

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

SHELBY EASTERN SCHOOLS

SHELBY COUNTY, INDIANA

July 1, 2018 to June 30, 2020



**FILED**

05/05/2021



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### SCHEDULE OF OFFICIALS

| <u>Office</u>                    | <u>Official</u>   | <u>Term</u>  |
|----------------------------------|---|--|
| Treasurer                        | Mary C. Scott   | 07-01-18 to 06-30-21   |
| Superintendent<br>of Schools     | Dr. Robert Evans<br>Dr. Michele Moore<br>Dr. Todd Hitchcock | 07-01-18 to 06-30-19<br>07-01-19 to 12-31-19<br>01-01-20 to 06-30-21 |
| President of the<br>School Board | Mark Nigh<br>Jason Yantiss                                  | 07-01-18 to 12-31-18<br>01-01-19 to 06-30-21                         |



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 SHELBY EASTERN SCHOOLS, SHELBY 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 Shelby Eastern Schools (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 April 12, 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.

***Shelby Eastern Schools' 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

April 12, 2021, except for the Schedule of Expenditures  
of Federal Awards, for which the date is April 20, 2021



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 SHELBY EASTERN SCHOOLS, SHELBY COUNTY, INDIANA

**Report on Compliance for the Major Federal Program**

We have audited the Shelby Eastern Schools' (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, 2018 to June 30, 2020. 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, 2018 to June 30, 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  
(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 2020-003 and 2020-004. 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 2020-002, 2020-003, and 2020-004, 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, 2018 to June 30, 2020, and the related notes to the financial statement. We issued our report thereon dated April 12, 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

April 20, 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.

SHELBY EASTERN SCHOOLS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended June 30, 2019 and 2020

| Federal Grantor Agency<br>Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Passed Through<br>to Subrecipient<br>06-30-19 | Total<br>Federal Awards<br>Expended<br>06-30-19 | Passed Through<br>to Subrecipient<br>06-30-20 | Total<br>Federal Awards<br>Expended<br>06-30-20 |
|---|-------------------------------------|---------------------------|--|---|---|---|---|
| <u>Department of Agriculture</u>                                    |                                     |                           |  |   |   |   |   |
| Child Nutrition Cluster   |                                     |                           |  |   |   |   |   |
| School Breakfast Program  | Indiana Department of Education     | 10.553                    |  |   |   |   |   |
| School Breakfast Program  |                                     |                           | FY 2019  | \$ -  | \$ 80,884                                       | \$ -  | \$ -  |
| School Breakfast Program  |                                     |                           | FY 2020  | -   | -   | -   | 67,187  |
| Sub-Total - School Breakfast Program                                |                                     |                           |  | -   | 80,884  | -   | 67,187  |
| COVID-19 - School Breakfast Program                                 | Indiana Department of Education     | 10.553                    |  |   |   |   |   |
| School Breakfast Program  |                                     |                           | FY 2020  | -   | -   | -   | 5,659   |
| Total - School Breakfast Program                                    |                                     |                           |  | -   | 80,884  | -   | 72,846  |
| National School Lunch Program                                       |                                     |                           |  |   |   |   |   |
| School Lunch Program  | Indiana Department of Education     | 10.555                    |  |   |   |   |   |
| School Lunch Program  |                                     |                           | FY 2019  | -   | 203,342   | -   | -   |
| Commodities   |                                     |                           | FY 2020  | -   | -   | -   | 161,892   |
| Commodities   |                                     |                           | FY 2019  | -   | 45,717  | -   | -   |
| Commodities   |                                     |                           | FY 2020  | -   | -   | -   | 49,944  |
| Sub-Total - National School Lunch Program                           |                                     |                           |  | -   | 249,059   | -   | 211,836   |
| COVID-19 - National School Lunch Program                            | Indiana Department of Education     | 10.555                    |  |   |   |   |   |
| School Lunch Program  |                                     |                           | FY 2020  | -   | -   | -   | 13,058  |
| Total - National School Lunch Program                               |                                     |                           |  | -   | 249,059   | -   | 224,894   |
| Summer Food Service Program for Children                            | Indiana Department of Education     | 10.559                    |  |   |   |   |   |
|   |                                     |                           | FY 2020  | -   | -   | -   | 2,618   |
| COVID-19 - Summer Food Service Program for Children                 | Indiana Department of Education     | 10.559                    |  |   |   |   |   |
|   |                                     |                           | FY 2020  | -   | -   | -   | 185,385   |
| Total - Summer Food Service Program for Children                    |                                     |                           |  | -   | -   | -   | 188,003   |
| Total - Child Nutrition Cluster                                     |                                     |                           |  | -   | 329,943   | -   | 485,743   |
| Total - Department of Agriculture                                   |                                     |                           |  | -   | 329,943   | -   | 485,743   |
| <u>Department of Education</u>                                      |                                     |                           |  |   |   |   |   |
| Special Education Cluster (IDEA)                                    |                                     |                           |  |   |   |   |   |
| Special Education Grants to States                                  | Indiana Department of Education     | 84.027                    |  |   |   |   |   |
| Special Ed Part B IDEA FY 2018                                      |                                     |                           | 18611-080-PN01   | -   | 190,401   | -   | -   |
| Special Ed Part B IDEA FY 2019                                      |                                     |                           | 19611-080-PN01   | -   | 57,672  | -   | 205,404   |
| Total - Special Education Grants to States                          |                                     |                           |  | -   | 248,073   | -   | 205,404   |

