

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL TOWN OF MUNSTER

LAKE COUNTY, INDIANA

July 1, 2013 to June 30, 2014



**FILED**  
03/22/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Janice Swanson	07-01-13 to 06-30-16
Superintendent of Schools	Richard A. Sopko Jeffrey A. Hendrix	07-01-13 to 06-30-14 07-01-14 to 06-30-16
President of the School Board	John E. Friend Judith Florczak Paula Nellans Melissa Higgason	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

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TO: THE OFFICIALS OF THE SCHOOL TOWN OF MUNSTER, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the School Town of Munster (School Corporation), for the period from July 1, 2013 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](http://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

January 19, 2016

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS

***FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, payroll disbursements, and the preparation of the Schedule of Expenditures of Federal Awards (SEFA). The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

One employee was responsible for issuing, recording, and depositing receipts without evidence of a review or approval. The Payroll Specialist was responsible for inputting, preparing, recording and remitting payrolls without evidence of a review or approval. One employee was responsible for preparing the SEFA without evidence of a review or approval. Segregation of duties was not in evidence; nor were there adequate oversight and approval of the transactions and reports generated based on these transactions.

2. Preparing the Financial Statement: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's financial statement and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements.

The Financial Activity Report School Form 9s (Reports), include the financial activity of all funds and are the basis for which the financial statement is prepared, were signed by the Treasurer, Superintendent, and School Board President. Although the Reports contained all of the required certifications, there was no evidence that adequate oversight or review had occurred before submission to the Indiana Department of Revenue.

3. Monitoring of Controls: An evaluation of the School Corporation's system of internal controls has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control.

Monthly bank reconcilements were prepared by the Payroll Specialist and signed by the Treasurer; however, the bank reconcilements were not prepared or reviewed in a timely manner. Of the 12 bank reconcilements tested, five were not prepared timely (by the end of the second following month). Because of this, the bank reconcilements were also not reviewed timely. (For example, the June 2014 bank reconciliation was not prepared until February 2015 and was not reviewed until July 2015).

There was no authorization of administrative compensation. Not all administrative contracts were signed by the School Board; some were signed by only the employee and the Superintendent.

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

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

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

***FINDING 2014-002 - INTERNAL CONTROL OVER CHILD NUTRITION CLUSTER***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Year: FY 2014  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, and Special Tests and Provisions - Verification of Free and Reduced Price Applications.

*Cash Management*

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

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

The Food Service Director performed the eligibility determinations, approved the applications for free and reduced price meals, and performed the required verifications. The School Corporation did not have proper segregation of duties to ensure compliance with Eligibility and Special Tests and Provisions - Verification of Free and Reduced Price Applications requirements. Applications associated with eligibility and verifications were not subjected to review prior to eligibility determinations and submission of the verification report.

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

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

***FINDING 2014-003 - SUSPENSION AND DEBARMENT***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Year: FY 2014  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Suspension and Debarment compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

The School Corporation's Food Service Department includes language in its bidding documents that it "is required to check the GSA Excluded Parties List System to verify that the bidder has not been debarred."

Bid documents for bread and milk included this wording; however, the School Corporation failed to provide evidence that a search of the Excluded Parties List Systems through the System of Award Manager Center at [www.sam.gov](http://www.sam.gov) was conducted. The School Corporation did not have a review or oversight process in place to ensure that the required searches were performed or that and supporting documentation was retained for audit.

An internal control system 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. 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.

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

7 CFR 3016.35 Subawards to debarred and suspended parties states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

2 CRF 180.300 states:

"What must I do before I enter into a covered transaction with another person at the next lower tier?

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

You do this by:

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

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Suspension and Debarment requirements of the programs.

