

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

KNOX COMMUNITY SCHOOL CORPORATION

STARKE 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	Dawn Bailey	07-01-18 to 01-09-19
	(Vacant)	01-10-19 to 02-03-19
	Rose Workman	02-04-19 to 02-27-19
	(Vacant)	02-28-19 to 03-06-19
Treasurer	Kasey Clark	03-07-19 to 06-30-21
Superintendent of Schools	Dr. William Reichhart	07-01-18 to 06-30-21
President of the School Board	Gary Dulin	07-01-18 to 12-31-18
	Kirk Bennett	01-01-19 to 12-31-20
	Gary Dulin	01-01-21 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 KNOX COMMUNITY SCHOOL
CORPORATION, STARKE 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 Knox 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 April 15, 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 items 2020-001 and 2020-002, 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 items 2020-001 and 2020-002.

Knox 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

April 15, 2021



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 KNOX COMMUNITY SCHOOL CORPORATION, STARKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Knox 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. Except as discussed below, 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.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in item 2020-003 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting compliance of the School Corporation with Child Nutrition Cluster regarding Eligibility. Consequently, we were unable to determine whether the School Corporation complied with those requirements applicable to the program.

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)

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph 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 Child Nutrition Cluster for the period of July 1, 2018 to June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the period of July 1, 2018 to June 30, 2020.

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 2020-004. 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.

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)


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 2020-003, 2020-004, and 2020-005, 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.

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 15, 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, CPA
State Examiner

April 15, 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.

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KNOX 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 18-19	\$ -	\$ 186,808	\$ -	\$ -
			FY 19-20	-	-	-	126,184
				<u>-</u>	<u>-</u>	<u>-</u>	<u>126,184</u>
COVID-19 School Breakfast Program	Indiana Department of Education	10.553					
School Breakfast Program			FY 19-20	-	-	-	19,008
				<u>-</u>	<u>-</u>	<u>-</u>	<u>19,008</u>
Total - School Breakfast Program				<u>-</u>	<u>186,808</u>	<u>-</u>	<u>145,192</u>
National School Lunch Program							
National School Lunch Program	Indiana Department of Education	10.555					
			FY 18-19	-	494,740	-	-
			FY 19-20	-	-	-	280,132
National School Lunch Program-Commodities			FY 18-19	-	78,033	-	-
			FY 19-20	-	-	-	71,994
				<u>-</u>	<u>-</u>	<u>-</u>	<u>71,994</u>
Subtotal - National School Lunch Program				<u>-</u>	<u>572,773</u>	<u>-</u>	<u>352,126</u>
COVID-19 National School Lunch Program	Indiana Department of Education	10.555					
National School Lunch Program			FY 19-20	-	-	-	100,720
				<u>-</u>	<u>-</u>	<u>-</u>	<u>100,720</u>
Total - National School Lunch Program				<u>-</u>	<u>572,773</u>	<u>-</u>	<u>452,846</u>
Summer Food Service Program for Children							
Summer Food Service Program for Children	Indiana Department of Education	10.559					
			FY 18-19	-	10,772	-	-
			FY 19-20	-	-	-	11,255
				<u>-</u>	<u>-</u>	<u>-</u>	<u>11,255</u>
Subtotal - Summer Food Service Program for Children				<u>-</u>	<u>10,772</u>	<u>-</u>	<u>11,255</u>

KNOX 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
COVID-19 Summer Food Service Program for Children	Indiana Department of Education	10.559	FY 18-19	-	-	-	-
			FY 19-20	-	-	-	96,009
Subtotal - COVID-19 Summer Food Service Program for Children				-	-	-	96,009
Total - Summer Food Service Program for Children				-	10,772	-	107,264
Total - Child Nutrition Cluster				-	770,353	-	705,302
Total - Department of Agriculture				-	770,353	-	705,302
Department of Education							
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010					
Title I 17-18			SY 2017-2018	-	127,971	-	-
Title I 18-19			SY 2018-2019	-	165,821	-	253,898
Title I 19-20			SY 2019-2020	-	-	-	321,190
Total - Title I Grants to Local Educational Agencies				-	293,792	-	575,088
Special Education Cluster(IDEA)							
Special Education Grants to States	Indiana Department of Education	84.027					
Special Education FY2018 Part B 611			18611-110-PN01	-	69,199	-	-
Special Education FY2019 Part B 611			19611-110-PN01	-	369,032	-	101,905
Special Education FY2020 Part B 611			20611-110-PN01	-	-	-	428,400
Total - Special Education Grants to States				-	438,231	-	530,305
Special Education Preschool Grants	Indiana Department of Education	84.173					
Special Education FY 2018 Part B 619			18619-110-PN01	-	3,237	-	-
Special Education FY 2019 Part B 619			19619-110-PN01	-	16,197	-	-
Special Education FY 2020 Part B 619			20619-110-PN01	-	-	-	16,358
Total - Special Education Preschool Grants				-	19,434	-	16,358
Total - Special Education Cluster(IDEA)				-	457,665	-	546,663
Gaining Early Awareness and Readiness for Undergraduate Programs	Indiana Department of Education	84.334	FY 18-19	-	3,222	-	-