SHELBY EASTERN SCHOOLS  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Years Ended June 30, 2019 and 2020

| Federal Grantor Agency<br>Cluster Title/Program Title/Project Title | Pass-Through Entity or Direct Grant | Federal<br>CFDA<br>Number | Pass-Through<br>Entity (or Other)<br>Identifying<br>Number | Passed Through<br>to Subrecipient<br>06-30-19 | Total<br>Federal Awards<br>Expended<br>06-30-19 | Passed Through<br>to Subrecipient<br>06-30-20 | Total<br>Federal Awards<br>Expended<br>06-30-20 |
|---|-------------------------------------|---------------------------|--|---|---|---|---|
| Special Education Preschool Grants                                  | Indiana Department of Education     | 84.173                    |  |   |   |   |   |
| Special Ed Preschool IDEA 2018                                      |                                     |                           | 18619-080-PN01   | -   | 1,760   | -   | -   |
| Special Ed Preschool IDEA 2019                                      |                                     |                           | 19619-080-PN01   | -   | -   | -   | 16,270  |
| Total - Special Education Preschool Grants                          |                                     |                           |  | -   | 1,760   | -   | 16,270  |
| Total - Special Education Cluster (IDEA)                            |                                     |                           |  | -   | 249,833   | -   | 221,674   |
| Title I Grants to Local Educational Agencies                        | Indiana Department of Education     | 84.010                    |  |   |   |   |   |
| Title I Part A 2017/2018  |                                     |                           | 18-7285  | -   | 91,480  | -   | -   |
| Title I Part A 2018/2019  |                                     |                           | S010A170014  | -   | 36,453  | -   | 61,031  |
| Total - Title I Grants to Local Educational Agencies                |                                     |                           |  | -   | 127,933   | -   | 61,031  |
| Supporting Effective Instruction State Grants                       | Indiana Department of Education     | 84.367                    |  |   |   |   |   |
| Title II Part A 2017/2018   |                                     |                           | S367A170013  | -   | 23,989  | -   | 450   |
| Student Support and Academic Enrichment Program                     | Indiana Department of Education     | 84.424                    |  |   |   |   |   |
| Student Support Title IV 2018                                       |                                     |                           | S424A180015  | -   | -   | -   | 10,000  |
| Total - Department of Education                                     |                                     |                           |  | -   | 401,755   | -   | 293,155   |
| <u>Department of Health and Human Services</u>                      |                                     |                           |  |   |   |   |   |
| Opioid STR  | Indiana Department of Education     | 93.788                    |  |   |   |   |   |
| Cures Substance Abuse Grant   |                                     |                           | 1H79T1081689-01  | -   | 39,176  | -   | -   |
| Total - Department of Health and Human Services                     |                                     |                           |  | -   | 39,176  | -   | -   |
| Total federal awards expended                                       |                                     |                           |  | \$ -  | \$ 770,874                                      | \$ -  | \$ 778,898                                      |

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

SHELBY EASTERN SCHOOLS  
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.

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I - Summary of Auditor's Results**

Financial Statement:

|  |   |
|--|---|
| Type of auditor's report issued:                     | Adverse as to GAAP; Unmodified as to Regulatory Basis |
| Internal control over financial reporting:           |   |
| Material weaknesses identified?                      | yes   |
| Significant deficiencies identified?                 | none reported   |
| Noncompliance material to financial statement noted? | yes   |

Federal Awards:

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

Identification of Major Program and type of auditor's report issued on compliance for it:

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

*Repeat Finding*

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2018-001.

*Condition and Context*

The School Corporation had not established internal controls 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 Schedule of Expenditures of Federal Awards (SEFA). The Treasurer was solely responsible for entering federal grant award information into Gateway. There was no oversight, review, or approval process in place to prevent, or detect and correct, errors on the SEFA.

