

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTHERN WELLS COMMUNITY SCHOOLS
WELLS COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
03/06/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Deborah L. Adams	07-01-12 to 06-30-15
Superintendent of Schools	Dr. Scott A. Mills	07-01-12 to 06-30-15
President of the School Board	Gene A. Donaghy R. Scott Elzey	01-01-12 to 12-31-13 01-01-14 to 12-31-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTHERN WELLS COMMUNITY SCHOOLS, WELLS COUNTY, INDIANA

This report is supplemental to our audit report of the Northern Wells Community Schools (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 and Audit Results and Comments 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 and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

January 13, 2015

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS

**FINDING 2014-001 - INTERNAL CONTROLS OVER THE 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 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 for the 2012-2013 school year: Education Jobs Fund Grant was omitted in the amount of \$82,385, National School Lunch Program Commodities were omitted in the amount of \$76,405, National School Lunch Program was over reported by \$553, and Title I Grants to Local Educational Agencies was over reported by \$23,900. We noted the following error for the 2013-2014 school year: National School Lunch Program Commodities were omitted in the amount of \$75,967. 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.

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(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 shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (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 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiency constitutes a material weakness.

1. **Lack of Segregation of Duties:** The School Corporation has not separated incompatible activities related to cash and investments. Bank reconciliations were not being reviewed and approved by someone other than the person performing the depository reconciliations. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
2. **Monitoring of Controls:** An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the School Corporation to monitor and assess the quality of the system of internal control.

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)

Northern Wells Community Schools

312 North Jefferson Street,
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Telephone (260) 622-4125
Fax (260) 622-7893

Dr. Scott Mills, Superintendent

January 9, 2015

Finding 2014-001 – Internal Controls Over the Preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Contact person Responsible for Corrective Action: Deborah Adams
Contact Phone Number: 260-622-4125

Corrective Action Plan:

The School Corporation Treasurer will work to develop proper means to accurately track the Schedule of Expenditures of Federal Awards (SEFA) for Northern Wells Community Schools, the amounts received and disbursed, and the Federal agency and program. This may be done in the form of an electronic spreadsheet. The list will be reconciled monthly by both the Treasurer and Deputy Treasurer.

Anticipated Completion Date: Immediately

Finding 2014-002 – Internal Controls Over Financial Transactions and Reporting.

Contact person Responsible for Corrective Action: Deborah Adams
Contact Phone Number: 260-622-4125

Corrective Action Plan:

Budgetary Month-End Procedures will be prepared by the Treasurer, and reviewed by the Deputy Treasurer and will follow the check list on Attachment 1.

Payroll Procedures will be prepared by the Payroll Specialist and reviewed by the Treasurer and will follow the check list on Attachment 2.

Internal Controls for the Accounts Payable Docket are already in place. However, a step will be added to the process to retain the documentation reviewed and will now be initialed and dated by the Treasurer before final submittal to the School Board. In addition, Accounts Payable postings by the Deputy Treasurer are reviewed by the Treasurer and the fund report and bank report will be initialed and dated by both parties. A fund and bank report are reviewed after every Accounts Payable posting.

Anticipated Completion Date: Immediately

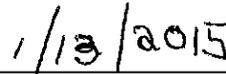
Summary:

Every effort is made by the School Corporation to 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.

The additional review step has been added to offer controls over the receipting, disbursing, recording and accounting for the financial activities.



Deborah Adams, HR/Treasurer
Northern Wells Community Schools
HR/Treasurer
260-622-4125



Date

Budgetary Month-End Procedures:

_____ Month-to-date and year-to-date expended totals on appropriation report equal the month-to-date and year-to-date expended totals on fund Report

_____ Purchase order balance should equal the outstanding encumbrance total on the appropriation report

_____ Month-to-date and year-to-date revenue totals should equal the month to-date and year-to-date totals on the fund report

_____ Komputrol bank statement ending balance equals the current balance on the fund report

_____ Totals on Komputrol bank statement matches the totals on the bank statement

_____ Outstanding check report reviewed for any suspect entries

_____ Receipts posting journal total should equal the fund transaction posting

_____ Total of receipts posted to bank file should equal the receipt posting journal total

_____ Receipts reviewed for any suspect entries

MONTH _____

Prepared: _____ Date _____

Reviewed: _____ Date _____

Payroll Procedures:

_____ Review Payroll Trial Journal with exceptions sheet to review for accuracy. (time card hours, absences, sub teacher pay, etc.)