KNOX 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
Rural Education	Indiana Department of Education	84.358					
Rural and Low Income School Program			FY 18-19	-	10,932	-	-
Rural and Low Income School Program			FY 19-20	-	-	-	57,874
Total - Rural Education				-	10,932	-	57,874
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
Title II Part A 16-19			FY 18-19	-	131,685	-	-
Title II Part A 17-20			FY 19-20	-	-	-	122,885
Total - Supporting Effective Instruction State Grants				-	131,685	-	122,885
Student Support and Academic Enrichment Program	Indiana Department of Education	84.424					
			FY 18-19	-	1,956	-	-
			FY 19-20	-	-	-	30,200
Total - Student Support and Academic Enrichment Program				-	1,956	-	30,200
Total - Department of Education				-	899,252	-	1,332,710
<u>Department of Health and Human Services</u>							
Medicaid Cluster							
Medical Assistance Program	Indiana Department of Education	93.778					
Medicaid			FY 18-19	-	100,884	-	-
			FY 19-20	-	-	-	59,156
INMAC			FY 18-19	-	39,016	-	-
			FY 19-20	-	-	-	28,721
Total - Medical Assistance Program				-	139,900	-	87,877
Total - Medicaid Cluster				-	139,900	-	87,877
Total - Department of Health and Human Services				-	139,900	-	87,877
Total federal awards expended				\$ -	\$ 1,809,505	\$ -	\$ 2,125,889

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

KNOX 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.

KNOX 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	Qualified
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: Financial Reporting
Audit Finding: Material Weakness, Noncompliance

Condition and Context

The School Corporation had not established an effective system of internal controls over financial reporting. The Form 9 Financial Reports, which were the basis for the financial statement, were prepared by one employee and reviewed and approved by another. Although the reports were indicated as being reviewed, the internal control was not effective and failed to ensure the accuracy and completeness of the reports prior to submission.

Due to the lack of effective internal controls, the financial statement presented for audit included the following errors:

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

- a. The School Corporation did not include a \$10,500,000 investment in the Construction Fund 2020-2021 cash and investment balance as of June 30, 2020.
- b. There were also numerous immaterial receipt and disbursement variances noted for the school year ended June 30, 2020, as follows:
 1. The Education fund disbursements were overstated by \$53,292.
 2. The Operations fund disbursements were overstated by \$5,839.
 3. The Title I 19-20 fund disbursements were overstated by \$34,201.
 4. The High Ability grant fund reported a negative \$31,984 receipt amount which did not agree to the School Corporation's records. An audit adjustment was proposed and accepted by the School Corporation to correct the fund activity which resulted in the removal of the fund from the financial statement.
 5. Other miscellaneous funds disbursements were overstated by \$306.

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement presented in the Financial Statement Audit 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. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

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

Cause

Management had not established an effective system of internal controls that would have ensured proper reporting of the financial statement.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the financial statement remained undetected. The financial statement 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.

FINDING 2020-002

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

Repeat Finding

This is a similar 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 effective internal controls over the federal award information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which is the source of the School Corporation's Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation failed to properly review the federal grant information prepared and submitted in Gateway. Although one employee prepared and entered the federal award information into Gateway, and another employee reviewed and approved the information entered, the internal control was not effective and did not detect and allow correction of errors prior to submission.

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

1. The Child Nutrition Cluster expenditures were understated by \$288,831.
2. The Title I Grants to Local Educational Agencies expenditures were understated by \$868,880.
3. The Medicaid Cluster expenditures were understated by \$227,777.
4. The Supporting Effective Instruction State Grants expenditures were overstated by \$640,454.
5. Other grants had immaterial errors that resulted in adjustments to the SEFA.

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

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

Criteria

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

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

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

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

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.

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(Continued)

- (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 contained 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 2020-003

Subject: Child Nutrition Cluster - Eligibility
Federal Agency: Department of Agriculture
Federal Programs: National School Lunch Program, School Breakfast Program
CFDA Numbers: 10.555, 10.553
Federal Award Number and Year (or Other Identifying Number): FY 18-19
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
Audit Findings: Material Weakness, Modified Opinion

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Condition and Context

An internal control system was not in place at the School Corporation to ensure compliance with the requirements related to the grant agreement and the Eligibility compliance requirement.