SHELBY EASTERN SCHOOLS  
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 School Breakfast Program expenditures were understated by \$5,191.
2. The National School Lunch Program expenditures were understated by \$90,469.
3. The Summer Food Service Program for Children was omitted, which understated expenditures by \$188,003.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

*Criteria*

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

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

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

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

2 CFR 200.303 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 . . ."

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. . . ."

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2 CFR 200.510(b) states:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within 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.

*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.

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**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, Summer Food Service Program for Children,  
COVID-19 - Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash  
Management, Procurement and Suspension and Debarment, Program  
Income

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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles,  
Procurement and Suspension and Debarment, Program Income*

The School Corporation contracted with a food service management company (FSMC) to oversee the School Corporation's food service operations. The FSMC purchased food, program supplies, and other services on behalf of the School Corporation, and all food service personnel were employees of the FSMC. The FSMC billed the School Corporation monthly and provided detailed ledger reports with the invoices; however, the School Corporation did not review the documentation supporting the invoices from the FSMC to ensure expenses were allowable, and, therefore, proper uses of program income. Additionally, the School Corporation did not adequately monitor the invoices or supporting documentation to ensure all goods and services were received as stated.

*Cash Management*

The Treasurer was solely responsible for monitoring the monthly cash balance (net cash resources) of the School Lunch fund to ensure the balance did not exceed the three months average expenditures. There was no documented oversight, review, or approval process in place.

*Program Income*

The Food Service Director updated meal prices annually. There was no oversight, review, or approval process in place to ensure the correct meal prices were being charged.

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

SHELBY EASTERN SCHOOLS  
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 had not developed a system of internal controls that provided oversight over the FSMC that would have ensured compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*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. 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 a system of internal controls related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Procurement and Suspension and Debarment, and Program Income compliance requirements.

*Views of Responsible Officials*

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

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

**FINDING 2020-003**

Subject: Child Nutrition Cluster - Eligibility  
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, Summer Food Service Program for Children,  
COVID-19 - Summer Food Service Program for Children  
CFDA Numbers: 10.553, 10.555, 10.559  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2019, FY 2020  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Eligibility  
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 Eligibility compliance requirement.

The School Corporation contracted with a food service management company whose employees determined eligibility during the audit period. There was no documentation of oversight, a review process, or other compensating control to ensure eligibility for free and reduced priced meals was properly determined.

Eligibility was improperly determined for 2 out of 40 free and reduced price applications tested. Additionally, 1 of the 40 applications requested was not provided for audit.

The lack of internal controls was a systemic issue throughout the audit period. Noncompliance was isolated to fiscal year 2018-2019.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 245.6(c)(4) states:

"*Calculating income.* The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2 and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable."

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

7 CFR 245.6(e) states:

*"Recordkeeping.* The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain, except that if audit findings have not been resolved, the documentation must be maintained as long as required for resolution of the issues raised by the audit."

*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 Eligibility compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Eligibility 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 a system of internal controls to ensure compliance and comply with the grant agreement and the Eligibility compliance requirement.

*Views of Responsible Officials*

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

**FINDING 2020-004**

Subject: Child Nutrition Cluster - Special Tests and Provisions -  
Verification of Free and Reduced Price Applications

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 2019, FY 2020

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Verification of  
Free and Reduced Price Applications (NSLP)

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 Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The School Corporation contracted with a food service management company whose employees were responsible for verifying free and reduced price applications. There was no documentation of oversight, a review process, or other compensating control to ensure the proper number of applications were verified for accuracy.

During fiscal year 2018-2019, the School Corporation was required to verify one application. They were unable to provide income documentation for that application for audit.

The lack of internal controls was a systemic issue throughout the audit period. The noncompliance was isolated to 2018-2019.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 245.6a(h) states:

*"Verification reporting and recordkeeping requirements.* By February 1, each local educational agency must report information related to its annual statutorily required verification activity, which excludes verification conducted in accordance with paragraph (c)(7) of this section, to the State agency in accordance with guidelines provided by FNS. These required data elements will be specified by FNS. Contingent upon new funding to support this purpose, FNS will also require each local educational agency to collect and report the number of students who were terminated as a result of verification but who were reinstated as of February 15th. The first report containing this data element would be required in the school year beginning July 1, 2005 and each school year thereafter. State agencies may develop paper or electronic reporting forms to collect this data from local educational agencies, as long as all required data elements are collected from each local educational agency. Local educational agencies shall retain copies of the information reported under this section and all supporting documents for a minimum of 3 years. All verified applications must be readily retrievable on an individual school basis and include all documents submitted by the household for the purpose of confirming eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission. All relevant correspondence between the households selected for verification and the school or local educational agency must be retained. Local educational agencies are encouraged to collect and report any or all verification data elements before the required dates."