***FINDING 2014-004 - PROGRAM INCOME***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Year: FY 2014  
Pass-Through Entity: Indiana Department of Education

The School Corporation has not established an effective internal control system related to the grant agreement and Program Income Compliance requirements. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

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

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

An internal control system 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. 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.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

7 CFR 210.14(c) states:

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

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Vol.183)

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

We recommended that the School Corporation establish controls related to the grant agreement and compliance requirements for program income. Additionally, we recommended that School Corporation's management comply with the applicable Program Income requirements of the programs.

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

**FINDING 2014-005 - SPECIAL TESTS AND PROVISIONS - PAID LUNCH EQUITY**

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Year: FY 2014  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity. 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.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that paid lunch equity was properly implemented. There was no oversight process to ensure that the required weighted average price was recommended to the School Board for approval or charged to the students.

The School Corporation did not comply with the Special Tests and Provisions - Paid Lunch Equity for the 2013-2014 school year. The Indiana Department of Education (IDOE) provided the actual weighted average (\$1.94) and the required weighted average (\$2.04) lunch prices to the Food Service Director (Director) for the 2013-2014 school year. Since the actual weighted average lunch price was below the required price, the School Corporation was required to raise its prices, but not more than ten cents.

The Director was responsible for making recommendations for meal prices to the School Board to adopt for the 2013-2014 school year. In June 2013 her recommendation was for all breakfast and lunch pricing to stay the same as the 2012-2013 school year. The School Board did adopt the Director's recommendation. The Director's recommendation did not include the required increase.

An internal control system 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.

7 CFR 210.14(e) states in part:

"Pricing paid lunches. For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph . . .

(3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:

(i) 2 percent; and

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

(ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the FEDERAL REGISTER announcing the national average payment rates, from the prior year.

(4) *Price Adjustments.* (i) *Maximum required price increase.* The maximum annual average price increase required under this paragraph shall not exceed ten cents."

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

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions for Paid Lunch Equity.

***FINDING 2014-006 - LEVEL OF EFFORT - MAINTENANCE OF EFFORT***

Federal Agency: Department of Education  
Federal Program: Special Education - Grants to States  
CFDA Number: 84.027  
Federal Award Numbers: 14213-064-PN01, 14214-064-PN01  
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Level of Effort - Maintenance of Effort compliance requirement.

The School Corporation has not designed or implemented effective policies or procedures to ensure compliance with the program requirements of Level of Effort - Maintenance of Effort. An oversight, review, or approval process has not been established to ensure compliance with maintenance of effort amounts being reported to the pass-through entity.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement noted above. 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 program.

SCHOOL TOWN OF MUNSTER  
FEDERAL FINDINGS  
(Continued)

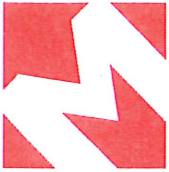
An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. 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 program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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

We recommended that the School Corporation establish controls, including segregation of duties, related to the grant agreement and the compliance requirement listed above.



ADMINISTRATION  
CENTER

8616 COLUMBIA AVENUE • MUNSTER, INDIANA 46321  
PHONE: 219.836.9111 FAX: 219.836.3215

CORRECTIVE ACTION PLAN

**FINDING 2014-001 – Financial Transactions and Reporting**

Contact Person Responsible for Corrective Action: Janice Swanson, Director of Financial Operations  
Contact Phone Number: 219-836-9111

Description of Corrective Action Plan:

1. Lack of Segregation of Duties: School Town of Munster has a very stable, experienced business department. Due to extremely tight general fund budgets for several years, our business department staff has been reduced on multiple occasions.

Even though our duties are segregated, it is nearly impossible to have our small department cross-trained enough to know all the details of other positions, even if only to review prepared documents.

2. Preparing Financial Statement: As noted in the finding, School Town of Munster's Form 9 reports did contain all of the required certifications, which are produced by "uploading" School Town of Munster's financial data to the DOE website. There is not a "report" to review prior to the Form 9 submission.

