

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

PAOLI COMMUNITY SCHOOL CORPORATION

ORANGE COUNTY, INDIANA

July 1, 2017 to June 30, 2019



FILED
03/19/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Julie Osborn (Vacant) Courtney Brown	07-01-17 to 09-01-17 09-02-17 to 09-17-17 09-18-17 to 06-30-20
Superintendent of Schools	Casey Brewster (Vacant) Gerald Jackson (interim) Greg Walker	07-01-17 to 07-10-17 07-11-17 to 07-16-17 07-17-17 to 09-30-18 10-01-18 to 09-30-21
President of the School Board	Lila Tucker	07-01-17 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 PAOLI COMMUNITY SCHOOL
CORPORATION, ORANGE 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 Paoli Community 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 January 21, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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
Paul D. Joyce, CPA
State Examiner

January 21, 2020



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ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE PAOLI COMMUNITY SCHOOL CORPORATION, ORANGE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

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 2019-001 and 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001, 2019-002, and 2019-003, that we consider to be material weaknesses.

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

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 January 21, 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

January 21, 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.

PAOLI COMMUNITY 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
<u>Department of Agriculture</u>							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553					
School Nutrition			FY2019	\$ -	\$ -	\$ -	\$ 115,205
School Nutrition			FY2018	-	109,206	-	-
Total - School Breakfast Program				-	109,206	-	115,205
National School Lunch Program							
School Nutrition	Indiana Department of Education	10.555	FY2019	-	-	-	297,491
School Nutrition			FY2018	-	302,069	-	-
Commodities			FY18, FY19	-	47,610	-	68,700
Total - National School Lunch Program				-	349,679	-	366,191
Summer Food Service Program for Children							
School Nutrition	Indiana Department of Education	10.559	FY2018	-	13,267	-	-
Total - Child Nutrition Cluster				-	472,152	-	481,396
Child Nutrition Discretionary Grants Limited Availability							
Equipment Grant	Indiana Department of Education	10.579	700 A58-7-17SS-4662	-	13,831	-	-
Total - Department of Agriculture				-	485,983	-	481,396
<u>Department of Education</u>							
Special Education Cluster (IDEA)							
Special Education Grants to States							
Federal Part B 611	Indiana Department of Education	84.027	14216-054-PN01	-	210	-	-
Federal Part B 611			14217-054-PN01	-	137,537	-	142
Federal Part B 611			18611-054-PN01	-	182,990	-	163,632
Federal Part B 611			19611-054-PN01	-	-	-	178,032
Total - Special Education Grants to States				-	320,737	-	341,806
Special Education Preschool Grants							
Federal Preschool 619	Indiana Department of Education	84.173	45716-054-PN01	-	551	-	-
Federal Preschool 619			45717-054-PN01	-	7,655	-	1,418
Federal Preschool 619			18619-054-PN01	-	13,196	-	6,805
Federal Preschool 619			19619-054-PN01	-	-	-	13,101
Total - Special Education Preschool Grants				-	21,402	-	21,324
Total - Special Education Cluster (IDEA)				-	342,139	-	363,130

PAOLI COMMUNITY SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2018 and 2019

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-18	Total Federal Awards Expended 06-30-18	Passed Through to Subrecipient 06-30-19	Total Federal Awards Expended 06-30-19
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010					
Title I 16/17			17-6155	-	102,416	-	-
Title I 17/18			S010A150014	-	264,176	-	99,417
Title I 18/19			S010A180014	-	-	-	242,190
Total - Title I Grants to Local Educational Agencies				-	366,592	-	341,607
Rural Education	Indiana Department of Education	84.358					
Rural and Low Income Schools			FY16-17	-	16,339	-	-
Rural and Low Income Schools			S358B170014	-	16,580	-	10,788
Rural and Low Income Schools			S424A180015	-	-	-	19,189
Total - Rural Education				-	32,919	-	29,977
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
Title II Part A			16-6155	-	69,704	-	-
Title II Part A FY17			S367A170013	-	21,627	-	34,089
Title II Part A FY18			S367A180013	-	-	-	22,492
Total - Supporting Effective Instruction State Grants				-	91,331	-	56,581
Student Support and Academic Enrichment Program	Indiana Department of Education	84.424					
Title IV Part A 17/18			S424A170015	-	17,017	-	15,980
Title IV Part A 18/19			S424A180015	-	-	-	7,998
Total - Student Support and Academic Enrichment Program				-	17,017	-	23,978
Total - Department of Education				-	849,998	-	815,273
Total federal awards expended				\$ -	\$ 1,335,981	\$ -	\$ 1,296,669

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

PAOLI COMMUNITY 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 the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (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.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 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 the South Central Area Special Education 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 statement of the School Corporation. This activity is reported on the financial statement of the Cooperative.

