

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

SOUTHEAST FOUNTAIN SCHOOL CORPORATION

FOUNTAIN COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/10/2020

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
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 <i>Government Auditing Standards</i>	3-4
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	5-7
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	10-11
Notes to Schedule of Expenditures of Federal Awards	12
Schedule of Findings and Questioned Costs	13-19
Auditee-Prepared Document:	
Corrective Action Plan	22-23
Other Reports	24

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cynthia Alward	07-01-17 to 12-31-20
Superintendent of Schools	Douglas Allison Dan Foster	07-01-15 to 06-30-19 07-01-19 to 06-30-22
President of the School Board	Jeff Fishero Chadd Yager Donna Deel Jeff Fishero	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 SOUTHEAST FOUNTAIN SCHOOL
CORPORATION, FOUNTAIN 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 Southeast Fountain 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 February 10, 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. 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

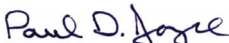
As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Southeast Fountain 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

February 10, 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 SOUTHEAST FOUNTAIN SCHOOL CORPORATION, FOUNTAIN COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Southeast Fountain 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. 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.

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.

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)

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 items 2019-002 and 2019-003. Our opinion on the 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 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.

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 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 10, 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, CPA
State Examiner

February 10, 2020

(This page intentionally left blank.)

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.

SOUTHEAST FOUNTAIN 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	Total Federal Awards Expended 06-30-18	Total Federal Awards Expended 06-30-19
<u>Department of Agriculture</u>					
Child Nutrition Cluster					
School Breakfast Program	Indiana Department of Education	10.553			
Child Nutrition Cluster			FY 18-19	\$ -	\$ 102,873
Child Nutrition Cluster			FY 17-18	86,190	-
Total - School Breakfast Program				86,190	102,873
National School Lunch Program	Indiana Department of Education	10.555			
Child Nutrition Cluster			FY 17-18	257,126	-
Child Nutrition Cluster			FY 18-19	-	283,636
Commodities				50,063	46,403
Total - National School Lunch Program				307,189	330,039
Summer Food Service Program for Children	Indiana Department of Education	10.559			
Child Nutrition Cluster			FY 18-19	6,942	2,830
Total - Child Nutrition Cluster				400,321	435,742
Total - Department of Agriculture				400,321	435,742
<u>Department of Education</u>					
Special Education Cluster (IDEA)					
Special Education Grants to States	Indiana Department of Education	84.027			
2016-17 Spec Ed 611 Part B			14217-070-PN01	48,656	-
2017-18 Spec Ed 611 Part B			18611-070-PN01	195,107	-
2017-18 Spec Ed 611 Part B			18611-070-PN01	-	55,650
2018-19 Spec Ed 611 Part B			19611-070-PN01	-	205,079
Total - Special Education Grants to States				243,763	260,729
Special Education Preschool Grants	Indiana Department of Education	84.173			
2017-18 Spec Ed Preschool			18619-070-PN01	12,440	-
2018-19 Spec Ed Preschool			19619-070-PN01	-	12,621
Total - Special Education Preschool Grants				12,440	12,621
Total - Special Education Cluster (IDEA)				256,203	273,350

SOUTHEAST FOUNTAIN 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	Total Federal Awards Expended 06-30-18	Total Federal Awards Expended 06-30-19
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010			
2016-17 Title I Grant			S010A150014	52,491	-
2017-18 Title I Grant			S010A170014	168,712	-
2017-18 Title I Grant			S010A170014	-	56,208
2018-19 Title I Grant			S010A180014	-	178,566
				<u>221,203</u>	<u>234,774</u>
Total - Title I Grants to Local Educational Agencies					
Rural Education	Indiana Department of Education	84.358			
2016-18 Rural & Low Income Schools			S358B0160014	25,436	-
2017-19 Rural & Low Income Schools			S358B170014	5,985	-
2017-19 Rural & Low Income Schools			S358B170014	-	14,327
				<u>31,421</u>	<u>14,327</u>
Total - Rural Education					
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367			
2015-17 Title II Part A			S367A150015	12,184	-
2016-18 Title II Part A			S367A160013	37,274	13,224
2017-19 Title II Part A			S367A170013	-	32,976
				<u>49,458</u>	<u>46,200</u>
Total - Supporting Effective Instruction State Grants					
Student Support and Academic Enrichment Program	Indiana Department of Education	84.424			
2018-20 Title IV A			S424A180015	-	7,092
				<u>558,285</u>	<u>575,743</u>
Total - Department of Education					
Total federal awards expended				<u>\$ 958,606</u>	<u>\$ 1,011,485</u>

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

SOUTHEAST FOUNTAIN 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.

SOUTHEAST FOUNTAIN 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?	no

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	Unmodified

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

Auditee qualified as low-risk auditee?	no
--	----

Section II - Financial Statement Findings

FINDING 2019-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

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) for fiscal year 2018-2019.

The School Corporation had not established an effective system of internal control over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer prepared the federal award information entered into Gateway without a control in place to prevent, or detect and correct, errors prior to submission for 2018-2019.

SOUTHEAST FOUNTAIN 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. . . .

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

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

Cause

Management 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 operates effectively, material misstatements of the SEFA could 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

FINDING 2019-002

Subject: Child Nutrition Cluster - Procurement
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: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

SOUTHEAST FOUNTAIN 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 Procurement and Suspension and Debarment compliance requirement.