In addition, Form 9 is a 6-month compilation of the same monthly information that is provided to the administration and the school board at their monthly meeting. The school board is also approving the payment of bills and payroll at their monthly meeting, which is directly represented in the Form 9.

3. Monitoring of Controls: With the added work load to the business department over the past few years, due to the reduction of staff, occasionally the department can get behind in one area or another. School Town of Munster will strive to keep the flow of bank statement reconciliation on a more even schedule. As of today, all bank statements have been reconciled and reviewed through November, 2015.

Any future administrative contracts, that are issued will be signed by the Board of School Trustees.

Anticipated Completion Date: #1-as soon as financially feasible; #2-with next submission; #3-reconciled thru 12/2015 on 1/14/2016.

*Janice Swanson*  
(Signature)

*Director of Financial Oper.*  
(Title)

*1/14/2016*  
(Date)



8808 Columbia Avenue ❖ Munster, IN 46321 ❖ 219.836.3204

## **CORRECTIVE ACTION PLAN**

### **Section III – Federal Awards Findings and Questioned Costs**

#### ***FINDING 2014- 002 INTERNAL CONTROL OVER CHILD NUTRITION CLUSTER***

**Federal Agency:** U.S. Department of Agriculture

**Federal Program:** School Breakfast Program, National School Lunch Program

**CFDA Number:** 10.553, 10.555

**Federal Award Year:** FY 2014

**Pass-Through Entity:** Indiana Department of Education

**Auditee Contact Person:** Kathryn Feezel

**Title of Contact Person:** Director of Student Nutrition and Food Services

**Phone Number:** 219.836.3204

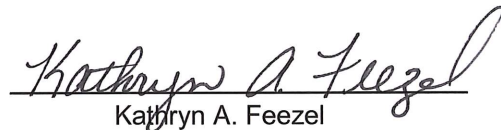
#### **CASH MANAGEMENT**

School Town of Munster has acquired a new Food Service Director July 2015. Director has already corrected this process this should be evident in next audit.

#### **Verification Free and Reduced Price Applications**

New Director effective July 2015. Food Service Director already corrected as of July 1, 2015, this process will be evident in next audit.

This corrective action plan will be implemented by July 2015

  
Kathryn A. Feezel

Director of Student Nutrition and Food Services

January 14, 2016



**Student Nutrition Services**

8808 Columbia Avenue ❖ Munster, IN 46321 ❖ 219.836.3204

**CORRECTIVE ACTION PLAN**

**Section III – Federal Awards Findings and Questioned Costs**

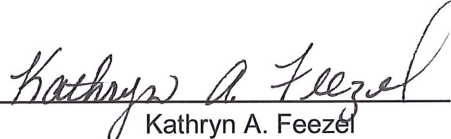
***FINDING 2014-003 SUSPENSION AND DEBARMENT***

**Federal Agency:** U.S. Department of Agriculture  
**Federal Program:** School Breakfast Program, National School Lunch Program  
**CFDA Number:** 10.553, 10.555  
**Federal Award Year:** FY 2014  
**Pass-Through Entity:** Indiana Department of Education  
**Auditee Contact Person:** Kathryn Feezel  
**Title of Contact Person:** Director of Student Nutrition and Food Services  
**Phone Number:** 219.836.3204

**Suspension and Debarment Corrective Action Plan**

As the new Food Service Director, July 2015, this process will be corrected in next round of bids Spring of 2016.

