

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

METROPOLITAN SCHOOL DISTRICT OF
NEW DURHAM TOWNSHIP
LAPORTE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
02/01/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Terri Stachowiak	07-01-12 to 06-30-16
Superintendent of Schools	Dr. Curtiss A. Strietelmeier	07-01-12 to 06-30-16
President of the School Board	Wayne R. Hodge	01-01-12 to 12-31-12
	Tim Willis	01-01-13 to 12-31-13
	Nancy Milcarek	01-01-14 to 12-31-14
	Wayne R. Hodge	01-01-15 to 12-31-15



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 METROPOLITAN SCHOOL DISTRICT OF
NEW DURHAM TOWNSHIP, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the Metropolitan School District of New Durham Township (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

December 17, 2015

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS

FINDING 2014-001- FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation has not separated incompatible activities related to receipts, vendor disbursements, payroll and related benefits disbursements, and cash and investment balances.

The Treasurer issues the official receipts, records the receipts to the computerized accounting system, prepares the bank deposits, and takes the deposits to the bank. The Treasurer also prepares, records, and reconciles vendor (non-payroll) disbursements. In addition, the Treasurer independently performs the cash reconciliements of the record balances to the bank balances. The Payroll Clerk generates the payroll transactions and records them to the computerized accounting system without oversight or review. The School Corporation has not designed or implemented adequate segregation of duties such as an oversight, review, or approval process.

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 - 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.

The Treasurer is responsible for preparing the SEFA. The SEFA for the 2012-2013 school year was originally not available for audit. After completion, the 2012-2013 SEFA was provided for audit without being subjected to an oversight, review, or approval process. The 2013-2014 SEFA was prepared in the Gateway reporting system; however, there was no evidence of an oversight, review, or approval process of the SEFA before submission.

The School Corporation failed to report federal expenditures of \$3,584 for the Education Jobs fund and \$48,859 for the Special Education - Grants to States program.

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

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

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 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 in part:

"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."

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - ALLOWABLE ACTIVITIES/ALLOWABLE COSTS

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

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 for Allowable Activities and Allowable Costs.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

The School Corporation has not designed or implemented adequate policies or procedures to ensure that payroll disbursements are for only food service operating and administrative costs or that all accounts payable vouchers are for food service operating and administrative costs. An effective oversight, review, or approval process has not been established to ensure compliance with Allowable Activities and Allowable Costs 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.

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."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance 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 that have a direct and material effect on the programs.

FINDING 2014-004 - CASH MANAGEMENT

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

Internal Controls

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 for Cash Management.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the School Lunch fund monthly cash balances are limited to three months' average expenditures in compliance with Cash Management requirements. There is no oversight, review, or monitoring of the cash balances.

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.

Compliance

In the 2013-2014 school year, the balance in the School Lunch fund exceeded three months of average expenditures for four out of the twelve months.

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."

7 CFR 210.9 (b) states in part:

"(b) *Agreement.* Each school food authority approved to participate in the program shall enter into a written agreement with the State agency that may be amended as necessary. Nothing in the preceding sentence shall be construed to limit the ability of the State agency to suspend or terminate the agreement in accordance with §210.25. If a single State agency administers any combination of the Child Nutrition Programs, that State agency shall provide each school food authority with a single agreement with respect to the operation of those programs. The agreement shall contain a statement to the effect that the 'School Food Authority and participating schools under its jurisdiction, shall comply with all provisions of 7 CFR parts 210 and 245.' This agreement shall provide that each school food authority shall, with respect to participating schools under its jurisdiction:

- (1) Maintain a nonprofit school food service and observe the requirements for and limitations on the use of nonprofit school food service revenues set forth in §210.14 and the limitations on any competitive school food service as set forth in §210.11;
- (2) 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 in accordance with §210.19(a); . . ."

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

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Cash Management requirements. In addition, we recommended the School Corporation comply with the Cash Management requirements.

