

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

FORT WAYNE COMMUNITY SCHOOLS

ALLEN COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
07/12/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2015-001 - Eligibility and Special Tests and Provisions	4-5
Finding 2015-002 - Cash Management	5-6
Finding 2015-003 - Procurement and Suspension and Debarment	6-7
Finding 2015-004 - Reporting	7-8
Finding 2015-005 - Cash Management and Reporting	9
Corrective Action Plan	10-14
Exit Conference	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherry Nidlinger	07-01-13 to 06-30-16
Superintendent of Schools	Dr. Wendy Robinson	07-01-13 to 06-30-16
President of the School Board	Mark GiaQuinta	01-01-13 to 12-31-16



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TO: THE OFFICIALS OF THE FORT WAYNE COMMUNITY SCHOOLS, ALLEN COUNTY, INDIANA

This report is supplemental to our audit report of the Fort Wayne Community Schools (School Corporation), for the period from July 1, 2013 to June 30, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

April 14, 2016

FORT WAYNE COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2015-001 - ELIGIBILITY AND SPECIAL TESTS AND PROVISIONS

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Number): FY 13-14, FY 14-15
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, such as an oversight or approval process, related to the following compliance requirements that have a direct and material effect to the programs: Eligibility and Special Tests and Provisions - Verification of Free and Reduced Price Applications.

Eligibility

The School Corporation has not designed or implemented adequate policies and procedures to ensure that eligibility for free and reduced price meals was accurately determined. One person was exclusively responsible for entering applications into NutriKids, the computer program that determines eligibility. While other employees provided assistance in eligibility determination, there was no segregation of duties, such as an oversight, review, or approval process, over Eligibility compliance requirements.

Special Tests and Provisions - Verification of Free and Reduced Price Applications

The School Corporation has not designed or implemented adequate policies and procedures to ensure that the verifications of free and reduced price applications were in compliance with the requirements, accurate, or subjected to review. One person was exclusively responsible for completing the verification of free and reduced price applications. While other employees provided some assistance during the verification process, there was no segregation of duties, such as an oversight, review, or approval process, over compliance with the Verification of Free and Reduced Applications (NSLP) requirements.

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. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

FORT WAYNE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, related to the grant agreement and compliance requirements noted above that have a direct and material effect on the programs.

FINDING 2015-002 - CASH MANAGEMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Number): FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, such as an oversight or approval process, related to the grant agreement and the Cash Management compliance requirement.

The School Corporation has not designed or implemented adequate policies and procedures relating to the School Lunch fund monthly cash balances. The Nutrition Services Director was the only person responsible for ensuring that the School Lunch fund's net cash resources were limited to the average expenditures for three months. 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.

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."

Compliance

The average expenditures for three months for the fiscal 2014 and 2015 school years were \$4,345,896 and \$4,496,853, respectively. The School Lunch fund's net cash resources were maintained at an amount in excess of average expenditures for three months throughout the entire audit period. The Nutrition Services Director indicated the School Corporation was aware of the matter and has been developing a plan to spend down the excess cash balances; however, there was no official plan in place to ensure the reduction of the balance.

FORT WAYNE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

7 CFR 210.14(b) states in part:

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

7 CFR 220.7(e)(1)(iv) states: "Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

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

We recommended that the School Corporation's management establish and implement controls, including segregation with duties, related to the grant agreement and the Cash Management compliance requirement. Additionally, we recommended that the School Corporation comply with Cash Management requirements.

FINDING 2015-003 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Number): FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Internal Control

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 Suspension and Debarment compliance requirement.

The School Corporation has not designed or implemented adequate policies and procedures to ensure that school food contractors were not suspended or debarred. 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.

FORT WAYNE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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."

Compliance

During the audit period, the School Corporation accepted food service bids exceeding \$25,000 from 11 vendors. However, the School Corporation did not verify that the school food contractors were not suspended or debarred. The communications with the food supply bidders did not contain any statements regarding suspended or debarred parties. A search of the System of Award Manager Center website revealed no active exclusions for any of the 11 vendors.

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

- (a) Checking the SAM exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance 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 and implement controls, including segregation of duties, related to the grant agreement and compliance requirement for Suspension and Debarment. Additionally, we recommended that the School Corporation comply with Suspension and Debarment requirements.

FINDING 2015-004 - REPORTING

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Number): FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Internal Controls

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 Reporting compliance requirement.

FORT WAYNE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation has not designed or implemented adequate policies or procedures to ensure that the Annual Financial Report (AFR) that is required to be submitted at the end of each fiscal year or the monthly Requests for Reimbursement were accurate. The reports were not subjected to review to ensure that they were accurate. 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.

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."

Compliance

The AFR filed by the School Corporation with the Indiana Department of Education for the fiscal years ending June 30, 2014 and 2015, did not agree with the School Corporation's financial records. There was one income item reported twice and three expense items that were not in agreement with the financial records.

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. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish and implement controls, including segregation of duties, related to the grant agreement and compliance requirements for Reporting. Additionally, we recommended that the School Corporation comply with the Reporting requirements.

