

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

SCHOOL CITY OF HOBART

LAKE COUNTY, INDIANA

July 1, 2018 to June 30, 2020



**FILED**

07/12/2021



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dawn Powers	07-01-18 to 06-30-21
Business Manager	Ted Zembala	07-01-18 to 06-30-21
Superintendent of Schools	Peggy Buffington	07-01-18 to 06-30-21
President of the School Board	Terry D. Butler	07-01-18 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 SCHOOL CITY OF HOBART, LAKE 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 School City of Hobart (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 June 9, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***School City of Hobart'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

June 9, 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 SCHOOL CITY OF HOBART, LAKE COUNTY, INDIANA

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

We have audited the School City of Hobart's (School Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2018 to June 30, 2020. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

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

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

**Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2020-002 and 2020-003, that we consider to be material weaknesses.

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

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

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

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

We have audited the financial statement of the School Corporation, as of and for the period of July 1, 2018 to June 30, 2020, and the related notes to the financial statement. We issued our report thereon dated June 9, 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

June 9, 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.

SCHOOL CITY OF HOBART  
 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					
School Breakfast Program			SY 2018-2019	\$ -	\$ 262,834	\$ -	\$ -
School Breakfast Program			SY 2019-2020	-	-	-	202,917
COVID-19 - School Breakfast Program	Indiana Department of Education	10.553					
FY 2019-20 School Breakfast Program			SY 2019-2020	-	-	-	17,027
Total - School Breakfast Program				-	262,834	-	219,944
National School Lunch Program							
School Lunch Program	Indiana Department of Education	10.555					
School Lunch Program			SY 2018-2019	-	922,362	-	-
Commodities			SY 2019-2020	-	-	-	694,761
			SY 2018-2020	-	151,630	-	143,955
Subtotal - National School Lunch Program				-	1,073,992	-	838,716
COVID-19 - National School Lunch Program	Indiana Department of Education	10.555					
FY 2019-20 National School Lunch Program			SY 2019-2020	-	-	-	57,778
Total - National School Lunch Program				-	1,073,992	-	896,494
Summer Food Service Program for Children							
Summer Food Service Program for Children	Indiana Department of Education	10.559					
Summer Food Service Program for Children			SY 2018-2019	-	88,372	-	-
			SY 2019-2020	-	-	-	100,711
COVID-19 - Summer Food Service Program for Children	Indiana Department of Education	10.559					
FY 2019-20 Summer Food Service Program for Children			SY 2019-2020	-	-	-	159,199
Total - Summer Food Service Program for Children				-	88,372	-	259,910
Total - Child Nutrition Cluster				-	1,425,198	-	1,376,348
Total - Department of Agriculture				-	1,425,198	-	1,376,348
<u>Department of Education</u>							
Special Education Cluster (IDEA)							
Special Education Grants to States	Indiana Department of Education	84.027					
FY 2018 Federal Part B 611 Grant			18611-045-PN01	-	104,224	-	7,820
FY 2019 Federal Part B 611 Grant			19611-045-PN01	-	681,125	-	159,979
FY 2020 Federal Part B 611 Grant			20611-045-PN01	-	-	-	646,298
Total - Special Education Grants to States				-	785,349	-	814,097
Special Education Preschool Grants	Indiana Department of Education	84.173					
FY 2018 Federal Preschool 619 Grant			18619-045-PN01	-	8,166	-	-
FY 2019 Federal Preschool 619 Grant			19619-045-PN01	-	7,293	-	7,998

SCHOOL CITY OF HOBART  
 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
FY 2020 Federal Preschool 619 Grant			20619-045-PN01	-	-	-	12,139
Total - Special Education Preschool Grants				-	15,459	-	20,137
Total - Special Education Cluster (IDEA)				-	800,808	-	834,234
Title I Grants to Local Educational Agencies 2017/18 Title I Grants Title I Grants to LEA 2018-19 2019/20 Title I Part A	Indiana Department of Education	84.010	S010A170014 S010A180014 S010A190014	- - -	115,416 306,391 -	- - -	- 180,270 351,347
Total - Title I Grants to Local Educational Agencies				-	421,807	-	531,617
English Language Acquisition State Grants Title III 2017/2018	Indiana Department of Education	84.365	01118-204-PN01	-	7,335	-	-
Total - English Language Acquisition State Grants				-	7,335	-	-
Supporting Effective Instruction State Grants Title II Part A FY 16/17 Title II Part A FY 2017/18 Title II Part A FY 2018/19 Title II Part A FY 19	Indiana Department of Education	84.367	S367A160013 S367A170013 S367A180013 S367A190013	- - - -	19,482 66,148 20,996 -	- - - -	- 15,583 65,871 23,539
Total - Supporting Effective Instruction State Grants				-	106,626	-	104,993
Student Support and Academic Enrichment Program Title IV Part A FY 2017 Title IV Part A Student Support Title IV Part A	Indiana Department of Education	84.424	S424A170015 S424A180015 S424A190015	- - -	40,622 21,633 -	- - -	25,493 15,272 32,664
Total - Student Support and Academic Enrichment Program				-	62,255	-	73,429
Total - Department of Education				-	1,398,831	-	1,544,273
<b>Department of Health and Human Services</b>							
Medicaid Cluster Medical Assistance Program Medicaid Reimbursement Federal	Indiana Department of Education	93.778	FY 2020	-	-	-	1,752
Total - Medicaid Cluster				-	-	-	1,752
Total - Department of Health and Human Services				-	-	-	1,752
Total federal awards expended				\$ -	\$ 2,824,029	\$ -	\$ 2,922,373