The School Corporation did not have internal controls in place to ensure that applications for free and reduced priced meals were accurate or complete. The School Corporation implemented internal software which processed the eligibility determination dependent on the application information input into the system. The School Corporation was unable to provide documentation to verify compliance with the eligibility requirement for direct certifications from July 2018 to January 2019, to ensure direct certification students were properly verified.

The lack of internal controls and noncompliance was isolated to July 2018 to January 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 3016.42(b) states in part:

"Length of retention period.

(1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . ."

7 CFR 245.6(c)(1) states in part: ". . . The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a sub-recipient. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the Eligibility compliance requirement.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

The failure to maintain supporting documentation for direct certifications of applications for the period July 2018 to January 2019, prevented the determination of the School Corporation's compliance with the Eligibility compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish 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 (NSLP)
Federal Agency: Department of Agriculture
Federal Programs: National School Lunch Program, School Breakfast Program
CFDA Numbers: 10.555, 10.553
Federal Award Number and Year (or Other Identifying Number): FY 18-19
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 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.

The School Corporation did not have effective internal controls in place to ensure that the verification of free and reduced price eligibility was properly verified and accurately updated if necessary. The School Corporation performed the verifications, but did not have income verification for two of seven applications. The School Corporation did not change the original status of the students to a paid status.

The lack of internal controls and noncompliance was isolated to fiscal year 2018-2019.

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

7 CFR 245.6a(c) states in part:

"*Verification requirement*—

- (1) *General.* The local educational agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year. . . ."

2 CFR 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the 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 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.

KNOX 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 2020-005

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

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 18-19, FY 19-20

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Procurement and Suspension and Debarment,
Special Tests and Provisions - Paid Lunch Equity

Audit Findings: Material Weakness

Repeat Finding

This is a similar repeat finding from the immediately prior audit report. The prior audit finding numbers were 2018-002 and 2018-003

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 Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Cash Management

The School Corporation did not have effective internal controls to monitor the monthly cash balance (net cash resources) of the School Lunch fund to ensure that the amount did not exceed the three month average expenditures. The calculation was performed during the audit period; however, there was no evidence of oversight or review of the calculation.

Procurement

The School Corporation did not have internal controls in place to ensure that bids or quotes for small purchases were obtained from qualified sources and were for the lowest price. The Food Service Director obtained bids or quotes without an oversight or review process.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program, Covid-19 National School Lunch Program)

The School Corporation did not have internal controls in place to ensure that the Paid Lunch Equity calculation was accurate. One employee prepared the Paid Lunch Equity calculations without an oversight or review process to ensure the accuracy of the calculation for fiscal year 2018-2019.

KNOX COMMUNITY SCHOOL CORPORATION
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(Continued)

The lack of internal controls was a systemic issue that occurred throughout the audit period for the Cash Management and Procurement and Suspension and Debarment compliance requirements. The lack of internal controls for Special Tests and Provisions - Paid Lunch Equity 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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk for 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 to ensure compliance with the grant agreement and the Cash Management, Procurement and Suspension and Debarment, and Special Tests and Provisions - Paid Lunch Equity 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 DOCUMENTS

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



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2018-001 (Auditor Assigned Reference Number)

Fiscal year in which the finding initially occurred: 2018
Status of Audit Finding:

Kasey Clark, Business Manager, has been completing reports for grants along with Peggy Shidaker, Curriculum Director, to keep SEFA up to date and have internal controls. This was started in 2019 and ongoing currently via the AFR.

FINDING 2018-002

Fiscal year in which the finding initially occurred: 2018
Status of Audit Finding:

Business Manager Kasey Clark has worked with the new Food Service Director, Karen Baker, to ensure that cash management was reviewed and continues to be reviewed. A spreadsheet has been continued to be maintained since the audit on monthly cash balances to compare three-month averages. Karen Baker, Food Service Director and Head Cook Kristin Walestra and Kasey Clark, Business Manager have worked to address the issues with eligibility, program income, verification of free and reduced price applications and special test and provisions.

FINDING 2018-003

Fiscal year in which the finding initially occurred: 2018
Status of Audit Finding:

Karen Baker, Director of Food Services, has attended procurement classes and has been working with Business Manager, Kasey Clark, to ensure that procurement procedures have been followed. Karen has been getting the three bids for items and has been working with Cooperative purchasing, NISEC, ESC Food Procurement, Lisa Abell, that does a lot of the price comparisons/bidding to assist with this process.