FINDING 2014-005 - ELIGIBILITY

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Eligibility compliance requirements.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the determinations of eligibility for free and reduced price meals are accurate. Applications were not subject to review prior to notification of eligibility. An oversight, review, or approval process has not been established.

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.

Compliance

The Food Service Office is responsible for notifying the household of their children's eligibility for benefits to which they are entitled. There is no evidence that the School Corporation notified parents of the approval or denial of their application. The School Corporation was also unable to provide a history of student applications for the 2012-2013 school year. We were not able to verify that benefits were discontinued when the period of eligibility expired for the 2012-2013 school year.

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."

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

7 CFR 245.6(c)(2) states:

"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."

7 CFR 245.6(c)(6) states in part:

"Notice of approval—

- (i) *Income applications.* The local educational agency must notify the household of the children's eligibility and provide the eligible children the benefits to which they are entitled within 10 operating days of receiving the application from the household.
- (ii) *Direct Certification.* Households approved for benefits based on information provided by the appropriate State or local agency responsible for the administration of the SNAP, FDPIR or TANF must be notified, in writing, that their children are eligible for free meals or free milk, that no application for free and reduced price school meals or free milk is required. The notice of eligibility must also inform the household that the parent or guardian must notify the local educational agency if they do not want their children to receive free benefits. However, when the parent or guardian transmits a notice of eligibility provided by the SNAP, FDPIR or TANF office, the local educational agency is not required to provide a separate notice of eligibility. The local educational agency must notify, in writing, households with children who are approved on the basis of documentation that they are *Categorically eligible*, as defined in §245.2, that their children are eligible for free meals or free milk, and that no application is required."

Indiana Code 5-15-6-3(f) states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance 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 the Eligibility requirements. In addition, we recommended the School Corporation comply with the Eligibility requirements.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

FINDING 2014-006 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirements.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that equipment purchased with federal program funds was properly recorded in the capital asset records. An oversight, review, or monitoring process has not been established.

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.

Compliance

The School Corporation employs a separate entity to update and maintain their capital asset records. The capital asset records were not maintained in compliance with federal requirements. The capital asset records of the School Corporation did not include the percentage of federal participation in the cost, the acquisition date, or the serial number of the equipment.

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."

7 CFR 3016.32(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated . . ."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement 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 for Equipment and Real Property Management. In addition, we recommended that the School Corporation comply with the Equipment and Real Property Management requirements.

FINDING 2014-007 - PROGRAM INCOME

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

Internal Controls

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 for Program Income.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that program income was properly recorded in the financial records. An oversight, review, or approval process has not been established.

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.

Compliance

The School Corporation did not comply with requirements for accounting for program income generated from the operation of the food service program. All monthly receipts from sales, as well as prepayments, were recorded directly in the School Lunch fund; prepayments were not recorded in a Prepaid Food Fund.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

In addition, the supporting documentation for food sales from the School Corporation's food service computer system, Meal Time, did not support the amounts recorded in the School Corporation's financial accounting system.

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."

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

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). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Vol.183)

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance 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 establish controls, including segregation of duties, related to the grant agreement and compliance requirements for Program Income. In addition, we recommended that the School Corporation comply with the Program Income requirements.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

FINDING 2014-008 - REPORTING

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirements.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that the Annual Financial Report (AFR) and the Claims for Reimbursements (Claims) were accurate prior to submission. An oversight, review, or approval process has not been established.

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.

Compliance

The School Corporation did not fully comply with the applicable reporting requirements of the programs. The School Corporation is required to complete and submit an AFR at the end of each fiscal year. The information reported in the AFR should reflect the financial transactions and position of the School Lunch fund and be supported by the accounting records. For the 2013-2014 school year, income and expenses reported in the AFR did not agree to the financial transactions of the School Lunch fund.

The School Corporation has implemented a point of sale system (Meal Time) to account for the number of meals served. The computerized system generates various monthly reports totaling meals served by category (Free, Reduced, and Paid). This is the basis for the Claim submitted to the state. However, the detailed reports generated by Meal Time did not agree with the monthly Claim's that were submitted to the state during the audit period in five of the twenty months.