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

SCHOOL CITY OF HOBART  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Summary of Significant Accounting Policies**

*A. Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2019 and 2020. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the School Corporation, it is not intended to and does not present the financial position of the School Corporation.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

*B. Other Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

**Note 2. Indirect Cost Rate**

The School Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3. Special Education Cooperative**

The School Corporation is a member of a special education cooperative (Cooperative). As a result, some activity for the Special Education Cluster (IDEA) that is presented as federal awards expended in the SEFA is not presented as receipts and disbursements in the financial statement for the School Corporation. This activity is reported on the financial statement of the Cooperative.

SCHOOL CITY OF HOBART  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major 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>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
	Child Nutrition Cluster	Unmodified
	Special Education Cluster (IDEA)	Unmodified
84.010	Title I Grants to Local Educational Agencies	Unmodified

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

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

**FINDING 2020-001**

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

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

*Condition and Context*

There was a deficiency in the internal control system of the School Corporation related to financial transactions and reporting of payroll disbursements.

SCHOOL CITY OF HOBART  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The School Corporation designed internal controls over payroll disbursements but the internal controls were not properly implemented. The Business Manager reviewed the payroll disbursements; however, there was no review to ensure that the disbursements were recorded in the correct funds and accounts.

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

*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. . . ."

*Cause*

Management of the School Corporation had not established a proper system of internal control that segregated key functions over payroll disbursements.

*Effect*

The failure to properly implement a system of internal controls could have enabled material misstatements or irregularities to remain undetected.

*Views of Responsible Officials*

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

SCHOOL CITY OF HOBART  
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, National School Lunch Program, Summer Food Service Program for Children, COVID-19 - School Breakfast Program, COVID-19 - National School Lunch Program

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Program Income

Audit Finding: Material Weakness

*Condition and Context*

A system of internal controls was not properly designed and implemented at the School Corporation to ensure compliance with requirements related to the grant agreement and the Cash Management, Eligibility, and Program Income compliance requirements.

*Cash Management*

The School Corporation did not have documented internal controls in place to ensure compliance with the Cash Management compliance requirement. For fiscal year 2018-2019, a worksheet that compared the balance in the School Lunch fund to the three months average expenditures was printed and reviewed. For 2019-2020, there was no documentation of the worksheet being prepared or reviewed.

*Eligibility*

There were no internal controls in place over the direct certification process. The Food Service Director downloaded reports from the Student Testing Number website that included all direct certifications. The reports were uploaded into the food service system by one person without a process of review or oversight to ensure that the report uploaded correctly and included all individuals in the report.

*Program Income*

The School Corporation did not have documented internal controls in place to ensure compliance with the Program Income compliance requirement. One employee prepared a spreadsheet for the end of the month activity and transfers, which was used to record the month's financial transactions, without an established review or oversight.

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

SCHOOL CITY OF HOBART  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

(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 grant agreement and the Cash Management, Eligibility, 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 Cash Management, Eligibility, and Program Income compliance requirements.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School's management establish a system of internal controls related to the grant agreement and the Cash Management, Eligibility, 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.

**FINDING 2020-003**

Subject: Title I Grants Local Educational Agencies - Eligibility,  
Level of Effort - Maintenance of Effort, Reporting

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): S010A170014, S010A180014,  
S010A190014

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility; Matching, Level of Effort, Earmarking; Reporting

Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit regarding Eligibility. The prior audit finding number was 2018-006.

SCHOOL CITY OF HOBART  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Condition and Context*

A system of internal controls was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Eligibility; Matching, Level of Effort, Earmarking; and Reporting compliance requirements.

