

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH NEWTON SCHOOL CORPORATION

NEWTON COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**

04/29/2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Karen Zackfia	07-01-12 to 06-30-16
Superintendent of Schools	Brian Smith Dr. Robert Boyd Destin Haas	07-01-12 to 06-30-13 07-01-13 to 11-01-14 11-02-14 to 06-30-16
President of the School Board	Nathan Gibson Michael Russell	07-01-12 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 NORTH NEWTON SCHOOL CORPORATION, NEWTON COUNTY, INDIANA

This report is supplemental to our audit report of the North Newton School Corporation (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 the Audit Result and Comment 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 Result and Comment 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 Result and Comment contained herein describes 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

March 9, 2016

NORTH NEWTON SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2014-001 - INTERNAL CONTROLS OVER THE 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 Years: FY 12-13, FY 13-14  
Pass-Through Entity: Indiana Department of Education

Management of the North Newton School Corporation has not established an effective internal control system for their Food Service Program, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Procurement and Suspension and Debarment, Reporting 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 compliance with the Cash Management requirements of the programs. A monitoring or review process has not been established to ensure that the School Lunch fund's net cash resources are limited to three month average expenditures in compliance with Cash Management requirements. There was no segregation of duties, such as oversight, review, or approval process.

*Eligibility*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that Eligibility for free and reduced price meals was accurately determined. The application information was reviewed by the Food Service Director who made the eligibility determination. The Food Service Director entered the student status in the food service software program. There was no segregation of duties, such as oversight, review, or approval process to ensure that the information entered into the food service software was correct.

*Procurement and Suspension and Debarment*

The School Corporation has not designed or implemented adequate policies and procedures to ensure compliance with the Procurement and Suspension and Debarment requirements of the programs. The School Corporation used a cooperative purchasing agent for procurement and suspension and debarment services, but had no procedures in place to review or verify the bids received by the cooperative or to ensure that vendors chosen by the School Corporation had not been suspended or debarred from participation in federal programs. There was no segregation of duties, such as oversight, review, or approval process.

*Reporting*

The School Corporation has not designed or implemented adequate policies and procedures to ensure that required reports are accurately prepared and submitted. The monthly reimbursement requests were independently prepared by the Food Service Director and submitted electronically via the Indiana Department of Education's website. The reports were not subjected to review prior to submission. The Food Service Director also independently prepared and submitted the Annual Financial Report which was not subjected to review prior to submission. There was no segregation of duties, such as an oversight, review, or approval process to ensure compliance with the Reporting requirements.

NORTH NEWTON SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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

The School Corporation has not designed or implemented adequate policies and procedures to ensure compliance with the requirements for the verification of free and reduced price applications. Currently, the verification is completed by the same employee who completed the initial application. There was no segregation of duties, such as an oversight, review, or approval process to review the verification process.

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

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. 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, including segregation of duties, related to the grant agreement and compliance requirements listed above.

***FINDING 2014-002 - CASH MANAGEMENT AND REPORTING***

Federal Agency: Department of Education

Federal Programs: Special Education\_Grants to States, Special Education\_Preshool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers: 14212-051-PN01, 14213-051-PN01, 14214-051-PN01, 9914-051-TA01,  
45712-051-PN01, 45713-051-PN01, 45714-051-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 Cash Management and Reporting compliance requirements of the programs. 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 NEWTON SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The School Corporation has not designed or implemented adequate policies or procedures to ensure compliance with Cash Management and Reporting requirements. Requests for reimbursement reports were required to be submitted to receive grant funding. Requests were prepared by the Special Education Cooperative Treasurer and properly filed with the Indiana Department of Education. However, the reports were not subjected to review prior to submission. There was no segregation of duties, such as an oversight, review, or approval process.

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

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. 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, including segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements.



**North Newton School Corporation**

310 South Lincoln Street  
P.O. Box 8  
Morocco, Indiana 47963  
Phone: 219-285-2228

Destin Haas, Ed.S.  
Superintendent

Karen L. Zackfia, C.P.A.  
Director of Business and Finance

**CORRECTIVE ACTION PLAN**

**FINDING 2014-001**

Contact Persons Responsible for Corrective Action : Karen Warne, Food Service Director  
Karen Zackfia, Director of Business and Finance

Contact Phone Number: Karen Warne: 219-285-2252 ext. 222  
Karen Zackfia: 219-285-2228

Description of Corrective Action Plan:

1. Cash Management: A spreadsheet will be created to calculate a three month rolling average of expenditures and compare that amount with the month-end cash balance of the School Lunch Fund. The expenditure amounts will come from the financial accounting system's fund and budget history reports. The director of business and finance will maintain the spreadsheet. The deputy treasurer and food service director will review and verify the amounts on the spreadsheet to the school corporation's records. The ending cash balance will be kept at the acceptable amount. The spreadsheet and all supporting documentation will be kept in accordance with state and federal record retention guidelines.
2. Eligibility: Free and reduced price meal applications will be reviewed by both the food service director and each building's head cook for eligibility. A second review or verification will be completed by the building secretaries at the elementary schools and the registrar at the jr/sr high school. All employees will document the review or verification with their initials and date. A food service employee will enter the student status into the food service software. The food service director will review data entered into the food service software for accuracy. All documents will be kept in accordance with state and federal record retention guidelines.
3. Procurement, Suspension, and Debarment: As a member of the Northwest Indiana Education Service Center (NWIESC), North Newton School Corporation participates in the cooperative bid process for milk consumed in the School Lunch Program. Acceptance of the most responsive and responsible vendors from the NWIESC cooperative bids for milk will be recommended by the food service director to the director of business and finance. The director of business and finance will present the recommendation to the North Newton Board of Trustees for approval. The official board minutes will document acceptance of this recommendation.