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."

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance 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 establish controls, including segregation of duties, related to the grant agreement and compliance requirements for Reporting. In addition, we recommended the School Corporation comply with the Reporting requirements.

FINDING 2014-009 - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Years: FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

The School Corporation prepared a Summary Schedule of Prior Audit Findings (Summary Schedule) as required by OMB Circular A-133. We reviewed the Summary Schedule and noted that management had not taken corrective action as indicated concerning Finding 2012-2 - Reporting from the prior audit. The School Corporation indicated in the Summary Schedule that this finding had been corrected. However, there is a current finding, Finding 2014-008, for this same requirement of the Child Nutrition programs.

OMB Circular A-133, Subpart C, Section.315 states in part:

"(a) *General.* The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. . . .

(b) *Summary schedule of prior audit findings.* The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. . . .

- (2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
FEDERAL FINDINGS
(Continued)

- (3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation."

The failure to comply with the compliance requirements concerning the Summary Schedule places the School Corporation at risk of not receiving additional federal funding.

We recommended that the School Corporation review any corrective action listed in the Summary Schedule to ensure that an accurate Summary Schedule is prepared.

METROPOLITAN SCHOOL DISTRICT of NEW DURHAM TOWNSHIP

207 E. Valparaiso Street, Westville, Indiana 46391-9712

Phone (219) 785-2239 • Fax (219) 785-4584

Administration

Curtis A. Strietelmeier, Ph.D., Superintendent

Alissa L. Schnick, Secondary Principal

Brian A. Ton, Elementary Principal

Jacob T. Stafford, Athletic Director/Asst. Principal

Board of Trustees

Wayne R. Hodge, President

Lynn M. Wilson, Vice President

Richard D. Oberle, Secretary

Mark D. Parkman, Deputy Secretary

Genevieve R. Hisick, Member

CORRECTIVE ACTION PLAN

FINDING 2014-001 -FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

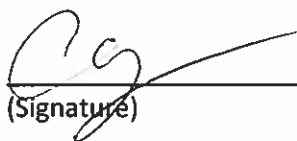
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Financial Transactions and Reporting:

- After June 30, 2016 IC 5-11-1-27(g) provides that the legislative body of each political subdivision must adopt the minimum internal control standards as defined by SBOA. Additionally, the legislative body must ensure that personnel receive training concerning the internal control standards and procedures adopted by the political subdivision. Immediate action will be taken to begin the process for compliance.
- Policies, job descriptions and forms for verification will be written to ensure internal controls will be in compliance with IC 5-11-1-27((g) in every aspect of financial recording.
- Indiana code 5-11-1-27(f) provides that the SBOA develop or designate approved personnel training materials concerning internal controls.
- Staff training will include Webinars posted on SBOA's website.
- The Administration will work with NEOLA, the materials provided through SBOA and our Board of Education to develop a manual for MSD of New Durham Township Internal Controls.

Anticipated Completion Date: July 1, 2016


(Signature)

Superintendent

(Title)

December 21, 2015

(Date)

METROPOLITAN SCHOOL DISTRICT of NEW DURHAM TOWNSHIP

207 E. Valparaiso Street, Westville, Indiana 46391-9712

Phone (219) 785-2239 • Fax (219) 785-4584

Administration

Curtis A. Strietelmeier, Ph.D., Superintendent

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Mark D. Parkman, Deputy Secretary

Genevieve R. Hisick, Member

CORRECTIVE ACTION PLAN

FINDING 2014-002 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

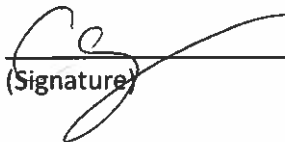
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

SEFA:

- Audit adjustments were proposed, accepted and corrected in Gateway by the corporation treasurer and approved by the Superintendent.
- Future SEFA reporting will be in accordance with OMB Circular A-133, Subpart C, Section 310 (b), Schedule of expenditures of Federal awards.