*Eligibility*

There were no internal controls in place over the direct certification process. The Food Service Director downloaded reports from the State of Indiana's Student Testing Number (STN) website that included all direct certifications and those were uploaded into the food service system. There was no process of review or oversight to ensure that the report uploaded correctly and included all individuals in the report.

There was no evidence of an internal control over the October Real Time Report. The Director of IT uploaded the Real Time Report into the STN website. Any errors that were reported by the STN Application Center were communicated to the appropriate building secretary to verify enrollment and resolve the conflicts. However, the Director of IT was unable to provide adequate documentation of communication with the building secretaries to support the resolution of the enrollment errors made by the Director of IT during the audit period.

*Matching, Level of Effort, Earmarking and Reporting*

The financial information submitted by the School Corporation to the Indiana Department of Education through the Form 9 report was used to calculate the School Corporation's level of effort as well as complete the State Per Pupil Expenditure Report.

The Payroll Clerk ran payroll in LOW, the School Corporation's financial accounting system, and verified the Gross Attendance Worksheet after payroll was prepared. There was no oversight or review process in place over payroll at the Corporation level to ensure the data used to complete the Form 9 was reported accurately in the correct fund, account, and object code.

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

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

*Cause*

Management had not developed a system of internal controls that would have ensured compliance with requirements related to the grant agreement and the Eligibility; Matching, Level of Effort, Earmarking; and Reporting compliance requirements.

SCHOOL CITY OF HOBART  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

*Effect*

The failure to develop a system of internal controls placed the School Corporation at risk of noncompliance with the grant agreement and the Eligibility; Matching, Level of Effort, Earmarking; and Reporting compliance requirements.

*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 Eligibility; Matching, Level of Effort, Earmarking; and Reporting 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.



# SCHOOL CITY OF HOBART

32 East 7th Street, Hobart, IN 46342

Phone: 219-942-8885 Fax: 219-942-0081

<http://www.hobart.k12.in.us>

*"Building College and Career Ready Brickies"*

## ADMINISTRATION

**Dr. Peggy Buffington, Ph.D.**  
Superintendent

**Ted Zembala**  
Business Manager

**Jonathan Mock**  
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& Compliance

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**William Longer**  
Board Attorney

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDING 2018-001

Fiscal year in which the finding initially occurred: **2017-2018**

### Internal Controls over Financial Transactions and Reporting

Status of Audit Finding: Effective 04/01/2019 the payroll department has provided the business manager with a report after each pay period that shows the budget account code entered for new employees. Any changes to an existing employee's budget account code is also included in the report. The business manager reviews and approves.

The school corporation is in the process of refining this procedure to include additional detail and oversight.

Ted J. Zembala  
Business Manager  
05/20/2021

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*"Building College and Career Ready Brickies"*

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Board Attorney

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### **FINDING 2018-002**

Fiscal year in which the finding initially occurred: SY 2016-2017, SY 2017-2018

Status of Audit Finding: Corrected

### **Activities Allowed or Unallowed and Allowable Costs/Cost Principles, Program Income**

1. Beginning with the first payroll subsequent the audit finding, the maintenance employee/courier salary is paid 100 percent from the Operating fund since the Corporation could not determine the amount of time that said employee worked for each department.
2. Beginning with the first docket subsequent the audit finding, the trash removal vendor invoice is paid 100 percent from the Maintenance fund since there was no way of determining how much of the trash was generated by the Food Service Department and how much was created by other areas of the schools.

Beginning in April 2019 the Director of Food Services did ensure that the internal control system is effective to prevent unallowable costs to the School Lunch fund.

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Board Attorney

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### **FINDING 2018-003**

Fiscal year in which the finding initially occurred: SY 2016-2017, SY 2017-2018

Status of Audit Finding: Corrected

### **Procurement and Suspension and Debarment**

#### Small Purchases

Procurement guidelines for small purchases changed during the 2018-2019 SY and all purchases that exceed \$10,000 are procured by obtaining at least three quotes for goods or services. Rationale for selecting vendors is documented. The Food Service Director obtains three quotes and lists them on the procurement summary and the Administrative Assistant reviews the procurement summaries.

#### Contract

The contract between food service and Pepsi America was completed during the 2018-2019 SY and the remaining volume threshold will be satisfied by other concessions.

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Board Attorney

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### **FINDING 2018-004**

Fiscal year in which the finding initially occurred: SY 2016-2017, SY 2017-2018

Status of Audit Finding: Corrected

### **Reporting**

Annual Financial Reports

Annual Financial Reports are prepared by the Food Service Director and reviewed by the Administrative Assistant. This began with the 2018-2019 Annual Financial Report.

