

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION

LAGRANGE COUNTY, INDIANA

July 1, 2018 to June 30, 2020



FILED

03/31/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Karen S. Eagleson Christine Orr	01-01-18 to 06-30-20 07-01-20 to 12-31-21
Superintendent of Schools	Jeff Reed	07-01-18 to 06-30-21
President of the School Board	Robert Ledgerwood Brook German	01-01-18 to 12-31-20 01-01-21 to 12-31-21



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 PRAIRIE HEIGHTS COMMUNITY SCHOOL
CORPORATION, LAGRANGE 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 Prairie Heights Community School Corporation (School Corporation), for the period of July 1, 2018 to June 30, 2020, and the related notes to the financial statement, which collectively comprise the School Corporation's financial statement and have issued our report thereon dated March 17, 2021, 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 2020-001, that we consider to be material weaknesses.

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001.

Prairie Heights Community 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

March 17, 2021



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

TO: THE OFFICIALS OF THE PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION, LAGRANGE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Prairie Heights 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, 2018 to June 30, 2020. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of July 1, 2018 to June 30, 2020.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-003. 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 2020-002 and 2020-003, that we consider to be material weaknesses.

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

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

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

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

We have audited the financial statement of the School Corporation, as of and for the period of July 1, 2018 to June 30, 2020, and the related notes to the financial statement. We issued our report thereon dated March 17, 2021, 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

March 17, 2021

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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.

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2019 and 2020

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 06-30-19	Total Federal Awards Expended 06-30-19	Passed through to Subrecipient 06-30-20	Total Federal Awards Expended 06-30-20
<u>Department of Agriculture</u>							
Child Nutrition Cluster							
School Breakfast Program							
	Indiana Department of Education	10.553	FY 2018-2019	\$ -	\$ 40,919	\$ -	\$ -
			FY 2019-2020	-	-	-	35,062
				-	-	-	-
	Indiana Department of Education	10.553	FY 2019-2020	-	-	-	24,027
				-	-	-	-
				-	40,919	-	59,089
				-	-	-	-
National School Lunch Program							
	Indiana Department of Education	10.555	FY 2018-2019	-	281,816	-	-
			FY 2019-2020	-	-	-	225,481
			FY 2018-2019	-	55,822	-	-
			FY 2019-2020	-	-	-	40,000
				-	-	-	-
				-	337,638	-	265,481
				-	-	-	-
	Indiana Department of Education	10.555	FY 2019-2020	-	-	-	53,218
				-	-	-	-
				-	337,638	-	318,699
				-	-	-	-
				-	378,557	-	377,788
				-	-	-	-
				-	378,557	-	377,788
				-	-	-	-
<u>Department of Education</u>							
Special Education Cluster (IDEA)							
	Indiana Department of Education	84.027	18611-044-PN01	-	40,538	-	-
			20611-042-PN01	-	-	-	283,063
			19611-044-PN01	-	252,324	-	60,472
				-	-	-	-
				-	292,862	-	343,535

PRAIRIE HEIGHTS COMMUNITY SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2019 and 2020

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 06-30-19	Total Federal Awards Expended 06-30-19	Passed through to Subrecipient 06-30-20	Total Federal Awards Expended 06-30-20
Special Education Preschool Grants	Indiana Department of Education	84.173					
			19619-044-PN01	-	7,224	-	-
			20619-042-PN01	-	-	-	7,502
Total - Special Education Preschool Grants				-	7,224	-	7,502
Total - Special Education Cluster (IDEA)				-	300,086	-	351,037
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010					
			S010A170014	-	49,609	-	-
			S010A180014	-	190,191	-	57,621
			S010A190014	-	-	-	90,051
Total - Title I Grants to Local Educational Agencies				-	239,800	-	147,672
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
			S367A180013	-	45,661	-	-
			S367A190013	-	-	-	45,986
Total - Supporting Effective Instruction State Grants				-	45,661	-	45,986
Student Support and Academic Enrichment Program	Indiana Department of Education	84.424					
			S424A180015	-	-	-	20,498
			S424A190015	-	-	-	7,450
Total - Student Support and Academic Enrichment Program				-	-	-	27,948
Total - Department of Education				-	585,547	-	572,643
Total federal awards expended				\$ -	\$ 964,104	\$ -	\$ 950,431

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

PRAIRIE HEIGHTS 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, 2019 and 2020. 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 the Northeast Indiana Special Education Cooperative (Cooperative), which operates the special education programs 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 for the School Corporation. This activity is reported on the financial statement of the Cooperative.

PRAIRIE HEIGHTS 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?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

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

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

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Child Nutrition Cluster	Unmodified
Special Education Cluster (IDEA)	Unmodified
Dollar threshold used to distinguish between Type A and Type B programs: \$750,000	
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

FINDING 2020-001

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

Condition and Context

The School Corporation had not established internal controls over the federal award information entered in the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the School Corporation's Schedule of Expenditures of Federal Awards (SEFA). The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the SEFA.

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

Due to the lack of internal controls, the SEFA presented for audit included the following errors:

1. The Child Nutrition Cluster expenditures were understated by \$155,260.
2. The Title I Grants to Local Educational Agencies grant expenditures were understated by \$57,621 for fiscal year 2019-2020.
3. Other errors included incorrect program names and identifying numbers.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

Criteria

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

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

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 200.62 states in part:

"Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- (a) Transactions are properly recorded and accounted for, in order to:
 - (1) Permit the preparation of reliable financial statements . . ."

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

2 CFR 200.508 states in part:

"The auditee must: . . .