Anticipated Completion Date: Completed upon Audit


(Signature)

Superintendent

(Title)

December 21, 2015

(Date)

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Genevieve R. Hisick, Member

CORRECTIVE ACTION PLAN

FINDING 2014-003 – ALLOWABLE ACTIVITIES/ALLOWABLE COSTS

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

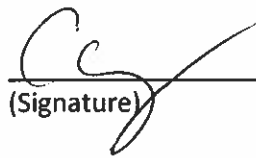
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Allowable Activities/Costs:

- Food Service Director approves invoices/timesheets
- Corporation Secretary reconciles invoices to appropriation report and approves vendors
- Superintendent approves invoices for payments
- Treasure enters invoice into Komputrol for payment and creates a voucher document for Superintendent and School Board approval before payment
- Superintendent approves check register after vendor checks are printed and before distribution/mailing
- Hourly employee supervisor reviews and enters timesheets in K-Time
- Deputy Treasurer verifies timesheets and enters payroll into Komputrol
- Treasurer reviews distribution report before payroll checks are printed and reviews check register after checks are printed
- Deputy Treasurer delivers payroll checks to employee supervisor for distribution
- Treasurer signs all vendor and payroll checks

Anticipated Completion Date: January 1, 2016



(Signature)

Superintendent

(Title)

December 21, 2015

(Date)

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CORRECTIVE ACTION PLAN

FINDING 2014-004 - CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

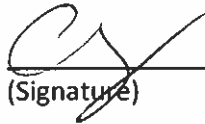
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Cash Management:

- In order to maintain a nonprofit school food service, the Food Service Director will create a plan for expenditure of School Lunch funds above the limit of three months' average expenditures
- This plan will be approved by the Superintendent before submission to the Indiana Department of Education
- This plan must be approved by the Indiana Department of Education
- The corporation treasurer reports fund balance monthly to the Food Service Director and the Superintendent

Anticipated Completion Date: Completed as of January 31, 2016



(Signature)

Superintendent

(Title)

December 21, 2015

(Date)

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Genevieve R. Hisick, Member

CORRECTIVE ACTION PLAN

FINDING 2014-005 - ELIGIBILITY

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

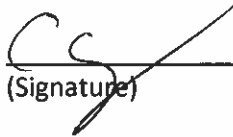
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Eligibility:

- Collection of applications for Free and Reduced Lunch at student registration
- Corporation Secretary will provide a list of students who qualify for free lunch as a result of direct certification to the Director of Food Services
- Corporation Secretary will provide a list of students who qualify for free lunch as a result of homeless status Director of Food Services
- Corporation Secretary will provide a list of students who qualify for free lunch as a result of foster child status Director of Food Services
- Cafeteria Manager will use Federal Guidelines to determine eligibility level for all applications
- Director of Food Services will review approval status
- Cafeteria Manager will update student status in MealTime.
- Cafeteria Manager will, within 5 days of application, develop a letter for each applicant to inform families of qualification
- Approval letters are reviewed and signed by Food Service Director
- Cafeteria Manager will, within 5 days of application, provide letters and a MealTime list of students who applied, to Corporation Secretary
- Corporation Secretary will review letters against list provided by Cafeteria Manager
- Corporation Secretary will mail letters within 5 days after review
- Cafeteria Manager will set all student status to not eligible at the end of the school year
- Director of Food Services will dispose of all applications per established guidelines

Anticipated Completion Date: October 1, 2016


(Signature)

Superintendent
(Title)

December 21, 2015
(Date)

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CORRECTIVE ACTION PLAN

FINDING 2014-006 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

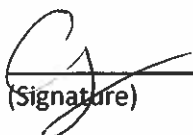
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Equipment and Real Property Management:

- Every other year, the Corporation will employ a separate entity to update and maintain capital asset records in compliance with OMB Circular A-133, Subpart C, section .300 and 7 CFR 3016.32 Subpart (d)
- Records must include serial or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property
- The Director of Food Services will track all dispositions using an internal inventory system to ensure adequate safeguards to prevent loss, damage or theft of the property
- Director of Food Services will inform Corporation Secretary of Disposition of any items
- Disposition of items will follow approved district policy and procedures
- Deputy Treasurer will review a list from internal inventory system to ensure all federal required information has been entered for items purchased
- Deputy Treasurer will review a list from internal inventory system to ensure all federal required information has been entered for disposed items
- Director of Food Services will document and inform Superintendent of any items that have been lost, damaged or stolen
- Superintendent will investigate process by which items were lost, damaged or stolen

Anticipated Completion Date: March 1, 2016



(Signature)

Superintendent

(Title)

December 21, 2015

(Date)

METROPOLITAN SCHOOL DISTRICT of NEW DURHAM TOWNSHIP

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CORRECTIVE ACTION PLAN

FINDING 2014-007 – PROGRAM INCOME

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

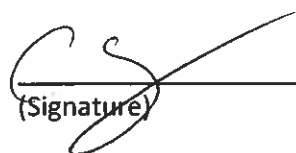
Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Program Income:

- Food Service Manager receives and receipts all directly prepaid income
- Director of Food Services reviews receipts and directly prepaid income and payments made through MealTime on-line
- Director of Food Services delivers all prepaid income to Treasurer
- Treasurer enters information of prepayment into Komputrol using Clearing Account Number 8400
- Deputy Treasurer takes money to the bank
- Cashiers collect all daily payments
- Cashiers reconcile drawer against MealTime readout
- Food Service Manager recounts all monies collected through daily payment and reconciles against MealTime readout and develops daily purchase and collection report
- Cashiers verify and sign off on Food Service Manager's MealTime report and Deposit Record
- Director of Food Services checks daily purchase and collection report
- Food Services Manager delivers all cash collected to Deputy Treasurer
- Deputy Treasure takes money to the bank

Anticipated Completion Date: January 1, 2016


(Signature)

Superintendent

(Title)

12/21/2015

(Date)

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Genevieve R. Hisick, Member

FINDING 2014-008 - REPORTING

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Reporting:

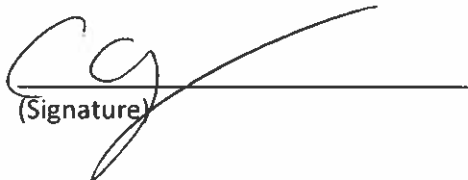
Internal Controls

- Food Service Director will review and sign-off on Annual Financial Report before it is submitted via Gateway by Treasurer

Compliance

- Food Service Director will review and sign-off on Annual Financial Report before it is submitted via Gateway by Treasurer
- Any errors or discrepancies will be noted and corrected prior to report submission

Anticipated Completion Date: September 15, 2016



(Signature)

Superintendent

(Title)

12/21/2015

(Date)

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Mark D. Parkman, Deputy Secretary
Genevieve R. Hisick, Member

CORRECTIVE ACTION PLAN

FINDING 2014-009 - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Contact Person Responsible for Corrective Action: Curtiss Strietelmeier

Contact Phone Number: 219-785-2239

Description of Corrective Action Plan

Internal Controls over Financial Transactions and Reporting

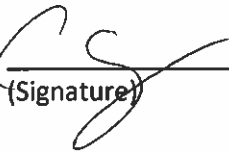
- The hiring of a Deputy Treasurer in response to the prior audit
- Increase the separation of duties between the corporation treasurer and deputy treasurer
- Establish an internal control policy in compliance with IC 5-11-1-27 (g)

Description of Corrective Action Plan

School Nutrition Claim for Reimbursement

- Contact with Mealtime to correct improper point of sales entry
- Review by Food Service Director of Mealtime point of sales to Mealtime monthly report
- Review by Corporation Treasurer of NSLP reporting with Mealtime monthly report

Anticipated Completion Date: January 31, 2016



(Signature)

Superintendent

(Title)

12/21/2015

(Date)

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
AUDIT RESULTS AND COMMENTS

TEXTBOOK FEES

The School Corporation did not approve the Middle School/High School textbook rental fees for the 2012-2013 and 2013-2014 school years. The School Corporation also did not obtain the opinion of an attorney for educational fees established by the School Board.