*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 Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

SHELBY EASTERN SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) 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 a system of internal controls to ensure compliance and comply with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

*Views of Responsible Officials*

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

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#### AUDITEE-PREPARED DOCUMENTS

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



# SHELBY EASTERN SCHOOLS

Superintendent: Dr. Todd Hitchcock ■ Corp. Treasurer: Chris Scott

## ***Mission Statement:***

***Shape, Empower, and Support the minds of tomorrow***

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### ***FINDING 2018-001***

Fiscal year in which the finding initially occurred: 2014

Status of Audit Finding:

This finding has not been corrected. We have received clarification to clear up misunderstandings on how receipts and disbursements are to be reported and continue to work to report the grants correctly. We plan to have someone knowledgeable about the preparation of the SEFA and federal grants review and approve the completed SEFA. This was not implemented for the previous SEFA because it was an oversight, and we will improve on better internal controls and having it signed before submitting and will be implementing this for the 20-21 SEFA.

2451 N 600 East ■ Shelbyville, IN 46176 ■ (765) 544-2246 ■ Fax (765) 544-2247



# SHELBY EASTERN SCHOOLS

Superintendent: Dr. Todd Hitchcock ■ Corp. Treasurer: Chris Scott

## **Mission Statement:**

**Shape, Empower, and Support the minds of tomorrow**

## CORRECTIVE ACTION PLAN

### **FINDING 2020-001**

Contact Person Responsible for Corrective Action: Mary C. Scott  
Contact Phone Number: 765-544-2246

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

This finding has not been corrected. We have received clarification to clear up misunderstandings on how receipts and disbursements are to be reported and continue to work to report the grants correctly. We plan to have someone knowledgeable about the preparation of the SEFA and federal grants review and approve the completed SEFA, this was not implemented for the previous SEFA because it was an oversight, and we will improve on better internal controls and having it signed before submitting and will be implemented for the 20-21 SEFA."

Anticipated Completion Date: 01/31/2022

### **FINDING 2020-002**

Contact Person Responsible for Corrective Action: Mary C. Scott  
Contact Phone Number: 765-544-2246

Views of Responsible Official: We concur with the finding.

#### Description of Corrective Action Plan:

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement and Suspension and Debarment, Program Income*

Shelby Eastern Schools will be reviewing our control process and procedures to come up with a proper system of internal controls as well as working with our Food Service Management Company to review documentation supporting the invoices for the FSMC to ensure expenses were allowable.

Anticipated Completion Date 06/30/2021

#### *Cash Management*

Shelby Eastern Schools will implement a new internal controls practice in the school year 2021/2022 in response to the State Board of Accounts finding referenced above. The Treasurer and the Food Service Management Company will work together to ensure that the amount does not exceed the three months' average of expenditures, and review and sign in acknowledgment that the figures are accurate and monitored by a second person.

Anticipated Completion Date: 06/30/2022

*Program Income*

Shelby Eastern Schools will implement a new internal controls practice in the school year 2021/2022 in response to the State Board of Accounts finding referenced above. The Treasurer and the Food Service Management Company will work together to ensure that the correct meal prices have been changed and charged correctly.

Anticipated Completion Date: 06/30/2022

***FINDING 2020-003***

Contact Person Responsible for Corrective Action: Mary C. Scott  
Contact Phone Number: 765-544-2246

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Shelby Eastern Schools will implement a new internal controls practice in the school year 2021/2022 in response to the State Board of Accounts finding referenced above. The Treasurer and the Food Service Management Company will work together to ensure that all eligibility compliance requirements are meant, we will review and sign in acknowledgment that the eligibility requirements are meant and accurate and monitored by a second person.

Anticipated Completion Date: 06/30/2022

***FINDING 2020-004***

Contact Person Responsible for Corrective Action: Mary C. Scott  
Contact Phone Number: 765-544-2246

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Shelby Eastern Schools will implement a new internal controls practice in the school year 2021/2022 in response to the State Board of Accounts finding referenced above. The Treasurer and the Food Service Management Company will work together to ensure that we are meeting the requirements of the Verification of Free and Reduced Price Applications, we will review and sign in acknowledgment that the eligibility requirements are met and accurate and monitored by a second person.

Anticipated Completion Date: 06/30/2022

## 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/>.