This corrective action plan will be implemented by Spring 2016

  
Kathryn A. Feezel

Director of Student Nutrition and Food Services

January 14, 2016



8808 Columbia Avenue ❖ Munster, IN 46321 ❖ 219.836.3204

## **CORRECTIVE ACTION PLAN**

### **Section III – Federal Awards Findings and Questioned Costs**

#### ***FINDING 2014-004 PROGRAM INCOME***

**Federal Agency:** U.S. Department of Agriculture

**Federal Program:** School Breakfast Program, National School Lunch Program

**CFDA Number:** 10.553, 10.555

**Federal Award Year:** FY 2014

**Pass-Through Entity:** Indiana Department of Education

**Auditee Contact Person:** Kathryn Feezel

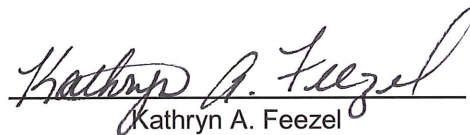
**Title of Contact Person:** Director of Student Nutrition and Food Services

**Phone Number:** 219.836.3204

#### **Program Income**

The School Town of Munster and Food Service Department was made aware from two (2) sources in the Fall of 2015 of what we were not doing. The Food Service Department plans to implement appropriate procedures with the 2016-2017 School Year.

This corrective action plan will be implemented by August 2016



Kathryn A. Feezel

Director of Student Nutrition and Food Services

January 14, 2016



8808 Columbia Avenue ❖ Munster, IN 46321 ❖ 219.836.3204

## **CORRECTIVE ACTION PLAN**

### **Section III – Federal Awards Findings and Questioned Costs**

#### ***FINDING 2014-005 SPECIAL TESTS AND PROVISIONS OF PAID LUNCH EQUITY***

**Federal Agency:** U.S. Department of Agriculture

**Federal Program:** School Breakfast Program, National School Lunch Program

**CFDA Number:** 10.553, 10.555

**Federal Award Year:** FY 2014

**Pass-Through Entity:** Indiana Department of Education

**Auditee Contact Person:** Kathryn Feezel

**Title of Contact Person:** Director of Student Nutrition and Food Services

**Phone Number:** 219.836.3204

#### **Special Tests and Provision – Paid Lunch Equity Corrective Action Plan**

The School Town of Munster and Food Service Department understands what was not done appropriately in the 2013-2014 school year; however the appropriate increase was implemented 2014-2015 school year and the Food Service Department will continue to increase prices per state requirements.

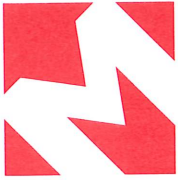
This corrective action plan will be implemented by July 2014

A handwritten signature in black ink that reads "Kathryn A. Feezel". The signature is written in a cursive style and is positioned above the printed name.

Kathryn A. Feezel

Director of Student Nutrition and Food Services

January 14, 2016



ADMINISTRATION  
CENTER

8616 COLUMBIA AVENUE • MUNSTER, INDIANA 46321  
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CORRECTIVE ACTION PLAN

**FINDING 2014-006 – Level of Effort – Maintenance of Effort**

Federal Agency: U.S. Department of Education  
Federal Program: Special Education – Grants to States  
CFDA Number: 84.027  
Federal Award Numbers: 14213-064-PN01, 14214-064-PN01  
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Janice Swanson, Director of Financial Operations  
Contact Phone Number: 219-836-9111

Description of Corrective Action Plan:

School Town of Munster participates in the West Lake Special Education Cooperative with Lake Central Schools. When completing School Town of Munster's portion of the level of effort – maintenance of effort, the appropriate Form 9 data is used, which has been reviewed by administration and the board of school trustees, as part of the ongoing information that comprises the Form 9 data.

When preparing future level of effort – maintenance of effort documents to be provided to Lake Central schools for grant submission, the documents will be reviewed with the superintendent of schools.

Anticipated Completion Date: next submission

Janice Swanson  
(Signature)

Director of Financial Oper.  
(Title)

1/14/2016  
(Date)

SCHOOL TOWN OF MUNSTER  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statement presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the General and Textbook Rental funds with overdrawn cash balances at June 30, 2014 of \$8,552,870 and \$266,962, respectively.

A similar comment appeared in prior report B43309.