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

2 CFR 200.510(b) states:

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

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

Cause

Management had not established a system of internal controls that would have ensured proper reporting of the SEFA.

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

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA included the errors identified in the *Condition and Context*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2020-002

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, COVID-19 School Breakfast Program, National School Lunch Program, COVID-19 National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2018-2019, FY 2019-2020

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NLSP), Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Condition and Context

An effective internal control system was not in place at the School Corporation to ensure compliance with the grant agreement and the Cash Management, Eligibility, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NLSP), and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Cash Management

The School Corporation had not developed procedures whereby the School Lunch fund balance was monitored to ensure that the net cash resources in the fund did not exceed three months average expenditures.

Eligibility

The Food Service Director entered application data into the School Corporation's computerized system for paper applications without oversight or review of the information entered or the accuracy of the eligibility determinations made. There was no evidence of an oversight, review, or approval process that ensured that the eligibility determinations of the applications submitted online were correct. In addition, there was no evidence of an oversight, review, or approval process of the Direct Certification listings or that they were correct and properly included in the computer system.

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

Special Tests and Provisions - Verification of Free and Reduced Price Applications (NLSP)

The Food Service Director prepared the Verification of Free and Reduced Price Applications (NLSP) report for fiscal year 2019-2020 and was also responsible for verification of the applications. There was no oversight, review, or approval process to ensure that the verification process was accurate and complete.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program and COVID-19 National School Lunch Programs only)

The Paid Lunch Equity calculations were prepared by the Food Service Director without a system of oversight or review.

The lack of internal controls for Cash Management and the Special Tests and Provisions - Paid Lunch Equity was a systemic issue throughout the audit period. The lack of internal controls for Eligibility and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NLSP) were isolated to 2019-2020.

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 had not developed a system of internal controls to ensure compliance with the compliance requirements listed above.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish internal controls related to the grant agreement and the Cash Management, Eligibility, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NLSP), and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

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

Views of Responsible Officials

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

FINDING 2020-003

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles, Program Income,
Special Tests and Provisions - School Food Accounts

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, COVID-19 School Breakfast Program, National School
Lunch Program, COVID-19 National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2018-2019, FY 2019-2020

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Allowable Costs/Cost Principles, Program Income, Special
Tests and Provisions - School Food Accounts

Audit Findings: Material Weakness, Other Matters

Condition and Context

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts compliance requirements.

Based upon the payroll operating costs tested, the School Corporation did not maintain proper time and effort documentation for some employees paid from the School Lunch fund. The amounts paid to these employees were based on a budgeted amount rather than actual time spent. This compensation related to food service operations, which was not supported by time records, totaled \$27,360. These undocumented expenditures were considered questioned costs.

The lack of internal 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). . . ."

2 CFR 200.403 states in part:

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

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(Continued)

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

2 CFR 200.430(i) states in part:

"Standards for documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

7 CFR 220.7(e) states in part:

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

- (1)
 - (i) Maintain a nonprofit school food service; . . .
 - (ii) In accordance with the financial management system established under § 220.13(i) of this part, use all revenues received by such food service only for the operation or improvement of that food service *Except that*, facilities, equipment, and personnel support with funds provided to a school food authority under this part may be used to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 et seq.); . . ."

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(Continued)

7 CFR 210.14(a) states:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under § 210.19(a) of this part. School food authorities may use facilities, equipment, and personnel supported with nonprofit school food revenues to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 et seq.)."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the grant agreement and the compliance requirements listed above.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements listed above could have resulted in the loss of funds to the School Corporation.

Questioned Costs

Known questioned costs of \$27,360 were identified in the *Condition and Context*.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the grant agreement and the Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Accounts compliance requirements.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENT

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



Prairie Heights Community School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2020-001

Contact Person Responsible for Corrective Action: Christine Orr
Contact Phone Number: 260-351-2067

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The errors on the SEFA presented for audit will be corrected as follows:

1. The Child Nutrition Cluster expenditures were understated. The CFO will include all amounts on the annual report.
2. The Title I expenditures were understated. The CFO will review the grants and will include all amounts on the annual report.
3. The program names and identifying numbers were incorrect. The CFO will review the grant files and include the correct information on the annual report.

Anticipated Completion Date: The School Corporation has implemented the actions noted above to ensure accurate reporting of federal awards on future Schedule of Expenditures of Federal Awards (SEFA).

FINDING 2020-002

Contact Person Responsible for Corrective Action: Christine Orr
Contact Phone Number: 260-351-2067

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The internal control systems of the Child Nutrition Cluster will be corrected as follows:

1. Cash Management – The CFO has created a spreadsheet to monitor the three months average expenditure requirement.
2. Eligibility – An oversight and review system will be put into place for paper applications, online applications, and Direct Certification listings. The approval process will be shared by two employees.

3. Special Tests and Provisions – Verification of Free and Reduced Price Applications - The verification process duties will be shared by two employees with oversight, review, and approval processes implemented.
4. Special Test and Provisions – Paid Lunch Equity – The PLE tool will be prepared by the CFO and reviewed by the Superintendent.

Anticipated Completion Date: The School Corporation has implemented the actions noted above to ensure proper internal controls are in place.

FINDING 2020-003

Contact Person Responsible for Corrective Action: Christine Orr
Contact Phone Number: 260-351-2067

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: The lack of internal controls for employees paid from the School Lunch fund will be corrected by eliminating the percentage split in these budgeted salaries. From now on, only those employees that work as a Food Service employee will be paid from the School Lunch fund.

Anticipated Completion Date: The School Corporation has implemented the actions noted above to ensure proper internal controls are in place.

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/>.