

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTHWESTERN SCHOOL CORPORATION
HOWARD COUNTY, INDIANA
July 1, 2013 to June 30, 2015



FILED
07/15/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cami J. McLeland (Vacant) Jamie Shepherd-Bryant	07-01-13 to 02-21-14 02-22-14 to 04-23-14 04-24-14 to 06-30-16
Superintendent of Schools	Ryan Snoddy	07-01-13 to 06-30-16
President of the School Board	Bryan Alexander Todd Moser Steve Jones Jonathan Underwood	01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

This report is supplemental to our audit report of the Northwestern School Corporation (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 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

May 16, 2016

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation should have had 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 operated effectively, material misstatements of the SEFA could have remained undetected.

The audit of the SEFA noted that total federal expenditures for fiscal years 2014 and 2015 were understated by \$700,317 and \$289,392, respectively.

The deficiencies discussed above constitute material weaknesses. The errors and omissions on the SEFA were caused by a lack of sufficient internal controls over the preparation of the SEFA and insufficient familiarity with the required elements of the SEFA. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

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

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

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

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

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

FINDING 2015-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. Control activities should have been selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. These deficiencies constituted material weaknesses:

1. Bank reconcilements had either not been performed or were inaccurate from July 1, 2013 through August 31, 2014.
2. Internal controls were not effective in detecting or preventing erroneous transfers of insurance benefits from being automatically made from various nonfederal funds into the Clearing fund and a subsequent payment of invoices directly from the same funds. This resulted in duplicate payments from the governmental funds and an accumulating balance in the Clearing fund. The errors were detected and corrected in August 2015.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material misstatements of the financial statement 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 approval take place and to have a separation of functions over financial transactions and reporting. 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.

The failure to establish these controls could enable 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)

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-003 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education

Federal Programs: Special Education - Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-035-PN01, 14214-035-PN01,
14215-035-PN01, 99914-035-TA01

Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation had not established an effective internal control system, which would include segregation of duties, related to its grant agreements and the Allowable Costs/Cost Principles compliance requirement. The School Corporation was a member of the Kokomo Area Special Education Cooperative (KASEC), and provided oversight of the KASEC through the School Corporation Superintendent who served as a member of the KASEC Board. However, the KASEC had not established an effective internal control system in relation to Allowable Costs/Cost Principles.

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."

Compliance

Semi-Annual Certifications for fiscal year 2014 could not be located by the KASEC and, therefore, were not presented for audit.

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

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

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted 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 requirement listed above.

FINDING 2015-004 - CASH MANAGEMENT

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 13-3470, 14-3470, 15-3470
Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Cash Management compliance requirement. The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material misstatements of the financial statement 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 financial transactions and reporting. 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

Supporting documentation for the Reimbursement Forms submitted to the Indiana Department of Education by the School Corporation could not be located by corporation officials and, therefore, was not presented for audit. The amounts reimbursed were in agreement with the total dollars expended.

34 CFR 80.42 states in part:

"(b) *Length of retention period.* (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section . . .

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(c) *Starting date of retention period-(1) General.* When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or sub-grantee submits to the awarding agency its single or last expenditure report for that period."

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 requirement listed above.

FINDING 2015-005 - REPORTING

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 13-3470, 14-3470, 15-3470

Pass-Through Entity: Indiana Department of Education

Internal Controls

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement.

The School Corporation submitted Reimbursement Forms and a Final Expenditure Report at the end of each grant year to the Indiana Department of Education. The failure to establish an effective internal control system resulted in the School Corporation being in noncompliance with Reporting requirements related to its Title I grants.

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

Supporting documentation for the Reimbursement Forms and the Final Expenditure report submitted to the Indiana Department of Education by the School Corporation could not be located by the School Corporation officials and, therefore, was not presented for audit. The Final Expenditure Reports were properly reported per the financial records of the School Corporation. The amounts reimbursed were in agreement with the total dollars expended.

34 CFR 80.42 states in part:

"(b) *Length of retention period.* (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section . . .

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(c) *Starting date of retention period-(1) General.* When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or sub-grantee submits to the awarding agency its single or last expenditure report for that period."

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 controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

FINDING 2015-006 - ELIGIBILITY AND REPORTING

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 Numbers): FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

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

Eligibility

Eligibility determinations for free and reduced price meals were made by two separate individuals during the audit period. However, there were no controls in place to ensure the accuracy of the determinations.

Reporting

The Sponsor Claims (claims for reimbursement), Annual Financial Reports, and Verification Summary Reports were prepared by the Treasurer; however, there were no controls in place to ensure that the reports were complete and accurate prior to them being submitted.

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.

NORTHWESTERN SCHOOL CORPORATION
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."