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

**APPROPRIATIONS**

The following funds recorded expenditures in excess of calendar year budget appropriations:

Fund	Years	Excess Amount Expended
General	2013	\$ 2,792,478
Debt Service	2013	362,260
Capital Projects	2013	745,041
School Transportation	2013	85,483
General	2014	8,228,062
Capital Projects	2014	1,348,892

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."

**INTERFUND LOANS**

Various temporary transfers between funds have been made and not repaid within the time frame permitted by statute. Between July and December 2013, six temporary transfers ranging between \$300,000 and \$880,000 occurred. All should have been repaid by June 30, 2014; however, at June 30, 2014 the General Fund still owed the Self-Insurance Fund \$1,000,000. In addition, only one of the six temporary transfers was approved by the School Board.

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

SCHOOL TOWN OF MUNSTER  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-1-8-4 states:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

***SUBSTITUTE WAGE RATE***

A board approved wage rate for substitute certified employees was not provided.

Indiana Code 20-28-9-6 states:

- "(a) The governing body shall fix wages for substitute teachers.
- (b) A substitute teacher may be engaged without a written contract."

SCHOOL TOWN OF MUNSTER  
AUDIT RESULTS AND COMMENTS  
(Continued)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

**OFFICIAL BOND**

The crime policy for the school bookkeepers and food service secretary was effective July 1, 2012 through July 1, 2015. The terms were not set for a one year period.

Indiana Code 20-41-1-6 states in part:

"(a) The treasurer shall give a bond in an amount fixed by the superintendent and principal of the school approximating the total amount of the anticipated funds that will come into the possession of the treasurer at any one (1) time during the regular school year. Bonds shall be filed with the trustee or board of school trustees. The surety on the bonds must be a surety company authorized to do business in Indiana. However, the requirement for giving the bond and the requirement to deposit the receipts in a separate bank account, as required in section 9 of this chapter, do not apply to any school for which the funds, as estimated by the principal, will not exceed three hundred dollars (\$300) during a school year.

(b) The requirements of this chapter may be fulfilled by providing a comprehensive bonding instrument, including a single blanket position bond, for all extracurricular treasurers. A comprehensive bonding instrument is acceptable instead of individual separate personal position bonds."

Indiana Code 20-41-2-6(b) states:

"If either the lunch program or the curricular materials rental program is handled through the extracurricular account, the governing body of the school corporation shall approve the amount of the bond of the treasurer of the extracurricular account in an amount the governing body considers sufficient to protect the account for all funds coming into the hands of the treasurer of the account."

The State Board of Accounts is of the audit position a new bond shall be given at the beginning of each school year. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

**CURRICULAR MATERIALS RENTAL CHARGES**

The School Corporation included a shipping markup of 25 percent of the curricular materials retail price when determining the base rental charges, instead of the actual shipping charges.

Textbook purchasing information for Wilbur Wright Middle School and the elementary schools were not presented for audit.

In addition, there was not a written attorney opinion regarding educational fees established by the school board and whether or not they violate the Indiana constitution.

SCHOOL TOWN OF MUNSTER  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 20-26-12-2 states in part:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of curricular materials that have been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

Indiana Code 20-26-4-1(d) concerning duties of the School Corporation Treasurer, states in part:

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

### ***TRANSFER TUITION***

The School Corporation completes a transfer tuition form (Form 515, Transfer Tuition Statement) to compute the amount to be charged for transfer tuition in accordance with State statute. However, the School Corporation also charged an additional \$700 annual assessment for capital costs concerning technology and computers. Per transfer tuition memos, dated March 8, 2011, and April 2, 2012, "This fee includes computers, fiber optic lines, and phone lines associated with providing these sources through local property taxes as well as the costs associated with recent bond construction projects."

A similar comment appeared in prior reports.

