

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTH LAWRENCE COMMUNITY SCHOOLS
LAWRENCE COUNTY, INDIANA
July 1, 2012 to June 30, 2014



FILED
12/04/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Michele Cox Corbin E. Dietrich	07-01-12 to 06-30-15 07-01-15 to 06-30-16
Superintendent of Schools	Dr. Dennis D. Turner Gary Conner	07-01-12 to 06-30-15 07-01-15 to 06-30-16
President of the School Board	Jeff Lambrecht James Gary Holmes Larry Arnold	07-01-12 to 12-31-12 01-01-13 to 10-23-13 10-24-13 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTH LAWRENCE COMMUNITY
SCHOOLS, LAWRENCE COUNTY, INDIANA

This report is supplemental to our audit report of the North Lawrence Community Schools (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

September 23, 2015

NORTH LAWRENCE COMMUNITY SCHOOLS
FEDERAL FINDING

FINDING 2014-001 - MATCHING, LEVEL OF EFFORT, EARMARKING

Federal Agency: US Department of Education
 Federal Program: Special Education - Grants to States and Special Education - Preschool Grants
 CFDA Number: 84.027 and 84.173
 Federal Award Number and Year (or Other Identifying Number): 14211-049-PN01, 14212-049-PN01,
 14213-049-PN01, 14214-049-PN01,
 45711-049-PN01, 45713-049-PN01,
 45714-049-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirement: Matching, Level of Effort, and Earmarking.

The School Corporation did not retain supporting documentation for the level of effort (LOE) reported to the Indiana Department of Education. We were unable to verify the state and local expenditures for special education of students that was reported to the Indiana Department of Education. The following schedule discloses what the School Corporation reported and what we calculated as the LOE.

	<u>FISCAL YEAR 2012</u>	<u>FISCAL YEAR 2013</u>	<u>FISCAL YEAR 2014</u>	<u>FISCAL YEAR 2015</u>
Reported to Department of Education				
Level of Effort (LOE) Expenditures	\$ 4,144,392.07	\$ 4,442,439.98	\$ 4,144,398.50	\$ 4,157,730.89
Change in LOE Expenditures	n/a	298,047.91	0.72	13,332.39
Capita per Student	4,529.39	4,359.61	4,043.32	4,068.23
Change in Capita per Student	n/a	(169.78)	(316.29)	24.91
Auditor Calculation				
Level of Effort (LOE) Expenditures	3,281,235.16	3,229,813.39	3,263,518.04	3,200,858.49
Change in LOE Expenditures	n/a	(51,421.77)	33,704.65	(62,659.56)
Capita per Student	3,586.05	3,169.59	3,183.92	3,131.96
Change in Capita per Student	n/a	(416.46)	14.33	(51.96)

n/a = Not applicable

This schedule shows that the School Corporation did not meet the LOE for two of the last three years.

The failure to establish an effective internal control system places the school corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

NORTH LAWRENCE COMMUNITY SCHOOLS
FEDERAL FINDING
(Continued)

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.

34 CFR section 300.203 states:

"Maintenance of effort.

(a) *General.* Except as provided in §§ 300.204 and 300.205, funds provided to an LEA under Part B of the Act must not be used to reduce the level of expenditures or the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.

(b) *Standard.*

- (1) Except as provided in paragraph (b)(2) of this section, the SEA must determine that an LEA complies with paragraph (a) of this section for purposes of establishing the LEA's eligibility for an award for a fiscal year if the LEA budgets, for the education of children with disabilities, at least the same total or per capita amount from either of the following sources as the LEA spent for that purpose from the same source for the most recent prior year for which information is available:
 - (i) Local funds only.
 - (ii) The combination of State and local funds.
- (2) An LEA that relies on paragraph (b)(1)(i) of this section for any fiscal year must ensure that the amount of local funds it budgets for the education of children with disabilities in that year is at least the same, either in total or per capita, as the amount it spent for that purpose in the most recent fiscal year for which information is available and the standard in paragraph (b)(1)(i) of this section was used to establish its compliance with this section.
- (3) The SEA may not consider any expenditures made from funds provided by the Federal Government for which the SEA is required to account to the Federal Government or for which the LEA is required to account to the Federal Government directly or through the SEA in determining an LEA's compliance with the requirement in paragraph (a) of this section."

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."

NORTH LAWRENCE COMMUNITY SCHOOLS
FEDERAL FINDING
(Continued)

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

We recommended that the School Corporation establish procedures and controls, including segregation of duties, related to the Matching, Level of Effort, Earmarking compliance requirement.



NORTH LAWRENCE COMMUNITY SCHOOLS

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CORRECTIVE ACTION PLAN

SCHOOLS

- Bedford North Lawrence High School
- Bedford Middle School
- Dollens Elementary School
- Englewood School
- Fayetteville Elementary School
- Heltonville Elementary School
- Lincoln Elementary School
- Needmore Elementary School
- Oolitic Middle School
- Parkview Primary Elementary School
- Parkview Intermediate Elementary School
- Shawswick Elementary/Middle School
- Springville Elementary School
- Stalker Elementary School
- North Lawrence Vocational Technical Center

FINDING 2014-001 Matching, Level of Effort, Earmarking
 Federal Agency: US Department of Education
 Federal Program: Special Education-Grants to States and Special Education-Preschool Grants
 CFDA Number: 84.027 and 84.173
 Federal Award Number and Year (or Other Identifying Number): 14211-049-PN01, 14212-049-PN01, 14213-049-PN01, 14214-049-PN01, 45711-049-PN01, 45713-049-PN01, 45713-049-PN01, 45714-049-PN01
 Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Corbin Dietrich, Treasurer
 Contact Phone Number: 812-279-3521

Description of Corrective Action Plan:

North Lawrence Community Schools (NLCS) plans to establish a more effective internal control system with regard to the Special Education Level of Effort (LOE). NLCS will retain supporting documentation for the LOE reported in applications beginning in 2015 for FY 2016 to ensure the verifiability of the state and local expenditures for special education of students.

A greater level of segregation of duties will be established to ensure and effective monitoring process and compliance. The Treasurer will compile the expenditures reported on the application, the Deputy Treasurer will review the expenditures in detail for accuracy and completeness, and then the Director of Special Education will review the application before submission. This change in internal control structure will insure that federal compliance requirements have been met that have a direct and material effect on the program.

Anticipated Completion Date:

This plan has been established as a standard operating procedure as of September 22, 2015 and will continue on an ongoing basis with further grants.

Corbin Dietrich
 (Signature)

Treasurer/Director of Business Services
 (Title)

9-22-2015
 (Date)

NORTH LAWRENCE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN FUND BALANCE

The Joint Services and Supply - Special Education Cooperative fund was overdrawn as of June 30, 2013, by \$107,229.

A similar comment appeared in prior Report B41940.

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

CAPITAL ASSETS

Information presented for audit did not indicate the capital asset inventory of the School Corporation was kept up to date during the audit period.

A similar comment appeared in prior Report B41940.

Every governmental unit should have a complete inventory of all capital assets owned which reflect the acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NORTH LAWRENCE COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on September 23, 2015, with Corbin E. Dietrich, Treasurer; Gary Conner, Superintendent of Schools; and Larry Arnold, President of the School Board.

We spoke by telephone on September 23, 2015, with Michele Cox, former Treasurer, and she did not wish to attend an exit conference.