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Superintendent

Karen L. Zackfia, C.P.A.  
Director of Business and Finance

4. Reporting: The food service director will complete the month reimbursement requests and the Annual Financial Report. The reports will be forwarded along with supporting documentation to the director of business and finance for review and verification before submission by the food service director. The director of business and finance will initial and date the reports. All documents will be kept in accordance with state and federal record retention guidelines.
5. Special Tests and Provisions: The food service director will complete the verification process in accordance with Free and Reduced Lunch Program guidelines. The director of business and finance will complete a second review or audit of 5% of the free and reduced application received by the school corporation. The applications for the second audit will be selected at random. The director of business and finance will initial and date the applications that are reviewed a second time. All documents will be kept in accordance with state and federal record retention guidelines.

Anticipated Completion Date:

1. The cash management plan was implemented on March 8, 2016.
2. The second review was implemented at the beginning of the 2015-16 school year while the remainder of the plan will be implemented at the beginning of the 2016-17 school year.
3. The 2015-16 vendor awards were approved by the Board of Trustees on July 13, 2015.
4. The plan was implemented on March 8, 2016.
5. The plan will be implemented at the start of the 2016-2017 school year.

*Karen Warner*  
\_\_\_\_\_  
(Signature)

Food Service Director

\_\_\_\_\_  
(Title)

March 9, 2016

\_\_\_\_\_  
(Date)

*Karen L. Zackfia*  
\_\_\_\_\_  
(Signature)

Director of Business and Finance

\_\_\_\_\_  
(Title)

March 9, 2016

\_\_\_\_\_  
(Date)



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Destin Haas, Ed.S.  
Superintendent

Karen L. Zackfia, C.P.A.  
Director of Business and Finance

**CORRECTIVE ACTION PLAN**

**FINDING 2014-002**

Contact Persons Responsible for Corrective Action : Pam Ledford, Cooperative School Services treasurer  
Karen Zackfia, Director of Business and Finance

Contact Phone Number: Pam Ledford: 219-567-9161  
Karen Zackfia: 219-285-2228

Description of Corrective Action Plan:

1. Cash Management and Reporting: Requests for reimbursement will be prepared by the Cooperative School Services treasurer. The requests for reimbursement along with supporting documentation will be forwarded and reviewed by the director of business and finance or designee before submission by the Cooperative School Services treasurer to the Department of Education. The documents will be initialed and dated. All documents will be kept in accordance with state and federal record retention guidelines.

Anticipated Completion Date:

1. The cash management plan be implemented with the beginning of the 2016-17 school year.

  
\_\_\_\_\_  
(Signature)

Director of Business and Finance

\_\_\_\_\_  
(Title)

March 9, 2016

\_\_\_\_\_  
(Date)

NORTH NEWTON SCHOOL CORPORATION  
AUDIT RESULT AND COMMENT

**COLLECTIVE BARGAINING AGREEMENT**

The Collective Bargaining Contract for the period of July 1, 2014 through June 30, 2015, contained the following provisions prohibited by Indiana Code 20-29-6-4.5: Entire Agreement Clause (supremacy), Supremacy Provision, Supremacy Over Individual Contracts, Amendment, Severability Clause, and Unpaid Leave.

During the audit period, Indiana Code 20-29-6-4 stated:

"(a) A school employer shall bargain collectively with the exclusive representative on the following:

- (1) Salary.
- (2) Wages.
- (3) Salary and wage related fringe benefits, including accident, sickness, health, dental, vision, life, disability, retirement benefits, and paid time off as permitted to be bargained under IC 20-28-9-11.

(b) Salary and wages include the amounts of pay increases available to employees under the salary scale adopted under IC 20-28-9-1, but do not include the teacher evaluation procedures and criteria, or any components of the teacher evaluation plan, rubric, or tool."

During the audit period, Indiana Code 20-29-6-4.5 stated:

"(a) For a contract entered into after June 30, 2011, a school employer may not bargain collectively with the exclusive representative on the following:

- (1) The school calendar.
- (2) Teacher dismissal procedures and criteria.
- (3) Restructuring options available to a school employer under federal or state statutes, regulations, or rules because of the failure of the school corporation or a school to meet federal or state accountability standards.
- (4) The ability of a school employer to contract, partner, or operate jointly with an educational entity that provides postsecondary credits to students of the school employer or dual credits from the school employer and the educational entity.
- (5) Any subject not expressly listed in section 4 of this chapter.

(b) A subject set forth in subsection (a) that may not be bargained collectively may not be included in an agreement entered into under this article."

NORTH NEWTON SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Destin Haas, Superintendent of Schools, and Karen Zackfia, Treasurer.