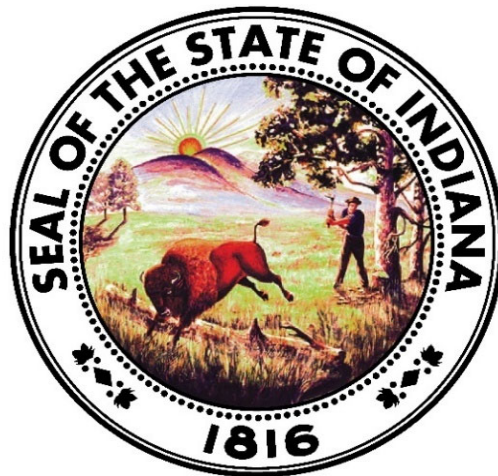


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FEDERAL COMPLIANCE AUDIT REPORT
OF
NORTHWESTERN SCHOOL CORPORATION
HOWARD COUNTY, INDIANA
July 1, 2021 to June 30, 2023



FILED
03/12/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jamie Bolser Camden Parkhurst	07-01-21 to 06-30-22 07-01-22 to 06-30-24
Superintendent of Schools	Kristen Bilkey	07-01-21 to 06-30-24
President of the School Board	Ted Merrell Jonathan Underwood	07-01-21 to 12-31-22 01-01-23 to 06-30-24



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Northwestern School Corporation (School Corporation), for the period of July 1, 2021 to June 30, 2023, and the related notes to the financial statement, which collectively comprise the School Corporation's financial statement and have issued our report thereon dated February 26, 2024, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School Corporation's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northwestern School Corporation's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School Corporation's response to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

February 26, 2024



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the Northwestern School Corporation's (School Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2021 to June 30, 2023. The School Corporation's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on COVID-19 - Education Stabilization Fund

In our opinion, except for the noncompliance described in the *Basis for Qualified and Unmodified Opinions* section of our report, the School Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the COVID-19 - Education Stabilization Fund for the period of July 1, 2021 to June 30, 2023.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings and Questioned Costs for the period of July 1, 2021 to June 30, 2023.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

We are required to be independent of the School Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School Corporation's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on COVID-19 - Education Stabilization Fund

As described in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding 84.425 COVID-19 - Education Stabilization Fund, as described in items 2023-003 and 2023-004 for Reporting and Special Tests and Provisions - Wage Rate Requirements, respectively. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School Corporation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School Corporation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the School Corporation's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2023-002, 2023-003, and 2023-004, to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the School Corporation's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The School Corporation's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the School Corporation, as of and for the period of July 1, 2021 to June 30, 2023, and the related notes to the financial statement. We issued our report thereon dated February 26, 2024, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with accounting principles generally accepted in the United States of America, and an unmodified opinion was issued regarding the presentation in accordance with the regulatory basis of accounting. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

February 26, 2024

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

NORTHWESTERN SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2022 and 2023

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-22	Total Federal Awards Expended 06-30-22	Passed Through to Subrecipient 06-30-23	Total Federal Awards Expended 06-30-23
Department of Agriculture							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553					
Child Nutrition Federal Reimbursement			FY 2022	\$ -	\$ 157,545	\$ -	\$ -
Child Nutrition Federal Reimbursement			FY 2023	-	-	-	89,309
Total - School Breakfast Program				-	157,545	-	89,309
National School Lunch Program							
Child Nutrition Federal Reimbursement	Indiana Department of Education	10.555	FY 2022	-	755,684	-	-
Child Nutrition Federal Reimbursement			FY 2023	-	-	-	503,152
Supply Chain Assistance			FY 2022	-	22,620	-	-
Supply Chain Assistance			FY 2023	-	-	-	97,507
National School Lunch Program - Commodities			FY 2022	-	66,464	-	-
National School Lunch Program - Commodities			FY 2023	-	-	-	41,496
Total - National School Lunch Program				-	844,768	-	642,155
Summer Food Service Program for Children	Indiana Department of Education	10.559	FY 2022	-	83,731	-	-
Summer Food Service Program							
Total - Child Nutrition Cluster				-	1,086,044	-	731,464
Pandemic EBT Administrative Costs							
PEBT	Indiana Department of Education	10.649	FY 2022	-	614	-	-
PEBT			FY 2023	-	-	-	1,256
Total - Pandemic EBT Administrative Costs				-	614	-	1,256
Total - Department of Agriculture				-	1,086,658	-	732,720
Department of Education							
Special Education Cluster (IDEA)							
Special Education Grants to States	Indiana Department of Education	84.027					
IDEA Part B			19611-033-PN01	-	1,745	-	-
IDEA Part B			20611-033-PN01	-	4,533	-	-
IDEA Part B			21611-033-PN01	-	246,069	-	-
IDEA Part B			21611-033-PN01	-	-	-	7,558
IDEA Part B			22611-033-PN01	-	156,380	-	-
IDEA Part B			22611-033-PN01	-	-	-	254,230
IDEA Part B			22619-033-PN01	-	-	-	575
Subtotal - Special Education Grants to States				-	408,727	-	262,363
COVID-19 - Special Education Grants to States							
IDEA Part B	Indiana Department of Education	84.027X	22611-033-ARP	-	4,993	-	-
IDEA Part B			22611-033-ARP	-	-	-	70,381
Subtotal - COVID-19 - Special Education Grants to States				-	4,993	-	70,381
Total - Special Education Grants to States				-	413,720	-	332,744

