

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TIPTON COMMUNITY SCHOOL CORPORATION

TIPTON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
05/27/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Renee' L. Anderson	07-01-12 to 06-30-16
Superintendent of Schools	Kevin Emsweller	07-01-12 to 06-30-16
President of School Board	Rick Powell	07-01-12 to 06-30-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF THE TIPTON COMMUNITY SCHOOL
CORPORATION, TIPTON COUNTY, INDIANA

This report is supplemental to our audit report of the Tipton Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

March 8, 2016

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation Treasurer prepared the SEFA; however, the School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: total federal expenditures were incorrectly reported; expenditures and information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were omitted for some grant awards. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. 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 award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall 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.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2014-002 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Allowable Costs/Cost Principles. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Allowable Costs/Cost Principles

Food costs are paid for by an outside vendor which administers the Child Nutrition Cluster programs for the School Corporation. These costs are then billed to the School Corporation, along with management fees and labor costs. There is no one at the School Corporation level who reviews the invoices that support the food costs billed by the outside vendor.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2014-003 - CASH MANAGEMENT

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system related to the grant agreement and the Cash Management compliance requirements that have a direct and material effect on the programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

There were no procedures established to ensure that the School Lunch fund cash balances were maintained in compliance with the Cash Management requirements.

The School Corporation Food Service department maintains a cash balance in excess of federal regulations. The 3 months average expenditures of the School Corporation for the School Lunch Program for fiscal year 2014 were \$252,084. The month-end cash balances for fiscal year 2014 ranged from \$80,135 to \$354,338. This compliance requirement was not monitored by the School Lunch Director or by any other employee of the School Corporation.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

7 CFR section 210.14(a) states in part:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service . . ."

7 CFR section 210.14(b) states:

"Net cash resources. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR section 210.2 defines net cash resources as:

"Net cash resources means all monies, as determined in accordance with the State agency's established accounting system, that are available to or have accrued to a school food authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The cash balance maintained by the School Corporation resulted in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resources. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal reimbursements.

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that School Corporation's management implement procedures that would limit net cash resources to three-months' average expenditures and to establish internal controls to ensure that its school food service program is operated as a nonprofit service.

FINDING 2014-004 - SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Special Tests and Provisions compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

For the audit period July 1, 2012 to June 30, 2014, there was no preparation of Paid Lunch Equity calculations made by the School Corporation. There is a lack of controls currently in place to ensure that Paid Lunch Equity calculations are performed and that they are accurate.

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

7 CFR 210.14(e) states:

"Pricing paid lunches. For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

(1) *Calculation procedures.* Each school food authority shall:

- (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.
- (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (i.e., the reimbursement difference);
- (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management put internal controls in place to ensure compliance with Paid Lunch Equity requirements.

FINDING 2014-005 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Program: Special Education - Grants to States

CFDA Number: 84.027

Federal Award Number and Year (or Other Identifying Number): 14211-035-PN01, 14212-035-PN01,
14213-035-PN01, 14214-035-PN01

Pass-Through Entity: Indiana Department of Education

TIPTON COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to its grant agreements and the Allowable Costs/Cost Principles compliance requirements. The School Corporation is a member of the Kokomo Area Special Education Cooperative (KASEC) and they provide oversight of the KASEC through the School Corporation Superintendent who serves as a member of the KASEC Board. KASEC has not established an effective internal control system in relation to Allowable Costs/Cost Principles.

The failure to establish an effective internal control system resulted in the School Corporation being in noncompliance with Allowable Costs/Cost Principles compliance requirements related to its Special Education grants. Semi-Annual Certifications for fiscal year 2014 could not be located by the KASEC, and therefore were not presented for audit. For those employees that were paid from Special Education funds, the KASEC should have included their names on Semi-Annual Certification Activity Reports and retained the reports.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-87, Attachment B, paragraph 8.h, (3) states:

"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.



TIPTON COMMUNITY SCHOOL CORPORATION

Kevin R. Emsweller, Superintendent
John K. Junco, Assistant Superintendent

Reneé L. Anderson, Treasurer
Brian D. Witherow, Director of Technology

March 4, 2016

CORRECTIVE ACTION PLAN

Finding 2014-001

We will work under the guidance of the State Board of Account directives and other sources to ensure that the Schedule of Expenditures of Federal Awards (SEFA) is correctly prepared for the next audit period. We anticipate completion by June 30, 2016.

Finding 2014-002

We anticipate improving our internal controls over allowable costs over the school lunch program. In the future, we will have our Food Service Administrator provide copies of food invoices that support his monthly food billing to the school corporation for review. We anticipate compliance effective immediately.

Finding 2014-003

Currently school corporation management is looking at ways to reduce excessive balances in our School Lunch Fund, including increasing purchases of much needed equipment to operate our School Lunch Program. We anticipate compliance effective immediately.

Finding 2014-004

This corrective action was initiated for the 2015-2016 school year and continues to be implemented

Finding 2014-005

We will consult with Kokomo Area Special Education Cooperative (KASEC) to ensure that semi-annual certification activity reports are presented for audit. Anticipation of compliance is effective immediately.

Renee Anderson
(Signature)

Treasurer
(Title)

3-8-16
(Date)

TIPTON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Kevin Emsweller, Superintendent of Schools; Renee' L. Anderson, Treasurer; and Rick Powell, President of the School Board.