Dr. William Reichhart, Superintendent

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FINDING 2018-004

Fiscal year in which the finding initially occurred: 2018

Status of Audit Finding:

Karen Baker, Food Service Director has been receiving the verifications and then looking over the verification has been Kristin Walstra, Head Cook KMS and prior to her it was Lisa Brown, Head Cook KMS. Prior to 20/21 school year our old food service Treasurer Brenda Joseph, would input and verify the applications and then Deputy Michele Dolezal would verify the information. Brenda left February 2020 so Karen and Lisa took over after that.

KNOX COMMUNITY SCHOOL CORPORATION

#2 REDSKIN TRAIL KNOX, INDIANA 46534



Kasey Clark

Business Manager/ Corp. Treasurer

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CORRECTIVE ACTION PLAN

FINDING 2020-001

Contact Person Responsible for Corrective Action: Kasey Clark

Contact Phone Number: 574-772-1604

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: The form 9 will be completed by the Corporation Treasurer and reviewed by the chief deputy prior to submission to the Indiana Department of Education to ensure internal controls are in place.

Adjustments have been made to the Financial Statements to accurately reflect the transactions of the School Corporation.

Anticipated Completion Date: Immediately

We have new software to make reporting easier and gives us the ability to report more accurately. Also, the staff will attend trainings to increase understanding of how reporting is done.

Kasey Clark

(Signature)

Corporate Treasurer/Business Manager

(Title)

4/15/21

(Date)

KNOX COMMUNITY SCHOOL CORPORATION

#2 REDSKIN TRAIL KNOX, INDIANA 46534



Kasey Clark

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CORRECTIVE ACTION PLAN

FINDING 2020-002

Contact Person Responsible for Corrective Action: Kasey Clark

Contact Phone Number: 574-772-1604

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: Corporation Treasurer will compile the SEFA and verify the CFDAE numbers. The Chief Deputy will review the SEFA for accuracy prior to submission to the gateway system.

Anticipated Completion Date: Immediately

The understanding of how reporting is done by attending trainings.

Kasey Clark

(Signature)

Corporate Treasurer/Business Manager

(Title)

4/15/21

(Date)

KNOX COMMUNITY SCHOOL CORPORATION

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Kasey Clark

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CORRECTIVE ACTION PLAN

FINDING 2020-003

Contact Person Responsible for Corrective Action: Kasey Clark and Food Service Director
Contact Phone Number: 574-772-1604

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: This has been corrected in 2019-2020 school year and forward. The School Corporation implemented internal software which processed the eligibility determination dependent on the application information input into the system by the applicants and the Food Service Director or Head Cook will verify the applications for accuracy. The direct certification is downloaded and printed from the website to be uploaded into the school lunch software. The Food Service Director or Head Cook will verify the information is uploaded correctly.

Anticipated Completion Date: 2019-ongoing

The understanding of how reporting is done by attending trainings.

Kasey Clark

(Signature)

Corporate Treasurer/Business Manager

(Title)

4/15/21

KNOX COMMUNITY SCHOOL CORPORATION

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Kasey Clark

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CORRECTIVE ACTION PLAN

FINDING 2020-004

Contact Person Responsible for Corrective Action: Kasey Clark and Food Service Director

Contact Phone Number: 574-772-1604

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: This has been corrected in 2019-2020 school year and forward. The Food Service Director will perform and compile the information for the Verification of Free and Reduced Priced meals. All information will be reviewed to determine the correct status of the eligible students. The Head Cook will review and approve the information prior to submission to the Indiana Department of Education.

Anticipated Completion Date: 2019-ongoing

Kasey Clark

(Signature)

Corporate Treasurer/Business Manager

(Title)

4/15/21



Kasey Clark

Business Manager/ Corp. Treasurer

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CORRECTIVE ACTION PLAN

FINDING 2020-005

Contact Person Responsible for Corrective Action: Kasey Clark and Food Service Director and Chief Deputy
Contact Phone Number: 574-772-1604

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan: Cash Management - The Treasurer/ Business Manager will compile the three-month average School Lunch Fund expenditure comparison report which will be presented to the Superintendent for review and approval.

Description of Corrective Action Plan: Procurement: The Food Service Director will obtain three quotes for food procurement and these will be reviewed by the Corporation Treasurer/Business Manager. Together we will determine the best products for the price and initial the procurement documentation.

The Kitchen Manager will place the orders for the food and the Food Service Director or the Head Cook will receive the food and check off the correct food order and make sure that food is only being used in the kitchen and not for any other use.

Description of Corrective Action Plan: Paid Lunch Equity - This has been corrected in 2019-2020 school year and forward. The Paid Lunch Equity Calculation has been completed by the Food Service Director. The paperwork is maintained and presented to the Superintendent and the school board for review and approval.

Anticipated Completion Date: Immediately

Kasey Clark

(Signature)

Corporate Treasurer/Business Manager

(Title)

4/15/21

(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the School Corporation. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.