NORTHWESTERN SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2022 and 2023

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-22	Total Federal Awards Expended 06-30-22	Passed Through to Subrecipient 06-30-23	Total Federal Awards Expended 06-30-23
Special Education Preschool Grants	Indiana Department of Education	84.173					
IDEA Part B			21619-033-PN01	-	9,885	-	-
IDEA Part B			21619-033-PN01	-	567	-	-
IDEA Part B			23611-033-PN01	-	-	-	91,031
Subtotal - Special Education Preschool Grants				-	10,452	-	91,031
COVID-19 - Special Education Preschool Grants	Indiana Department of Education	84.173X					
IDEA Part B			22619-033-ARP	-	6,763	-	-
IDEA Part B			22619-033-ARP	-	-	-	420
Subtotal - COVID-19 - Special Education Preschool Grants				-	6,763	-	420
Total Special Education Preschool Grants				-	17,215	-	91,451
Total - Special Education Cluster (IDEA)				-	430,935	-	424,195
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010					
Title I Grant			20-3470	-	52,824	-	-
Title I Grant			21-3470	-	126,846	-	-
Title I Grant			21-3470	-	-	-	79,587
Total - Title I Grants to Local Educational Agencies				-	179,670	-	79,587
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
Title IIA - State Activities			S367A210013	-	30,317	-	-
Title IIA - State Activities			S367A210013	-	-	-	34,456
Total - Supporting Effective Instruction State Grants				-	30,317	-	34,456
Student Support and Academic Enrichment Program	Indiana Department of Education	84.424					
Title IV Grant			S424A200015	-	-	-	11,497
Total - Student Support and Academic Enrichment Program				-	-	-	11,497
COVID-19 - Education Stabilization Fund	Indiana Department of Education	84.425					
WVEC 3E Grant		84.425U	9828_NSC	-	-	20,000	20,000
ESSER I		82.425D	S425D200013	-	35,849	-	-
ESSER II		84.425D	S425D210013	-	227,530	-	-
ESSER II		84.425D	S425D210013	-	-	-	341,723
ESSER III		82.425U	S425U210013	-	209,318	-	-
ESSER III		82.425U	S425U210013	-	-	-	701,183
Total - COVID-19 - Education Stabilization Fund				-	472,697	20,000	1,062,906
Total - Department of Education				-	1,113,619	20,000	1,612,641
Total federal awards expended				\$ -	\$ 2,200,277	\$ 20,000	\$ 2,345,361

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2022 and 2023. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the School Corporation, it is not intended to and does not present the financial position of the School Corporation.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The School Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Kokomo Area Special Education Cooperative

The School Corporation is a member of the Kokomo Area Special Education Cooperative (KASEC). The KASEC operates the special education program for the School Corporation. As a result, some of the activity for the Special Education Cluster (IDEA) that is presented on the SEFA is not presented as receipts and disbursements in the financial statement for the School Corporation. This activity is reported on the financial statement of the fiscal agent for the KASEC, the Western School Corporation.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

Assistance Listings Number	Name of Federal Program or Cluster	Opinion Issued
84.425	Child Nutrition Cluster COVID-19 - Education Stabilization Fund	Unmodified Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

FINDING 2023-001

Subject: Financial Transactions and Reporting; Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness

Condition and Context

The School Corporation is required to file financial reports after the close of each fiscal year. The reports are to be filed electronically as prescribed.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The School Corporation filed the required reports; however, there was not a documented internal control over the financial and federal information entered into the Indiana Gateway for Government Units (Gateway) financial reporting system, which the source of the School Corporation's Annual Financial Report (AFR) and Schedule of Expenditures of Federal Awards (SEFA). Although, the Finance Assistant prepared and entered the financial and federal information into Gateway, and the Director of Finance reviewed and approved the information, the School Corporation did not have documentation of this oversight and review process.