PAOLI COMMUNITY 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?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

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

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

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

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

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

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

FINDING 2019-001

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
 Federal Agency: Department of Agriculture
 Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
 CFDA Numbers: 10.553, 10.555, 10.559
 Federal Award Numbers and Years (or Other Identifying Numbers): FY2018, FY2019
 Pass-Through Entity: Indiana Department of Education
 Compliance Requirement: Procurement and Suspension and Debarment
 Audit Findings: Material Weakness, Other Matters

PAOLI COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

Service Center

The School Corporation is a member of the Wilson Education Center (Service Center). During the fiscal years 2017-2018 and 2018-2019, the Service Center solicited, evaluated, and awarded bids for bread, milk, and other products on behalf of its members. There was inadequate oversight performed by the School Corporation of the procurement and suspension and debarment procedures of the Service Center.

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.

Procurement

The bids for bread and milk were originally awarded for 2016-2017, and each contract included a clause stating that the contract could be extended for three additional 12-month periods by mutual written agreement. The Service Center could not provide documentation of the mutually agreed-upon contracts for the extensions of the bread bid for 2017-2018 or 2018-2019. The Service Center also could not provide documentation of the mutually agreed-upon contract for the extension of the milk bid for 2018-2019.

Suspension and Debarment

The bids for bread and milk were originally awarded for 2016-2017, and each contract included a clause stating that the contract could be extended for three additional 12-month periods by mutual written agreement, along with a clause noting that the vendor was not suspended or debarred. The Service Center could not provide documentation of the mutually agreed-upon contracts for the extensions of the bread bid for 2017-2018 or 2018-2019. The Service Center also could not provide documentation of the mutually agreed-upon contract for the extension of the milk bid for 2018-2019. Therefore, the Service Center did not provide documentation that procedures were performed to verify the vendors were not suspended or debarred prior to entering into covered transactions with these vendors.

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

School Corporation

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.

Procurement

The School Corporation utilized two vendors, who were not part of the Service Center, for which the total purchases for 2017-2018 and 2018-2019 were within the small purchase threshold (\$3,500-\$150,000) and the School Corporation did not obtain quotes or maintain documentation for the rationale of selecting each vendor for food purchases.

PAOLI COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 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 200.318(i) states:

"The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

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. . . ."

2 CFR 180.300 states:

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

You do this by:

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

Cause

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

PAOLI COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2019-002

Subject: Special Education Cluster (IDEA) - Internal Controls

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14216-054-PN01, 14217-054-PN01,
18611-054-PN01, 18619-054-PN01,
45716-054-PN01, 45717-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

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 Matching, Level of Effort, Earmarking compliance requirement.

One employee prepared the maintenance of effort calculation without an internal control system to verify the calculation for accuracy. There was no documentation or other evidence of an oversight, review, or approval process to ensure that the School Corporation was in compliance with the level of effort requirements of the grant.

The lack of internal controls was isolated to fiscal year 2017-2018.

PAOLI COMMUNITY 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). . . ."

Cause

Management of the School Corporation had not developed a system of internal controls that segregated key functions.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with the grant agreement and the compliance requirement identified 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: Special Education Cluster (IDEA) - Procurement and Suspension and Debarment

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14216-054-PN01, 14217-054-PN01,
18611-054-PN01, 19611-054-PN01,
18619-054-PN01, 19619-054-PN01,
45716-054-PN01, 45717-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Matter Weakness, Other Matters

PAOLI COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Repeat Finding

A similar finding also appeared in the immediately prior audit report. The prior audit finding number was 2017-005.

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 is a member of the South Central Area Special Education Cooperative (Cooperative). During the fiscal years 2017-2018 and 2018-2019, the Cooperative spent the federal money on behalf of all its members and there was inadequate oversight performed by the School Corporation of the procurement and suspension and debarment practices of the Cooperative.