IC 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds. . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CREDIT CARDS

The School Corporation used credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
AUDIT RESULTS AND COMMENTS
(Continued)

8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN FUND BALANCES

The fund balance of the Textbook Rental fund was overdrawn as of June 30, 2013, and June 30, 2014, by \$274,471 and \$286,423, respectively.

A similar comment appeared in the prior report.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TRANSFERS

The School Corporation made transfers between funds at the end of the fiscal year. No resolution for the transfers was presented for audit and the transfers were not approved by the School Board.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COLLECTIVE BARGAINING AGREEMENT

The School Corporation included items in their Collective Bargaining Agreement that are prohibited according to Indiana Code. Prohibited items included pupil/teacher ratio, class size or budget appropriation, teacher dismissal procedures and criteria, unpaid leave, and reductions in force.

In addition, the School Corporation failed to post the collective bargaining agreement on their website within 14 days after both parties had ratified the agreement.

During the audit period, Indiana Code 20-29-6-4.5 stated:

"(a) For a contract entered into after June 30, 2011, a school employer may not bargain collectively with the exclusive representative on the following:

- (1) The school calendar.
- (2) Teacher dismissal procedures and criteria.
- (3) Restructuring options available to a school employer under federal or state statutes, regulations, or rules because of the failure of the school corporation or a school to meet federal or state accountability standards.

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) The ability of a school employer to contract, partner, or operate jointly with an educational entity that provides postsecondary credits to students of the school employer or dual credits from the school employer and the educational entity.
- (5) Any subject not expressly listed in section 4 of this chapter.
- (b) A subject set forth in subsection (a) that may not be bargained collectively may not be included in an agreement entered into under this article."

TIME RECORDS AND EMPLOYEE CONTRACTS

The School Corporation did not enter into a contract with the bus drivers as required by Indiana Code 20-27-5-4. Also, some bus drivers did not keep time records as required for non-contract and non-salaried employees.

A salary schedule was presented for audit that was not approved by the School Board. The School Board approved the individual employee increases as they appeared, but did not have a schedule that included all employees pay rate per year.

Indiana Code 20-27-5-4 states in part:

"(a) If a school corporation owns the school bus equipment in its entirety, the school corporation may employ a school bus driver on a school year basis in the same manner as other noninstructional employees are employed.

(b) If a school corporation employs a school bus driver under subsection (a), the employment contract between the school corporation and the school bus driver must be in writing. "

Each government unit is responsible for complying with the ordinances, resolutions and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for School Corporations, Chapter 9)

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Genevieve R. Hisick, Member

Official Response

State Board of Accounts

302 W. Washington Street. RM E418

Indianapolis, IN 46204-2765

Please let this letter serve as our official response from the Metropolitan School District of New Durham Township concerning the recent audit for the term 2012-2014.

First, I would like to thank Sara Hancock and the whole team of auditors for their professionalism in reviewing our books. All of the auditors were courteous in their requests to the administration, and each was very helpful in discussing the deficiencies shown in the audit.

MSD of New Durham Township District Administration and Board of Education understand that the lack of internal controls is an issue. As a result the administration hired a Deputy Treasurer December 12, 2012. The responsibilities of the Deputy Treasurer are to increase a level of oversight and control for financial transactions. However, the issues highlighted in this audit indicate that more needs to be done to fully define oversight for financial transactions.