The lack of internal controls was a systemic issue throughout the audit period.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the School Corporation had not established a proper system of internal controls to ensure proper reporting of the AFR and the SEFA.

Effect

Without a proper system of internal controls in place that operated effectively, material misstatements of the AFR or the SEFA could have occurred and remained undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

FINDING 2023-002

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
Assistance Listings Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2022, FY 2023
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the prior audit report. The prior audit finding number was 2021-001.

Condition and Context

The School Corporation did not have effective internal controls in place to ensure that wages paid to employees were in conformance with the allowable cost principles and only for the benefit or operation of the food service program.

A portion of the wages for the CFO/Treasurer, the Director of Operations, the Director of Finance, and two school secretaries were paid from the School Lunch fund. The wages paid from the School Lunch fund were based on fixed percentages and did not provide adequate information to determine if the percentage charged was appropriate. Total wages charged to the program for the above noted employees was \$31,617. This amount was considered questioned costs.

The ineffective internal controls and noncompliance was limited to the items noted above.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .

(g) Be adequately documented. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

A proper system of internal controls was not designed by management of the School Corporation. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the School Corporation's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, costs charged to the food service program could not be substantiated.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the School Corporation.

Questioned Costs

Known questioned costs of \$31,617 were identified as described above in *Condition and Context*.

Recommendation

We recommended that management of the School Corporation establish a proper system of internal controls and develop policies and procedures to ensure costs paid from the food service program are adequately documented.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2023-003

Subject: COVID-19 - Education Stabilization Fund - Reporting

Federal Agency: Indiana Department of Education

Federal Program: COVID-19 - Education Stabilization Fund

Assistance Listings Numbers: 84.425D, 84.425U

Federal Award Numbers and Years (or Other Identifying Numbers): S425D200013, S425D210013,
S425U210013

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material weakness, Modified Opinion

Condition and Context

The School Corporation had not properly designed or implemented a system of internal controls, which would include segregation of duties, that would likely be effective in preventing, or detecting and correcting, noncompliance. The School Corporation was required to submit an annual data report to the Indiana Department of Education via JotForm, a form/report builder. Data to be submitted included, but was not limited to, current period expenditures, prior period expenditures, and expenditures per activity.

During the audit period the School Corporation submitted two ESSER I reports, two ESSER II reports, and two ESSER III reports for a total of six reports. The reports were prepared and submitted by the Finance Manager without a documented oversight or review process.

In addition, four of the six annual data reports were not supported by the School Corporation's records. The financial information provided did not agree to the data submitted; therefore, we could not determine the accuracy of the annual data reports.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following
...

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. . . ."

34 CFR 76.722 states: "A State may require a subgrantee to submit reports in a manner and format that assists the State in complying with the requirements under 34 CFR 76.720 and in carrying out other responsibilities under the program."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

Cause

A proper system of internal controls was not designed by management of the School Corporation. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the School Corporation's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, reports were not supported by the School Corporation's records.

Noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of the federal award could result in the loss of future federal funding to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that management of the School Corporation establish a proper system of internal controls and develop policies and procedures to ensure that the records of the School Corporation support the expenditures reported on the reports submitted on behalf of the COVID-19 - Education Stabilization Fund.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2023-004

Subject: COVID-19 - Education Stabilization Fund - Special Tests and Provisions - Wage Rate Requirements
Federal Agency: Indiana Department of Education
Federal Program: COVID-19 - Education Stabilization Fund
Assistance Listings Numbers: 84.425D, 84.425U
Federal Award Numbers and Years (or Other Identifying Numbers): S425D210013, S425U210013
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Wage Rate Requirements
Audit Findings: Material Weakness, Modified Opinion

Construction contracts in excess of \$2,000 financed by federal assistance funds must pay wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) to their laborers and mechanics. Nonfederal entities are to include in their construction contracts subject to the Wage Rate Requirements a provision that the contractor or subcontractor comply with these requirements and the DOL regulations. This would include a requirement to submit a copy of the payroll and statement of compliance to the entity for each week in which contract work was performed.

The School Corporation had not designed nor implemented a system of internal controls to ensure that construction contracts in excess of \$2,000 paid from federal grant funds included a prevailing wage rate clause. One construction contract, totaling \$603,973, was paid for with COVID-19 - Education Stabilization Fund grant funds during the audit period. The contract did not include the required prevailing wage rate clause.

The lack of internal controls and noncompliance were systemic issues throughout the audit period.

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

29 CFR 5.5 states in part:

"(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses . . .

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(1) *Minimum wages.*

- (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics. . . .