Indiana Code 20-26-11-6(b) states:

"A transfer may be accepted regardless of whether, as a condition of the transfer, the transferee school requires the requesting parents or student to pay transfer tuition in an amount determined under the formula established in section 13 of this chapter for the payment of transfer tuition by a transferor school corporation. However, if the transferee school elects to charge transfer tuition, the transferee school may not offset the amounts described in section 13(b) STEP TWO (B) through section 13(b) STEP TWO (D) of this chapter from the amount charged to the requesting parents or student."

SCHOOL TOWN OF MUNSTER  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 20-26-11-13(c) states in part:

"Operating costs shall be determined for each class of school where a transfer student is enrolled. The operating cost for each class of school is based on the total expenditures of the transferee corporation for the class of school from its general fund expenditures as specified in the classified budget forms prescribed by the state board of accounts. This calculation excludes:

- (1) capital outlay; . . ."



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DIRECTOR OF INSTRUCTIONAL  
PROGRAMS AND ASSESSMENT

## Official Response

March 11, 2016

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

To Whom it May Concern:

This letter is in response to the exit interview for the audit period of July 1, 2013 to June 30, 2014. The School Town of Munster wishes to respond to each of the items which were discussed at the exit interview. In addition, the School Town of Munster expresses its gratitude and appreciation for a thorough and professional audit conducted by the SBA personnel.

The school corporation acknowledges that it still has a deficit General Fund balance, however we continue to implement cost saving practices and work diligently to turn the General Fund balance into a positive balance. We continue to utilize professional financial consultants to achieve this goal. Our 2013 voter approved General Fund referendum has been a significant tool in this process.

The large General Fund expenditures in excess of School Town of Munster's budgeted appropriations for 2014 is directly related to the reduced general fund budget issued by the Department of Local Government Finance (DLGF). Over the past 5 years, the DLGF has not awarded a budget consistent with the estimated revenue to be produced by the State of Indiana Basic Grant or any miscellaneous revenue that would be generated. Please refer to the DLGF budget history below:

2012 - \$14,769,684    2013 - \$23,389,515    2014 - \$18,124,215    2015 - 22,950,262  
2016 - \$16,414,808

The State Basic Grant is estimated to generate in excess of \$22,500,000 for the 2015-16 school year, with the DLGF approving a budget of only \$16,414,808. School Town of Munster will again be on a trajectory to overspend the approved appropriation in 2016 even though the district's expenditures are projected to be less than our revenue. The School

TEACHING TODAY *for*  
TOMORROW

Town of Munster will proactively request additional appropriations from the DLGF when revenue in excess of the appropriation is received.

The June, 2014 outstanding interfund loan due the Self-Insurance Fund of \$1,000,000, was partially repaid (\$500,000) in June, 2015 and (\$200,000) in February, 2016. The remaining balance will be repaid prior to June 30, 2016.


Substitute certified staff wages will be approved annually with all other wage rate scales, prior to the commencement of the ensuing school year.

Management will look into the matter relating to official bonds for the school bookkeepers and food service secretary. This bond has been a 3-year blanket bond in the past and we were not aware of a change. There was no change mentioned in our prior audit, which was performed in the middle of our blanket bond for 2012 thru 2015.

Management will work with the appropriate schools concerning the calculation of curricular materials rental charges prior to the ensuing school year and will have those records available for audit at the administration office. The School Town of Munster did have a written attorney opinion prepared regarding the educational fees established by the school board for the 2015-2016 school year. This opinion will be available for the next audit.

The School Town of Munster will continue to have its educational fees reviewed by the school attorney who will render a written opinion on an annual basis.

Transfer Tuition rates for the 2016-17 school year will be adjusted accordingly.

Sincerely,  
  
Janice Swanson  
Treasurer

CC Jeffrey Hendrix, Superintendent  
Melissa Higgason, STM School Board President

SCHOOL TOWN OF MUNSTER  
EXIT CONFERENCE

The contents of this report were discussed on January 19, 2016, with Janice Swanson, Treasurer; Jeffrey A. Hendrix, Superintendent of Schools; and Melissa Higgason, President of the School Board.