Audit Results and Comments

Textbook Fees:

- The Superintendent will provide the School Attorney with a list of all Textbook rental fees
- The School Attorney will review Textbook rental fees and provide a letter of approval or recommendation for changes to the Superintendent
- The final letter of approval from the School Attorney will be presented to the Board of Education prior to Board approval of fees

Anticipated Completion Date: January 13, 2016

Credit Cards:

- The Superintendent will receive policy language from NEOLA
- The Board of Education will review policy and approve
- The Superintendent will integrate the policy and supporting Administrative Guidelines

Anticipated Completion Date: January 13, 2016

Overdrawn Fund Balances:

- There are three (3) problems in trying to make the Textbook Rental Fund a positive figure rather than a negative figure

- The State of Indiana is not compensating school corporations at one hundred percent (100%) of Textbook Rental Funds. The state law has allowed us to tax for any difference between the amount submitted and the amount the State of Indiana pays. As long as the corporation receives one hundred percent (100%) tax collection, this would cover the figures that are submitted for reimbursement. Unfortunately, the district has not received 100% reimbursement
- Indiana law reads that a school district is not able to collect the difference between the textbook amount and the actual dollar figure addressed to parents if the students are free/reduced lunch. Several supply items are also shown in the textbook rental fund. The statute needs to be changed we are allowed to address parents of free/reduced lunch students to collect this difference rather than taking a loss.
- Each year our school corporation has to pay the costs of new textbooks, even though one-sixth (1/6) of the costs of these textbooks will only be received in that school year; five-sixths (5/6) of that cost will be collected in the following five (5) school years. The same procedure will be addressed in the following school years for the new adoptions for each curricular area. Because of this collection procedure, the textbook rental fund will never be in the black.

Transfers:

- The reason for the transfer between General Fund and Transportation is the Transportation fund had been underfunded due to the cap on the Transportation fund. The cap limited the school district to an increase of two percent (2%) to three percent (3%). Unfortunately, the year on which the cap was based was a year when the Superintendent did not request the full levy for Transportation. As a result the district has been forced to levy for approximately \$200,000 less than the maximum amount.
- In 2015 a state law was passed allowing the MSD of New Durham Township to set their Transportation levy to the maximum levy possible if the Superintendent had taken the full levy in the original cap year. As a result, beginning in 2016, the district should receive the necessary funds to run Transportation, no longer requiring the Transfers from General Fund to Transportation funds.
- If there is a need for any future transfer between funds the Treasurer will develop a request for transfer that will be reviewed by the Superintendent.
- The Superintendent will provide the request to the Corporation Secretary to develop the Resolution
- The Board of Education will approve the resolution

Anticipated Completion Date: January 13, 2016

Collective Bargaining Agreement:

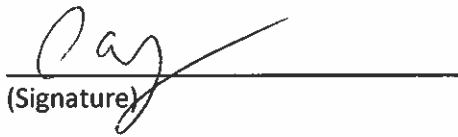
- The first year of negotiations for MSD of New Durham Township and the Westville Teacher Association under the new state guidelines was 2014. At that point the language noted in this section was removed. The contract has been reviewed by the district attorney, the Union Representative, and IEERB for compliance.
- The Contract has been posted on the district website

Anticipated Completion Date: January 1, 2016

Time Records and Employee Contracts:

- Each year the Superintendent will recommend salaries for all non-certified staff.
 - The Deputy Treasurer will develop the recommendations into a schedule
 - The Superintendent will review the schedule and present to the Board of Education
 - The Board of Education will approve the schedule
-
- The audit suggests that the District is required to enter into a contract with Bus Drivers. In reviewing IC 20-27-5-4 it states "If a school corporation owns the school bus equipment in its entirety, the school corporation **may** employ a school bus driver in the same manner as other noninstructional employees are employed." Base on advice from school legal counsel, this statement would not require the district to enter into a contract with Bus Drivers.

Anticipated Completion Date: January 1, 2016


(Signature)

Superintendent
(Title)

December 21, 2015
(Date)

METROPOLITAN SCHOOL DISTRICT OF NEW DURHAM TOWNSHIP
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2015, with Terri Stachowiak, Treasurer; Dr. Curtiss A. Strietelmeier, Superintendent of Schools; Wayne R. Hodge, President of the School Board; Mark Parkman, School Board Deputy Secretary; Katherine Riffett, Deputy Treasurer; and Lori Sikora, Food Service Director.