The School Corporation had not established proper procurement methods prior to purchasing goods. The School Corporation purchased goods under the small purchase and micro purchase threshold for both years of the audit period without the appropriate procurement procedures.

Small Purchases

The School Corporation did not obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures. Additionally, the School Corporation did not document the rationale for the method of procurement, especially when a noncompetitive proposal method was used.

Micro-Purchase

The School Corporation did not have procedures in place to ensure that micro-purchases were distributed equitably among qualified suppliers for purchases less than \$3,500.

The lack of controls and noncompliance was a systemic issue, which occurred throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over 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). . . ."

2 CFR 200.320 states in part:

"The non-Federal Entity must use one of the following methods of procurement.

- (a) Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

SOUTHEAST FOUNTAIN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. . . ."

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement. Noncompliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls and comply with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

FINDING 2019-003

Subject: Child Nutrition Cluster - Program Income

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 17-18, FY 18-19

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Other Matters

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.

The School Corporation had not designed or implemented adequate controls to ensure program income was correctly recorded. The report the Treasurer used to review daily activity did not include cash sales for the day; therefore, only prepaid funds were being posted. The transfer was not being made to the appropriate revenue classifications (1611 to 1614 series) in the School Lunch fund. The only revenue classification used was 1611.

SOUTHEAST FOUNTAIN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The School Corporation had not designed or implemented adequate controls to ensure that program income was properly charged. Adults who charged meals to their child's prepaid accounts were incorrectly charged the student lunch price, rather than the adult lunch price established by the School Board.

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over 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). . . ."

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."

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; . . ."

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while money is in the student's individual account, the balance should not be included in Fund 800 School Lunch. A school should set up a clearing account with the fund number of 8400 Prepaid School Lunch Accounts, which is included in Chapter 4 of the State Board of Accounts Uniform Compliance Guidelines for Indiana Public School Corporations. When a student brings in a deposit the receipt should be recorded to fund 8400 using receipt account 1630 Special Functions. After the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 Other Food Services and receipt this into fund 800 using the Food Services receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting. At this point the receipts are considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis it is required that the balance of the 8400 fund be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

SOUTHEAST FOUNTAIN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR 200.302(b)(3) states:

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

Cause

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

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance and comply with the Program Income compliance requirement.

Views of Responsible Officials

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

FINDING 2019-004

Subject: Child Nutrition Cluster - Eligibility

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: Eligibility

Audit Finding: Material Weakness

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 Eligibility compliance requirement.

The IT Director updated the income guidelines in the computer system, which makes the determination for free and reduced lunch applications, without a review or oversight process to ensure its accuracy.

The lack of controls was a systemic issue throughout the audit period.

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

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the Eligibility compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with the compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish and maintain a system of internal controls to ensure compliance with the grant agreement and 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.

(This page intentionally left blank.)

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the School Corporation. The document is presented as intended by the School Corporation.

Southwest Fountain School Corporation

744 East U.S. Hwy. 136
Deedersburg, Indiana 47987

Mr. Dan L. Foster
Superintendent

Ph: 765-294-2254
Fax: 765-294-3200

SOUTHWEST FOUNTAIN SCHOOL CORPORATION CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Cynthia C. Alward, Treasurer
Contact Phone Number: 765-294-2254

Views of Responsible Officer:

We concur with the following finding and intend to make the following corrective action.

Description of Corrective Action Plan:

- Control – We intend to use a sign off sheet to be verified by a second person that all data is completed and correct.
- Plan – The SEFA report will be presented to a second person to verify the data and sign off on the report.

Anticipated Completion Date: Immediately

FINDING 2019-002

Contact Person Responsible for Corrective Action: Cynthia C. Alward, Treasurer & Jennifer Rice, Food Service Director
Contact Phone Number: 765-294-2254

Views of Responsible Officer:

We concur with the following finding and intend to make the following corrective action.

Description of Corrective Action Plan:

- Control – The food service director will verify that all small and micro purchases are being followed by using the DOE's procurement information sheet and micro purchase checklist.
- Plan – Continued training on proper procedures for procurement processes.

Anticipated Completion Date: Immediately

FINDING 2019-003

Contact Person Responsible for Corrective Action: Cynthia C. Alward, Treasurer
Contact Phone Number: 765-294-2254

Views of Responsible Officer:

We concur with the following finding and intend to make the following corrective action.

Description of Corrective Action Plan:

- Control – The treasurer will use a different POS report to ensure program income is correctly recorded and will be verified by a second source.
- Plan – The treasurer will use the POS Monthly Financial Report to properly break out the revenue classifications.

Anticipated Completion Date: Immediately

FINDING 2019-004

Contact Person Responsible for Corrective Action: Cynthia C. Alward, Treasurer, Eric Cunningham, IT Director and Brianna Alexander, Director of Financial Assistance

Views of Responsible Officer:

We concur with the following finding and intend to make the following corrective action.

Description of Corrective Action Plan:

- Control – Once the IT director updates the income guidelines for Free/Reduced Lunch applications for the current school year, the Director of Financial Assistance will double check that the current guidelines are correct for the current school year.
- Plan – The IT director and the Director of Financial Assistance will sign the Income Eligibility Guidelines sheet to insure the income guidelines are correct in the POS System.

Anticipated Completion Date: Immediately

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/>.