Procurement

The Cooperative did not obtain price or rate quotations from an adequate number of qualified sources, and full and open competition was not provided for purchases that fell within the small purchases requirement. Documentation was not provided to show that consideration was given to the reasonableness of prices of purchases made, and full and open competition was not provided for purchases that fell within the micro-purchases requirement.

The Cooperative had a written procurement policy; however, it did not reflect the required state and federal laws and regulations.

The Cooperative did not maintain written standards of conduct covering conflicts of interest concerning employees engaged in the selection, award, and administration of contracts supported by federal awards.

Suspension and Debarment

The Cooperative's Director signed the Application and Assurance Plan as a condition of federal assistance, which stated that the Cooperative would verify that contractors were not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded by any federal agency, or by any department, agency or political subdivision of the State of Indiana. However, the School Corporation did not have procedures in place to monitor that the Cooperative verified that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a covered transaction with them.

The lack of supporting documentation within small purchases requirement of price or rate quotations were systemic issues throughout the audit period.

The lack of an adequate written procurement policy, and lack of a written conflict of interest policy were pervasive throughout the audit period.

PAOLI COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

There were five contracts during 2017-2018 and two contracts during 2018-2019 that exceeded \$25,000; however, the Cooperative could not provide documentation to show that a verification was performed in order to verify that the vendor was not suspended or debarred prior to entering into covered transactions with these vendors.

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 200.318 states in part:

"(a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part. . . ."

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. . . ."

2 CFR 200.318(c)(1) states in part: "The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. . . ."

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.

PAOLI COMMUNITY 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. . . ."

2 CFR 180.300 states:

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

You do this by:

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

Cause

The School Corporation's had not designed or implemented an effective internal control system for the compliance requirement listed above.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

PAOLI COMMUNITY SCHOOL CORPORATION
OFFICE OF THE SUPERINTENDENT

GREG WALKER
SUPERINTENDENT OF SCHOOLS

501 ELM STREET OFC SUPT
PAOLI, INDIANA 47454-1197
TELEPHONE: (812) 723-4717
FAX: (812) 723-5100

COURTNEY BROWN
TREASURER

LISA MUTH
SECRETARY

CINDY EUBANK
DEPUTY TREASURER

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-001

Fiscal year in which the finding initially occurred: July 1, 2015-June 30, 2017
Contact Person Responsible for Corrective Action: Courtney Brown, Corporation Treasurer
Contact Phone Number: (812) 723-4717

Status of Audit Finding: Corrected August 2018.

- The Superintendent's secretary now reviews the information entered into the SEFA report by the treasurer and confirms the information and amounts are accurate.

Courtney Brown

Signature

Corporation Treasurer

Title

01/09/2020

Date

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-002

Fiscal year in which the finding initially occurred: July 1, 2015-June 30, 2017

Contact Person Responsible for Corrective Action: Courtney Brown, Corporation Treasurer and Lisa Muth, Centralized School Lunch Treasurer

Contact Phone Number: (812) 723-4717

Status of Audit Finding: Corporation Actions corrected May 2017.

School Lunch Actions corrected July 2017.

- The Treasurer has the Superintendent's Secretary review receipts against receipt edit and verify they match deposits. The Secretary will then sign and date the receipt edit as acknowledgement of review and accuracy.
- The High School Office Secretary issues receipts for amounts collected for the lunch account and the Centralized School Lunch Treasurer verifies the amount received matches the receipts. The Centralized School Lunch Treasurer will the make the deposit.

Courtney Brown

Signature

Corporation Treasurer

Title

01/09/2020

Date

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-003

Fiscal year in which the finding initially occurred: July 1, 2015-June 30, 2017

Contact Person Responsible for Corrective Action: Courtney Brown, Corporation Treasurer and Lisa Muth, Centralized School Lunch Treasurer

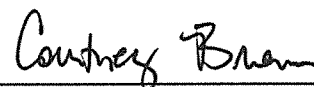
Contact Phone Number: (812) 723-4717

Status of Audit Finding: Eligibility corrected January 2017.

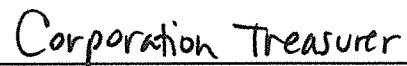
Reporting and Verification Procedures corrected October 2018.

Paid Lunch Equity corrected April 2019.