_____ Review Transportation Payroll Trial Journal with exceptions for accuracy.

_____ Review Food Service Payroll Trial Journal with exceptions for accuracy.

_____ Prepare Direct Deposit and upload to ProFed Credit Union. The deposit should be sent the day prior to payroll. Confirm that upload amount matches direct deposit amount on Payroll Trial Journal. Print confirmation of direct deposit making sure that dates and amounts are correct.

_____ Run pay advices and payroll checks after printing a correct trial journal. Print check register and make sure totals match trial journal. Print distribution report, deduction report, FICA and retirement report and payroll claim listing. Complete the ERM processing to send TRF & PERF file upload to INPRS.

_____ Post payroll and make sure payroll gross as well as taxes and annuities update correctly to the Employee Trial Balance. Make sure totals post correctly to budget, revenue and fund.

_____ Process payroll claims, pay federal taxes, annuities and upload file to INPRS with payment. Review confirmations that these payments were received.

Payroll Date: _____

Prepared: _____

Reviewed: _____

NORTHERN WELLS COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

Debt Service fund expenditures were in excess of budgeted appropriations by \$10,168 for the calendar year 2013.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

AVERAGE DAILY MEMBERSHIP (ADM) - REPORTING TO THE STATE

The information presented to support enrollment figures on Form No. 30A, Report of Average Daily Membership (ADM) for State Support, was insufficient for the school years ending June 30, 2013, and June 30, 2014. The enrollment documents retained for the school years to support the enrollment counts taken in each September and February 2014 did not agree with the enrollment figures reported to the state. After further inquiry, the differences were identified and additional information was presented for the school years. Records explaining why the enrollment documents were adjusted before reporting to the state should be available at the time of the audit.

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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Dr. Scott Mills, Superintendent

January 13, 2015

General response to Northern Wells Community Schools Audit Result and Comment:

Appropriations

The Debt Service Fund expenditures in 2013 were in excess of budgeted appropriations due to the reduction of the refundable credit that was expected to be received from the IRS on our QSCB Debt. As a result of the sequestration process required by the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the credit payment amount requested was reduced by an amount equal to 7.2% of the requested subsidy payment effective October 1, 2013. The IRS announcement instructed issuers to submit the Form 8038-CP using 100% of the requested subsidy payment. The IRS would then notify the issuer through correspondence of the amount the requested payment was reduced. The Amortization Schedule was not changed to reflect this reduction of the subsidy payment, and our budget approved by the DLGF follows the Amortization Schedule.

Northern Wells Community Schools had the funds available to satisfy the Debt Service payment but, because of the reduction of subsidy payment, did not have the appropriation. This situation also existed in 2014. In the future, NWCS will advertise for additional appropriations in the annual budget process to cover the additional cost incurred by the reduction precipitated by the sequestration.

Average Daily Membership (ADM) – Reporting to the State

Upon reviewing procedures for providing enrollment figures on the Report of Average Daily Membership (ADM) for State Support, it was determined that full accountability of the enrollment numbers had occurred, but the corresponding documentation to substantiate the number of students reported was not readily available or easily understood.

NWCS will take immediate action to modify the verification process to meet the auditor's expectations by utilizing a detailed ME reporting process that includes all fields required by the ADM State Report to be verified by each building principal prior to the report being submitted to the State.



Deborah Adams

HR/Treasurer

Northern Wells Community Schools

NORTHERN WELLS COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 13, 2015, with Deborah L. Adams, Treasurer; Dr. Scott A. Mills, Superintendent of Schools; and Donna M. Spear, Vice President of the School Board.