

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WA-NEE COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**  
06/26/2015



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Roger B. Zentz	07-01-12 to 06-30-15
Superintendent of Schools	Joseph M. Sabo	07-01-12 to 06-30-15
President of the School Board	Eric Brown	01-01-12 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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TO: THE OFFICIALS OF THE WA-NEE COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Wa-Nee 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/](http://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

April 29, 2015

WA-NEE COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted the following deficiency in the internal control system of the School Corporation related to financial transactions and reporting.

Control activities should be selected and developed at various levels of the School Corporation to reduce risks of error and/or fraud of the financial statement. The School Corporation has not separated incompatible activities related to receipts. One employee is responsible for writing receipts, posting receipts, and also preparing the bank deposits. 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.

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)

***FINDING 2014-002 - NATIONAL SCHOOL LUNCH AND SCHOOL BREAKFAST PROGRAMS ELIGIBILITY COMPLIANCE REQUIREMENTS***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program and National School Lunch Program

CFDA Number: 10.553 and 10.555

Federal Award Number and Year (or Other Identifying Number): FY12-13 and FY13-14

Pass-Through Entity: Indiana Department of Education

Forty applications received during the audit period were selected for review. Of the forty applications reviewed, two applications had incorrect eligibility determinations.

7 CFR 245.6(c) states in part:

*"Determination of eligibility—*

- (1) *Duration of eligibility.* Except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. 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. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year. . . .

WA-NEE COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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

Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal awards.

We recommended that School Corporation officials properly determine and document the determination of student eligibility status.

***FINDING 2014-003 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE NATIONAL SCHOOL LUNCH AND SCHOOL BREAKFAST PROGRAMS***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program and National School Lunch Program

CFDA Number: 10.553 and 10.555

Federal Award Number and Year (or Other Identifying Number): FY12-13 and FY13-14

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 compliance requirements of Eligibility, Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP).

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.

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."

WA-NEE COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of 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 2014-004 - INTERNAL CONTROLS OVER CASH MANAGEMENT AND REPORTING FOR TITLE I - GRANTS TO LOCAL EDUCATIONAL AGENCIES***

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): 12-2285, 13-2285, and 14-2285

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 compliance requirements of Cash Management and Reporting.

The requests for reimbursement are prepared by the Deputy Treasurer, who also prepares the accounts payable vouchers. There is no review of these requests prior to the submission of the requests to the pass-through entity for reimbursement.

Requests for reimbursement are not based on actual amounts paid. Of the four requests for reimbursement reviewed, three of the requests included estimates. Year to date expenses paid, less reimbursements already received, is used by the Deputy Treasurer to request reimbursement, along with an estimate of expenses the School Corporation is anticipating paying in the next month or partial month.

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 program.

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-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."



WA-NEE COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The Title I Fiscal Handbook, Obligation of Funds section on page 4 states in part: "An obligation is an actual cost owed due to purchase orders issued, contracts signed, or services rendered for which a district is required to make payment. Obligations are not anticipated or estimated costs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the cash management and reporting 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, to ensure that all required reimbursement reports are based on actual amounts paid, not estimates of amounts paid.

# **WA-NEE COMMUNITY SCHOOLS**

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**School Administration Office  
1300 North Main Street  
Nappanee, Indiana 46550  
Ph. (574) 773-3131  
FAX (574) 773-5593**

**Joseph M. Sabo  
Superintendent of Schools**

## **CORRECTIVE ACTION PLAN**

### ***FINDING 2014-001***

Contact Person Responsible for Corrective Action: Roger B. Zentz  
Contact Phone Number: 574-773-3131

#### **Description of Corrective Action Plan:**

Internal control systems by segregation of duties, related to receipts. Deputy Treasurer, Dawn Miller will prepare the written receipt, with Crystal Manring posting all receipts and Deputy Treasurer, Dawn Miller preparing the Bank Reconciliation. Please note that all mail has been and will continue to be opened by Treasurer Roger Zentz, which includes receiving all checks first, then giving to Deputy Treasurer, Miller and a review of the bank statement reconciliation each month by Treasurer, Roger Zentz.

Anticipated Completion Date: Effective immediately from the date of this document.

### ***FINDING 2014-002***

Contact Person Responsible for Corrective Action: Roger B. Zentz  
Contact Phone Number: 574-773-3131

#### **Description of Corrective Action Plan:**

Internal control systems by segregation of duties, related to the School Form No. 521 "Application for Free and Reduced Price Meals and other Benefits" will have Lisa Hall completing the first review of the application and documenting the results of the determination and signing of the form. The confirming official review will be completed by Treasurer, Roger Zentz and will be signed as the verifying official.

Anticipated Completion Date: Effective immediately from the date of this document.

### ***FINDING 2014-003***

Contact Person Responsible for Corrective Action: Roger B. Zentz  
Contact Phone Number: 574-773-3131

#### **Description of Corrective Action Plan:**

Internal control systems by segregation of duties, related to the grant agreement and the compliance requirements of Eligibility, Reporting and Special Tests and Provisions for Verification of Free and Reduced Price Applications (NSLP) will be completed by Lisa Hall for the first review and the 2<sup>nd</sup> review will be completed by either Treasurer Roger Zentz or Crystal Manring from the Business office.

Anticipated Completion Date: Effective immediately from the date of this document.

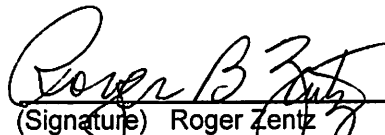
### ***FINDING 2014-004***

Contact Person Responsible for Corrective Action: Roger B. Zentz  
Contact Phone Number: 574-773-3131

Description of Corrective Action Plan:

All request for reimbursements will be either prepared by the Treasurer, Roger Zentz and reviewed by Deputy Treasurer, Dawn Miller or prepared by Deputy Treasurer Dawn Miller and reviewed by Treasurer Roger Zentz, so that a review of requests by another School Corporation person prior to the submission of the requests to the pass-through entity for reimbursement.

Anticipated Completion Date: Effective immediately from the date of this document.

  
(Signature) Roger Zentz

Business Manager

(Title)

April 29, 2015

(Date)

WA-NEE COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

***PREPAID FOOD CLEARING ACCOUNT***

The School Corporation accounts for the prepaid food activity within the School Lunch fund. A separate clearing account for the prepaid food account activity has not been established as prescribed.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). (The School Administrator and Uniform Compliance Guidelines, Volume 183, page 3, September 2008)

***CREDIT CARD PAYMENT DEFICIENCIES***

During a review of credit card payments, we noted the following deficiencies:

1. Adequate documentation was not always included with the claims for payment. On two occasions there were room service charges on the hotel bills, but there was no documentation to verify what was included in the room service charge.
2. The School Corporation paid sales tax on various purchases made with the credit card.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

WA-NEE COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on April 29, 2015, with Roger B. Zentz, Treasurer; Joseph M. Sabo, Superintendent of Schools; and Eric Brown, President of the School Board.