FORT WAYNE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2015-005 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Education

Federal Program: Teacher Incentive Fund

CFDA Number: 84.374

Federal Award Numbers and Years (or Other Identifying Number): S374A120057-12/13,
S374A120057-13/14,
S374A120057-14/15

Pass-through Entity: N/A - Direct Grant

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, such as an oversight or approval process, related to the following compliance requirements that have a direct and material effect to the program: Cash Management and Reporting.

Cash Management and Reporting

The School Corporation has not designed or implemented adequate policies or procedures to ensure that costs were paid before reimbursement was requested and Requests for Reimbursements were accurately prepared. An oversight, review, or approval process had not been evidenced. One person was solely responsible for preparing and submitting all requests and reports.

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

OMB Circular A-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 and implement controls, including segregation of duties, related to the grant agreement and compliance requirements noted above that have a direct and material effect on the programs.



FORT WAYNE COMMUNITY SCHOOLS

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Candice Hagar, Director of Nutrition Services
Contact Phone Number: 260-467-2055

Views of Responsible Official:

We concur that one person is responsible for entering paper applications into NutriKids before they are filed for audit. Approximately 2% of the applications FWCS receives are on paper and entered by our employee and the rest are done online by applicants. NutriKids is approved by the Indiana Department of Education for use by school districts across the State to determine eligibility. NutriKids is programmed to compare the entered data for household size and income to the criteria for free and reduced meals and automatically determine eligibility. After the NutriKids program is thoroughly tested each year to confirm it is accurately applying the current eligibility criteria and arriving at the correct eligibility result, there isn't a need for each individual application to be reviewed and approved by any other means; however, we can further ensure accuracy by having a second person verify the correct input of data received on paper applications.

We concur that one person is responsible for the verification of data on the free and reduced price applications.

Description of Corrective Action Plan:

The Director of Nutrition Services will review all the applications that are received on paper and input by the responsible person to confirm the accuracy of input into Nutrikids. She will document the review and approval with a signed cover sheet.

The Director of Nutrition Services will review all the verifications performed by the responsible person and document the review and approval with a signed cover sheet.

Anticipated Completion Date: May 1, 2016

Kathy Zuvial
Signature

Chief Financial Officer
Title

4-14-16
Date

Chief Financial Officer



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CORRECTIVE ACTION PLAN

FINDING 2015-002

Contact Person Responsible for Corrective Action: Candice Hagar, Director of Nutrition Services
Contact Phone Number: 260-467-2055

Views of Responsible Official:

We concur that that school lunch fund's net reserves were in excess of three months average expenditures during the audit period.

Description of Corrective Action Plan:

We will continue to develop a plan to spend down the cash reserve with the objective of ending the next fiscal year 2016-2017 in compliance with requirement. The plan will be developed by the Director of Nutrition Services and approved by the Chief Financial Officer. The Chief Operating Officer will monitor compliance with the plan.

Anticipated Completion Date: The plan will be documented by June 1, 2016 and compliance will be achieved by June 30, 2017.

Kathy Friend
Signature

Chief Financial Officer
Title

4-14-16
Date

Chief Financial Officer

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CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Candice Hagar, Director of Nutrition Services
Contact Phone Number: 260-467-2055

Views of Responsible Official:

We concur that we failed to verify vendors awarded contracts in excess of \$25,000 were not suspended or debarred contractors. We were not aware of the requirement.

Description of Corrective Action Plan:

The Director of Purchasing and Director of Nutrition Services have already take action to ensure the required verification is complete prior to any future contracts in excess of \$25,000.

Anticipated Completion Date: April 13, 2016

Kathy Furd
Signature

Chief Financial Officer
Title

4-14-16
Date

Chief Financial Officer

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CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Candice Hagar, Director of Nutrition Services
Contact Phone Number: 260-467-2055

Views of Responsible Official:

We concur that the Annual Financial Report and monthly requests for reimbursement for food service funding were not reviewed and approved by a second employee prior to submission.

Description of Corrective Action Plan:

Prior to submission of the Annual Financial Report for food service, the report will be reviewed by the Director of Fiscal Affairs to ensure it reconciles with the general ledger. Monthly requests for reimbursement will be prepared by one responsible person and reviewed by the Director of Nutrition Services prior to submission.

Anticipated Completion Date: May 1, 2016

Kathy Friend
Signature

Chief Financial Officer
Title

4-14-16
Date

Chief Financial Officer

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CORRECTIVE ACTION PLAN

FINDING 2015-005

Contact Person Responsible for Corrective Action: Stefan Pittenger, Director of Fiscal Affairs

Contact Phone Number: 260-467-2035

Views of Responsible Official:

We concur that one person was submitting cash reimbursement requests without evidence of review and approvals by another employee.

Description of Corrective Action Plan:

We have asked our Treasurer to approve the reimbursements requests prepared by the Deputy Treasurer.

Anticipated Completion Date: April 14, 2016

Kathy Farver
Signature

Chief Financial Officer
Title

4-14-16
Date

Chief Financial Officer

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FORT WAYNE COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on April 14, 2016, with Sherry Nidlinger, Treasurer; Melissa Gaskill, Deputy Treasurer; Jordan Lebamoff, School Board member; Glenna Jehl, School Board member; Dr. Wendy Robinson, Superintendent of Schools; Kathy Friend, Chief Financial Officer; Stefan Pittenger, Director of Fiscal Affairs; and Candice Hagar, Director of Nutrition.