

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

SCHOOL TOWN OF HIGHLAND

LAKE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
02/27/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cynthia Adams	07-01-17 to 06-30-20
Superintendent of Schools	Brian Smith	07-01-17 to 06-30-20
President of the School Board	Robert Kuva Carol Green-Fraleay Patrick Krull Luanne Jurczak	01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19 01-01-20 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 SCHOOL TOWN OF HIGHLAND, LAKE 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 School Town of Highland (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 February 6, 2020, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 significant deficiency.

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

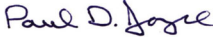
As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School Town of Highland'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

February 6, 2020



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 SCHOOL TOWN OF HIGHLAND, LAKE COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the School Town of Highland'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. 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)

Opinion on the 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 its major federal program for the period of July 1, 2017 to June 30, 2019.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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)

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 February 6, 2020, 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
Paul D. Joyce, CPA
State Examiner

February 6, 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.

SCHOOL TOWN OF HIGHLAND
 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 (17-4720)		84.010	S010A150014	-	65,663	-	-
Title I (18-4720)		84.010	S010A170014	-	268,543	-	-
Title I (19-4720)		84.010	S010A180014	-	-	-	254,869
Title I (18-4720)		84.010	S010A170014	-	-	-	52,570
Total - Title I Grants to Local Educational Agencies				-	334,206	-	307,439
English Language Acquisition State Grants							
Indiana Department of Education							
Title III (16/17-4720)		84.365	01117-055-PN01	-	1,456	-	-
Title III (17/18-4720)		84.365	01118-053-PN01	-	13,460	-	-
Title III (18/19-4720)		84.365	S365A180014	-	-	-	12,477
Total - English Language Acquisition State Grants				-	14,916	-	12,477
Supporting Effective Instruction State Grants							
Indiana Department of Education							
Title II-A (17/18-4720)		84.367	S367A160013	-	48,927	-	-
Title II-A (18/19-4720)		84.367	S367A170013	-	41,335	-	-
Title II-A (18/19-4720)		84.367	S367A180013	-	-	-	47,651
Title II-A (17/18-4720)		84.367	S367A170013	-	-	-	30,143
Title II-A (16/17-4720)		84.367	S367A160013	-	-	-	2,835
Total - Supporting Effective Instruction State Grants				-	90,262	-	80,629
Student Support and Academic Enrichment Program							
Indiana Department of Education							
Title IV Part A (18-4720)		84.424	S424A180015	-	-	-	659
Total - Department of Education				-	1,250,757	-	1,110,062
Total federal awards expended				\$ -	\$ 2,135,955	\$ -	\$ 1,980,810

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

SCHOOL TOWN OF HIGHLAND
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 on 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.

SCHOOL TOWN OF HIGHLAND
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?	no
Significant deficiencies identified?	yes
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	no

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	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: Significant Deficiency

Condition and Context

There was a deficiency in the internal control system of the School Corporation related to financial transactions.

SCHOOL TOWN OF HIGHLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The School Corporation had not designed or implemented proper segregation of duties related to non-grant receipts. One employee issued and recorded receipts without evidence of an oversight or approval process to ensure the accuracy and classification of the non-grant receipts to the proper fund and account.

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 or implemented a proper system of internal controls that segregated key functions.

Effect

The failure to properly establish a system of internal controls over receipts could have enabled 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.

Section III - Federal Award Findings and Questioned Costs

No matters are reportable.

AUDITEE-PREPARED DOCUMENTS

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

SCHOOL TOWN OF HIGHLAND

9145 Kennedy Avenue, Highland, Indiana 46322
(219) 924-7400 FAX (219) 922-5637

Administration

Brian Smith, Superintendent
Sherri Mitchell, Asst Superintendent
Cynthia Adams, CFO

Board of Trustees

Patrick Krull, President
Luanne Jurczak, Vice President
Robert Kuva, Secretary
Carol Green-Fraley, Member
Victor A. Garcia, Member

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-001

Fiscal year in which the finding initially occurred: July 1, 2015 through June 30, 2017
Pass-Through Entity: Indiana Department of Education
Contact Person Responsible for Corrective Action: Cynthia Adams, CFO/Treasurer
Contact Phone Number: (219) 924-7400 x1105

Status of Audit Finding:

The Auditor noted that the district did not have sufficient internal controls in place for completing the Schedule of Expenditures of Federal Awards (SEFA) report. The Treasurer completed the report, but neglected to have another employee review and approve the report prior to submission to the State.

The district changed the internal control procedure to include the requirement that the Deputy Treasurer must review the completed report and make all necessary corrections. The Deputy Treasurer is then required to sign the report indicating her review and oversight.


The procedure became effective immediately following the notification of Finding 2017-001. The results are apparent on the June 30, 2018 SEFA report.



(Signature)



(Title)



(Date)

Very truly yours,

Cynthia Adams
Chief Financial Officer
School Town of Highland

“Educating Today’s Students for Tomorrow’s Challenges”

SCHOOL TOWN OF HIGHLAND

9145 Kennedy Avenue, Highland, Indiana 46322
(219) 924-7400 FAX (219) 922-5637

Administration

Brian J. Smith, Superintendent
Sherri Mitchell, Asst. Supt
Cynthia Adams, CFO

Board of Trustees

Luanne Jurczak, President
Robert Kuva, Vice President
Carol Green-Fraley, Secretary
Victor A. Garcia, Member
Patrick Krull, Member

CORRECTIVE ACTION PLAN

FINDING 2019-001 Financial Transactions- Significant Deficiency

Contact Person Responsible for Corrective Action: **Cynthia Adams**
Contact Phone Number: **219.924.7400 x1105**

Views of Responsible Official:

The Auditor noted that there was a deficiency in the receipt processing internal control procedure. One employee issued and recorded the receipts without proper oversight to ensure the accuracy and classification of the receipt. The administration agrees with this finding and will implement new procedures.

Description of Corrective Action Plan:

The deputy treasurer will continue to enter and post the receipts. She will then produce a system generated report detailing the receipt number, the source, the amount, the description and the account code of each transaction. The corporation treasurer will then verify the accuracy and the completeness of the receipts on the report and will initial the report indicating her review and approval.

Anticipated Completion Date:

This new internal control procedure is effective immediately beginning on February 4, 2020.


(Signature)

(Signature)

Chief Financial Officer
(Title)

February 4, 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/>.