer and reviewed by the Food Service Director annually.

The Food Service Director will annually perform verification summaries. All supporting documentation will then be submitted to the corporation office for review to ensure that the verifications were performed correctly.

Anticipated Completion Date: Immediately

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FINDING 2019-003

Contact Person Responsible for Corrective Action: Richard Rutherford

Contact Phone Number: 812-649-2591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Applications received at the schools for free and reduced meals will be scanned and emailed to the Food Service Director and the Corporation office. A shared folder will be placed on the Google drive to have a secure area for filing the applications.

Anticipated Completion Date: Immediately

FINDING 2019-004

Contact Person Responsible for Corrective Action: Richard Rutherford

Contact Phone Number: 812-649-2591

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Prepaid School Lunch account has been established. The revenue and financial reports from each school are provided by the Food Service Director for review by the Corporation Treasurer. Transfers from the Prepaid School Lunch account to the School Lunch fund will take place at the end of each month. A monthly fund report will be presented to the School Board and Food Service Director.

Anticipated Completion Date: Immediately

All Students ~ All the Time

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/>.