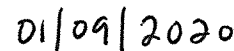
- The High School ECA secretary processes free and reduced applications and the HS Assistant Principal reviews all applications and verifies information and eligibility are correct by signing all applications.
- The Corporation Treasurer prepares the Annual Financial Report and Monthly Sponsor Claims. The Centralized School Lunch Treasurer reviews and approves both the Annual Financial Report and Monthly Sponsor Claims for accuracy.
- The Elementary Principal prepares the SFA Verification Collection Reports and the Centralized School Lunch Treasurer reviews and approves the report for accuracy.
- The Corporation Treasurer prepares the Paid Lunch Equity Tool and the Centralized School Lunch Treasurer reviews the tool for accuracy and approves it.



Signature



Title



Date

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-004

Fiscal year in which the finding initially occurred: July 1, 2015-June 30, 2017

Contact Person Responsible for Corrective Action: Courtney Brown, Corporation Treasurer and
Cindy Eubank, Deputy Treasurer

Contact Phone Number: (812) 723-4717

Status of Audit Finding: Corrected July 2017.

- The Deputy Treasurer prepares the Semi-Annual Certification and it is reviewed and verified by the Corporation Treasurer.
- The Deputy Treasurer receives a time sheet each pay period indicating what corporation they worked at by each of the Special Education Shared employees.

Courtney Brown

Signature

Corporation Treasurer

Title

01/09/2020

Date

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-005

Fiscal year in which the finding initially occurred: July 1, 2015-June 30, 2017

Contact Person Responsible for Corrective Action: Special Education Director, Janice Oakley and Superintendent, Greg Walker

Contact Phone Number: (812) 723-4717

Status of Audit Finding:

- The Special Education Cooperative is in the process of implementing changes to ensure the Cooperative complies with all federal and state laws for all vendors with whom the Cooperative has contracts with exceeding \$25,000 to confirm they are not suspended, debarred or otherwise excluded from or ineligible to participate in federal assistance programs by searching the website System of Awards Manager Center (www.sam.gov).

Courtney Brown

Signature

Corporation Treasurer

Title

01/09/2020

Date

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2017-006

Fiscal year in which the finding initially occurred: July 1, 2015-June 30, 2017

Contact Person Responsible for Corrective Action: Courtney Brown, Corporation Treasurer

Contact Phone Number: (812) 723-4717

Status of Audit Finding: Corrected August 2018.

- The Special Education Cooperative Treasurer sends the Corporation Treasurer acknowledgement from the IDOE stating the final report was submitted. The Special Education Cooperative Treasurer also includes documentation with the Cooperative Director's signature.

Courtney Brown

Signature

Corporation Treasurer

Title

01/09/2020

Date

PAOLI COMMUNITY SCHOOL CORPORATION

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CORRECTIVE ACTION PLAN

FINDING 2019-001

Contact Person Responsible for Corrective Action: Lisa Muth, Centralized School Lunch Treasurer; Donna Wilder, High School Head Cook; Michele Lynd, Elementary Head Cook
Contact Phone Number: 812-723-4717

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

- The Centralized School Lunch Treasurer has developed new procedures in regards to internal controls of the Procurement and Suspension and Debarment of the School Lunch Fund.
- The Centralized School Lunch Treasurer will get all bids for approved vendors from IAESC Procurement and give copies to each head cook at the beginning of the school year.
- The head cook of each building will check invoices/receipts to make sure correct cost was charged and sign approving invoices/receipts are accurate before giving to Centralized School Lunch Treasurer to process payment.

Anticipated Completion Date: August, 2020

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CORRECTIVE ACTION PLAN

FINDING 2019-002

Contact Person Responsible for Corrective Action: Courtney Brown, Corporation Treasurer; Cindy Eubank, Deputy Treasurer
Contact Phone Number: 812-723-4717

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

- The Corporation Treasurer will prepare the maintenance of effort calculations and the Deputy Treasurer will review and sign document verifying it is accurate before the Corporation Treasurer submits it to the Special Education Cooperative Treasurer.

Anticipated Completion Date: February, 2020

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CORRECTIVE ACTION PLAN

FINDING 2019-003

Contact Person Responsible for Corrective Action: Janice Oakley, Special Education Director; Greg Walker, Superintendent

Contact Phone Number: 812-723-4717

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

- The South Central Area Special Education Cooperative Treasurer will ensure that all vendors are not presently suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs. The Special Education Board of Trustees will ensure that all documentation required for vendors is on file at the South Central Area Special Education Cooperative office. As a member of the Cooperative board, the Superintendent will have oversight on the procurement practices of the Cooperative.

Anticipated Completion Date: February, 2020

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/>.