(3) *Payrolls and basic records. . . .*

(ii)

- (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). . . ."

2 CFR 200 Appendix II states in part:

"In addition to other provisions required by the Federal agency or non-Federal entity; all contracts made by the non-Federal entity under the Federal award must contain provisions covering the following, as applicable. . . .

- (D) Davis-Bacon Act, as amended (40 U.S.C. 3141-3148). When required by Federal program legislation, all prime construction contracts in excess of \$2,000 awarded by non-Federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, 'Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction'). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. . . ."

Cause

A proper system of internal controls was not designed by management of the School Corporation, which would include segregation of key functions. Embedded within a properly designed and implemented internal control system should be internal controls consisting of policies and procedures. Policies reflect the School Corporation's management statements of what should be done to effect internal controls, and procedures should consist of actions that would implement these policies.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

Without the proper implementation of an effectively designed system of internal controls, the internal control system cannot be capable of effectively preventing, or detecting and correcting, material noncompliance. As a result, construction contracts entered into did not contain the required wage rate requirements clauses nor were certified payrolls obtained by the School Corporation.

Noncompliance with the grant agreement and the compliance requirement could result in the loss of future federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls and include the wage rate requirement clause in construction contracts. In addition, certified payrolls should be obtained as required.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

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AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the School Corporation. The documents are presented as intended by the School Corporation.



NORTHWESTERN SCHOOL CORPORATION

WHERE EXCELLENCE IN EDUCATION IS A TRADITION

Kristen Bilkey - Superintendent
Jeff Layden - Director of Operations
Geana Moore - Director of Special Services
Camden Parkhurst - Director of Finance
Scott Simmons - Director of Curriculum and Technology

3075 N. Washington Street
Kokomo IN, 46901

Phone: 765-452-3060
Fax: 765-452-3065

FINDING 2021-001 (Auditor Assigned Reference Number)

Fiscal year in which the finding initially occurred: FY2021

Current Audit Period: July 1, 2021 to June 30, 2023

Finding Subject: Child Nutrition Cluster – Allowable Costs/Cost Principles, Program Income,- Special Tests and Provisions – School Food Service Accounts

Summary of Finding: The School Corporation did not have effective internal controls in place to ensure that wages paid to employees were allowable and only for the operation of the food service program. A portion of the wages for the CFO/Treasurer, the Director of Operations, and two School Secretaries was paid from the School Lunch fund. The wages charged to the School Lunch fund were based on fixed percentages and did not provide adequate information to determine if the percentage charged was appropriate.

Status of Audit Finding:

NWSC removed the CFO/Treasurer, Director of Operations, and School Secretaries pay from the School Lunch Fund by 5/1/22.

NWSC removed the Director of Finance pay from the School Lunch Fund by 12/30/22.

NWSC removed one School Secretaries pay (stipend) from the School Fund by 6/30/23.

Response Comments:



NORTHWESTERN SCHOOL CORPORATION

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FINDING 2021-002 (Auditor Assigned Reference Number)

Fiscal year in which the finding initially occurred: FY2021

Current Audit Period: July 1, 2021 to June 30, 2023

Finding Subject: Child Nutrition Cluster – Eligibility

Summary of Finding: The School Corporation Secretary processed all free/reduced applications and performed a direct certification lookup. There was no one else involved in the process to ensure that applications were processed correctly. In addition, the School Corporation Secretary could not provide documentation showing that the former Food Service Director reviewed the direct certification lookup process to ensure it was completed correctly.

Status of Audit Finding:

Direct certifications are processed by two individuals in the corporation office. One will process the files and the other will double check them. The free and reduced applications are processed by our food service director. They are checked by a food service employee and then spot checked by the operations assistant at the corporation office.

Response Comments:



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FINDING 2021-003 (Auditor Assigned Reference Number)

Fiscal year in which the finding initially occurred: FY2021

Current Audit Period: July 1, 2021 to June 30, 2023

Finding Subject: Child Nutrition Cluster – Cash Management

Summary of Finding: Effective internal controls were not in place to ensure that meals claimed on the monthly Claim for Reimbursement (claims) were supported by adequate documentation. For August 2019, November 2020, and April 2021, the supporting documentation provided for audit did not agree to the claims for those months.

Status of Audit Finding:

Claims are entered in CNP website by the food service director. They are checked and submitted by the operations assistant in the corporation office.