The failure to establish internal controls could have enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted 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 2015-007 - CASH MANAGEMENT

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 Numbers): FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Internal Controls

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

The School Corporation did not have proper controls in place to ensure cash balances of the School Lunch fund did not exceed the average expenditures for three 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."

Compliance

The School Corporation's average expenditures for three months for fiscal years 2014 and 2015, were \$231,025 and \$230,083, respectively. The School Lunch fund's net cash resources were maintained at an amount in excess of the average expenditures for three months throughout the entire audit period. The School Corporation indicated that they are aware of the matter and have been developing a plan to spend down the excess cash balances.

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR section 210.14(b) states: "*Net cash resources*. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e)(1)(iv) states: "Limit its net cash resources to an amount that does not exceed three months average expenditures 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 requirement could have resulted 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 requirement listed above.



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CORRECTIVE ACTION PLAN

FINDING 2015-001– PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Jamie Shepherd-Bryant, Treasurer
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

Due to SEFA being a relatively new requirement to complete and an insufficient familiarity with some of the required elements of the SEFA, procedures are now in place to report the correct expenditures. We are now aware that commodities are also to be reported under the National School Lunch Program as a non-cash federal expenditure and that will be correctly reported on the next SEFA when filing the Annual Financial Report.

Anticipated Completion Date: Immediate

FINDING 2015-002– INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Jamie Shepherd-Bryant, Treasurer
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

Procedures were implemented after an internal review of the internal control system in August of 2014 under the direction of the new Treasurer. The Treasurer will continue to prepare the reconciliation reports and the Superintendent will continue to review the reports. Reports are also provided monthly to the School Board.

Due to new financial software being implemented and continued expansion of use of the software, an error occurred in the setup of the benefit processing which caused the expenditure to report automatically out of various non-federal funds instead of the clearing fund established. Duplicate payments were not made. Proper accounting records were maintained to show the amounts transferred out of the clearing accounts to the various non-federal funds. The newly established benefit process was amended to properly automatically expend from the clearing account. The Assistant Treasurer will continue to report expenditures out of the clearing accounts and the Treasurer and Superintendent will continue to review those reports. Reports are also provided monthly to the School Board.

FINDING 2015-003– ALLOWABLE COSTS/COST PRINCIPLES

Contact Person Responsible for Corrective Action: Ryan Snoddy, Superintendent and Suzie Reagle, Director of Special Education, KASEC
Contact Phone Number: (765) 452-3060 and (765) 883-1487

Description of Corrective Action Plan:



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The Co-Op Board, comprised of Superintendents for each participating school, will clarify with the Special Education Co-Op Management Team that they are maintaining effective internal controls. The board will together determine the appropriate segregation of duties and identify reports which will allow individual schools to be in compliance on segregation of duties and oversight of this grant.

The KASEC Director of Special Education Suzie Regale, believes this finding is reflective of an audit of the 2013-14 school year. All required time and effort documentation is currently maintained in accordance with federal requirements. Controls were in place for the 2014-15 school year and remain in place. This maintenance of documentation will be continued as required.

Anticipated Completion Date: Immediate

FINDING 2015-004– CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Jamie Shepherd-Bryant, Treasurer
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

Procedures were implemented after an internal review of the internal control system in August of 2014 under the direction of the new Treasurer. The Assistant Treasurer and Title I Program Administrator will continue to submit requisitions for expenditure and the Treasurer and Superintendent will continue to approve the expenditures.

Supporting documentation from the prior Treasurer could not be assembled in a timely manner during the audit period; however, all current documentation is being retained for auditing purposes.

Anticipated Completion Date: Immediate

FINDING 2015-005– REPORTING

Contact Person Responsible for Corrective Action: Jamie Shepherd-Bryant, Treasurer
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

The Treasurer will continue to submit Claims for Reimbursement to the Indiana Department of Education. The Superintendent will continue to review the claims; however, will now sign off on the reports to be able to provide a written record of his review.

Supporting documentation from the prior Treasurer could not be assembled in a timely manner during the audit period; however, all current documentation is being retained for auditing purposes.

Anticipated Completion Date: Immediate



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FINDING 2015-006– ELIGIBILITY AND REPORTING

Contact Person Responsible for Corrective Action: Ryan Snoddy, Superintendent
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

Eligibility determinations for free and reduced price meals were made by two separate individuals during the audit period. Additional internal controls were implemented at the beginning of the 2015-16 school year to ensure a second review of applications were being performed. Applications are processed primarily by Sheila Lamb. Michele Short reviews 20% to ensure accuracy of data entry. If errors are detected, a higher percentage is reviewed.

The Food Service Director will continue to submit the Requests for Reimbursement, Annual Financial Reports, and Verification Summary Reports. The Treasurer and/or Superintendent will continue to review the reports; however, will now sign off on the reports to be able to provide a written record of this review.