Monthly Sponsor Claims

Beginning in 2018-2019, procedures were put in place to ensure that monthly reimbursement claims are submitted in a timely manner. After the Food Service Director prepares the claims for reimbursement, the Administrative Assistant reviews the claims for accuracy. The Administrative Assistant and the Food Service Director began sharing the end of month financial duties to ensure dual controls and timeliness.

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### ***FINDING 2018-005***

Fiscal year in which the finding initially occurred: SY 2016-2017, SY 2017-2018

Status of Audit Finding: Corrected

### **Paid Lunch Equity**

Beginning with the 2019-2020 Paid Lunch Equity (PLE), the calculation was prepared by the Administrative Assistant and reviewed by the Director.

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Board Attorney

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDING 2018-006

Fiscal year in which the finding initially occurred: 2017-2018

Status of Audit Finding: Corrected

### Cash Management and Reporting

As of March 1, 2019, the school corporation Treasurer has been directed by the business manager that requests for reimbursement shall NOT be submitted prior to review. Requests for reimbursements shall be done no less than quarterly.

### Eligibility

We are still improving on internal controls over Eligibility, the Real Time Report, and Direct Certifications.

### Special Tests and Provisions – Annual Report Card, High School Graduation Rate

Beginning August 1, 2018, a detailed checklist that the person processing the student withdraw/transfer follows as a guide to ensure proper recording reporting takes place. Appropriate boxes are checked and once completed, a signature is required on the Student Withdraw Verification card.

Ted J. Zembala  
Business Manager  
05/20/2021

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Board Attorney

## CORRECTIVE ACTION PLAN

### ***FINDING 2020-001***

Contact Person Responsible for Corrective Action: Ted J. Zembala  
Contact Phone Number: (219) 945-0250

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

### ***Internal Controls over Financial Transactions and Reporting***

Additional informational fields have been added to the attendance worksheets to comply with this Finding. Attendance worksheet fields now contain: Check Date, Pay Period, Time Location, Pay Group, Pay Type, Employee Name, Days, Hours, Pay Rate, Distribution by Fund-Account-Object-Location, Pay Amount. Attendance worksheets are reviewed, approved, and signed by the Director of Human Resources and Compliance.

Completion Date: 05/2021

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Board Attorney

## CORRECTIVE ACTION PLAN

### **FINDING 2020-002**

Contact Person Responsible for Corrective Action: Nancy Smith  
Contact Phone Number: 219-947-2413 x 8955

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

#### *Cash Management*

To ensure compliance with cash management requirements, the Assistant will complete a worksheet that compares the fund balance to the three months average expenditures, print it monthly, review it with the Director and each will sign and date the final document.

#### *Eligibility*

Each month the Director downloads and saves a copy of the Direct Certification file from the STN website. It is then uploaded into Skyward. A report is generated by Skyward to include all students on the upload. Both the STN/DC report and the Skyward report will be compared by the Assistant to ensure that information was uploaded correctly from one system to the next. The process will be verified by dating and signing both reports by the Director and the Assistant.

#### *Program Income*

To be compliant with Program Income requirements, all fund transfers will be documented and reviewed by both the Director and the Assistant at the end of each month. Additionally, the End of the Month spreadsheets completed individually by the Director and the Assistant will be reviewed by the other. These processes will be verified by dates and signatures of each person.

Anticipated Completion Date: June 2, 2021

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Board Attorney

## CORRECTIVE ACTION PLAN

### **FINDING 2020-003**

Contact Person Responsible for Corrective Action: Ted J. Zembala  
Contact Phone Number: (219) 945-0250

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

### **Eligibility**

The Direct Certification report will be compared against the STN report to ensure accuracy. Both the Director of Food Service and her administrative assistant will review, sign, and date the copies.

The Director of IT currently uploads the Real Time Report into the STN Application Center. Any errors reported by the STN are communicated to the building level secretary. The Director of IT will document the communication with the building secretaries.

Anticipated Completion Date: 06/04/2021

### **Matching, Level of Effort, Earmarking and Reporting**

Additional informational fields have been added to the attendance worksheets to comply with this Finding. Attendance worksheet fields now contain: Check Date, Pay Period, Time Location, Pay Group, Pay Type, Employee Name, Days, Hours, Pay Rate, Distribution by Fund-Account-Object-Location, Pay Amount. Attendance worksheets are reviewed, approved, and signed by the Director of Human Resources and Compliance.

Completion Date: 05/2021

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## 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/>.