Response Comments:

Camden Parkhurst
Director Finance
Northwestern School Corporation



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CORRECTIVE ACTION PLAN

FINDING 2023-001

Finding Subject: Financial Transactions and Reporting; Preparation of the Schedule of Expenditures of Federal Awards

Summary of Finding: The School Corporation filed the required reports; however, there was not a documented control over the financial and federal information entered into the Indiana Gateway for Government Units (Gateway) Financial reporting system, which the source of the School Corporation's Annual Financial Report (AFR) and Schedule of Expenditures of Federal Awards (SEFA). Although, the Finance Assistant prepared and entered the financial and federal information into Gateway, and the Director of Finance reviewed and approved the information the School Corporation did not have documentation of this oversight and review process.

Contact Person Responsible for Corrective Action: Camden Parkhurst

Contact Person Phone Number and Email Address: 765-457-8101 camden.parkhurst@nwsc.k12.in.us

View of Responsible Official:

We concur with the finding. The school believes proper internal controls were in place as the process has not changed from prior audits. There were some discrepancies from the original submission due to data retrieval issues with the corporation's financial software.

Description of Corrective Action Plan:

The Director of Finance will create an internal controls document to be signed and dated by the individuals involved in collecting and entering data in the Annual Financial Report and grants schedule (SEFA.) The corporation also actively reviewing our financial software and data mining procedures to eliminate submission errors in the future.

Anticipated Completion Date: Immediate



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FINDING 2023-002

Finding Subject: Child Nutrition Cluster- Allowable Activities, Allowable Costs/Cost Principals

Summary of Finding: A portion of the wages for the CFO/Treasurer, the Director of Operations, the Director of Finance, and two School Secretaries were paid from the School Lunch Fund. The wages charged to the School Lunch fund were based on fixed percentages and did not provide adequate information to determine if the percentage charged was appropriate. Total wages charged to the program for the above noted employees was \$31,617.

Contact Person Responsible for Corrective Action: Camden Parkhurst

Contact Person Phone Number and Email Address: 765-457-8101 camden.parkhurst@nwsc.k12.in.us

View of Responsible Official:

We concur with the finding. There was a substantial amount of turnover within the finance department. It was understood that the mentioned salaries were removed from the 0800 fund following the last audit. During review it was discovered only the Director of Operations and Assistant Treasurer salaries were removed from the child nutrition cluster. Upon discovery the Operations Assistant and Director of Finance were still having a portion of the salary paid from the 0800 fund, they were immediately removed.

Description of Corrective Action Plan:

The Director of Finance and the Operations Assistant's salaries have been removed from the 0800 fund and returned to the 0300 fund.

Anticipated Completion Date: Immediate and has been completed.



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FINDING 2023-003

Finding Subject: Education Stabilization Reporting

Summary of Finding: During the audit period the School Corporation submitted two ESSER I reports, two ESSER II reports and two ESSER III reports for a total of six reports. The reports were prepared and submitted by the Director of Finance without a documented oversight or review process.

In addition, four of the six annual data reports were not supported by the School Corporation's records. The financial information provided did not agree to the data submitted; therefore, we could not determine the accuracy of the annual data reports.

Contact Person Responsible for Corrective Action: Camden Parkhurst

Contact Person Phone Number and Email Address: 765-457-8101 camden.parkhurst@nwsc.k12.in.us

View of Responsible Official:

We concur with the finding. The submissions referenced without proper documentation were submitted by the previous CFO. The current finance staff is unable to locate any supporting documentation regarding those submissions. There is a reimbursement request internal controls document that was signed by both the CFO and Superintendent, but here is no supporting documentation to accompany it.

Description of Corrective Action Plan:

The current Director of Finance and finance team have attached all supporting documentation from the financial software to their submissions along with an internal controls document signed by the Director of Finance and Superintendent. The corporation is actively working with the Department of Education to amend when it believes to be some errors in the prior submissions as well.

Anticipated Completion Date: August 2024



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Finding 2023-004

Finding Subject: Education Stabilization Wage Rate Requirements

Summary of Finding: The School Corporation had not designed nor implemented a system of internal controls to ensure that construction contracts in excess of \$2,000 paid from federal grant funds included a prevailing wage rate clause. One construction contract, totaling \$603,973, was paid for with COVID-19 – Education Stabilization Fund grant funds during the audit period. The contract did not include the required prevailing wage rate clause.

Contact Person Responsible for Corrective Action: Camden Parkhurst

Contact Person Phone Number and Email Address: 765-457-8101 camden.parkhurst@nwsc.k12.in.us

View of Responsible Official:

We concur with the finding. The corporation acknowledges this error.

Description of Corrective Action Plan:

The Director of Operations and Director of Finance will work together to ensure wage rate language is in all federal contracts for future projects.

Anticipated Completion Date: Immediate

OTHER REPORTS

In addition to this report, other reports may have been issued for the School Corporation. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.