Anticipated Completion Date: Immediate


FINDING 2015-007– CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Renee’ Hullinger, Food Service Director
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

The Food Service Director has implemented a plan to utilize excess cash balance in the School Lunch Fund that exceeds an average of three months’ worth of expenditures on large purchases for kitchen equipment. The Food Service Director will review the plan at the beginning of each school year. The Treasurer will continue to report cash balances monthly. The Superintendent and School Board will continue to review reports monthly.

Anticipated Completion Date: Ongoing



Jamie L. Shepherd-Bryant
Business Manager/Treasurer
05/06/2016

NORTHWESTERN SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT NOT TIMELY FILED

The Annual Report for Fiscal Year ending June 30, 2014, was not filed electronically until October 16, 2014.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

PREPAID LUNCH ACCOUNT

Prepaid lunch receipts were not placed in Fund 8400 Prepaid Lunch, a Clearing Account, but were instead accounted for in the School Lunch fund. The entire amount of prepaid lunch receipts were recognized in the School Lunch at the time of receipt as revenue and not as applied from the clearing account as students consumed their individual account balances. As a result, the subsidiary records of prepaid lunch fund balances by student could not be reconciled to an overall balance on a routine basis as required.

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 Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (The School Administrator, September 2008)

Subsidiary ledger balances must reconcile to the control ledger fund balance. Every transaction should be posted to the control ledger and to the appropriate subsidiary ledger. Fund balances should reconcile between the control ledger and the subsidiary ledger. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

APPROPRIATIONS

The expenditures for the Capital Projects fund were in excess of budgeted appropriations by \$40,048 for the budget year ended December 31, 2014.

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

NORTHWESTERN SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the cash balances to the bank account balances were not performed or were inaccurate for the period of July 1, 2013 through August 31, 2014. From September 30, 2014 through June 30, 2015, bank account reconciliations were performed.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

RECEIPT ISSUANCE

We conducted a test designed to verify that receipts were issued at the time the transactions occurred. Our test of this procedure found two instances where State distributions had been deposited by electronic funds transfer (EFT) on February 21, 2014, in the amounts of \$38,821 for textbook reimbursement and \$10,590 for child nutrition, but had not been receipted to the financial records of the School Corporation until July 1, 2014.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONDITION OF RECORDS - CLEARING ACCOUNTS

Financial reconcilements between the subsidiary ledgers and control account of the Clearing funds were not performed during the audit period. Erroneous balances from the prior audit were carried forward into the present audit period resulting in inaccurate balances throughout the audit period. Additionally, posting errors related to transfers of insurance benefits made from various non-federal funds into the Clearing fund and a subsequent payment of invoices directly from the same funds went undetected. This resulted in duplicate payments from the governmental funds and an accumulating balance in the clearing fund. The total amount of erroneous transfers was \$412,514. The errors were detected and corrected in August of 2015.

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)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)



Northwestern
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May 16, 2016

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, Indiana 46204-2765

OFFICIAL REPONSE TO AUDIT RESULTS AND COMMENTS

*ANNUAL REPORT NOT TIMELY FILED
APPROPRIATIONS
BANK ACCOUNT RECONCILIATIONS
RECEIPT ISSUANCE*

Due to the departure of the previous Treasurer, a time period without a Treasurer, the transition of a new Treasurer and implementation of new financial software, bank account reconciliations were not performed in a timely manner until August 31, 2014. This caused delays in the filing of the Annual Report, bank reconciliations, receipt issuances, and up-to-date appropriation balances.

Procedures were implemented after an internal review of the internal control system in August of 2014 under the direction of the new Treasurer to ensure timely balancing and filings.

CONDITION OF RECORDS – CLEARING ACCOUNTS

Northwestern School Corporation began utilizing Skyward Finance in July 2013. The insurance benefits were initially setup in Skyward Finance in April of 2015. Internal controls discovered an error that occurred during the initial setup in July 2015. Since the Form 9 was already filed and accepted, the corrections were made in July and August of 2015. All supporting documentation was retained and presented to the auditors to show the internal controls that discovered the error and the corrections made.

Jamie L. Shepherd-Bryant
Business Manager/Treasurer
05/16/2016

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RYAN SNODDY, SUPERINTENDENT | HAROLD SEAMON, ASST. SUPERINTENDENT | SCOTT SIMMONS, DIRECTOR OF CURRICULUM & TECH. | JAMIE SHEPHERD-BRYANT, TREASURER

NORTHWESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 16, 2016, with Jamie Shepherd-Bryant, Treasurer; Ryan Snoddy, Superintendent of Schools; and Steve Jones, School Board member.