

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NOBLESVILLE SCHOOLS

HAMILTON COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
06/06/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Terry Rich Robin Phelps	07-01-13 to 07-22-15 07-23-15 to 06-30-16
Superintendent of Schools	Libbie Connor Beth Niedermeyer	07-01-13 to 08-31-14 09-01-14 to 06-30-16
President of the School Board	Pat Berghoff Donna Clark	07-01-13 to 06-30-14 07-01-14 to 06-30-16



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TO: THE OFFICIALS OF THE NOBLESVILLE SCHOOLS, HAMILTON COUNTY, INDIANA

This report is supplemental to our audit report of the Noblesville Schools (School Corporation), for the period from July 1, 2013 to June 30, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings 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.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

March 22, 2016

NOBLESVILLE SCHOOLS
FEDERAL FINDINGS

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

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Treasurer prepared the SEFA; however, there was no control to ensure the SEFA was complete and accurate.

The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, (material) misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

Incorrect expenditure amounts were listed for some grants and a state grant was incorrectly included on the SEFA. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

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

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

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

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

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

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

NOBLESVILLE SCHOOLS
FEDERAL FINDINGS
(Continued)

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

FINDING 2015-002 - CASH MANAGEMENT

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 14, FY 15
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 Cash Management compliance requirements that have a direct and material effect on 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.

There were no procedures established to ensure that the School Lunch fund cash balances were maintained in compliance with the Cash Management requirements. The failure to establish an effective internal control system allowed noncompliance with the requirements.

The School Corporation Food Service department maintains a cash balance in excess of federal regulations. The average expenditures for three months of the School Corporation for the National School Lunch Program for FY 13-14 were \$1,098,985. The month-end cash balances for FY 13-14 ranged from \$1,207,698 to \$1,743,662. The average expenditures for three months of the School Corporation for the National School Lunch Program for FY 14-15 were \$1,149,081. The month-end cash balances for FY 14-15 ranged from \$1,323,220 to \$1,805,168. This compliance requirement was not monitored by the School Lunch Director or by any other employee of the School Corporation.

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

NOBLESVILLE SCHOOLS
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.

7 CFR section 210.14(a) states in part:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service . . ."

7 CFR section 210.14(b) states:

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

7 CFR section 210.2 defines net cash resources as:

"Net cash resources means all monies, as determined in accordance with the State agency's established accounting system, that are available to or have accrued to a school food authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities."

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 cash balance maintained by the School Corporation resulted in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resources. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal reimbursements.

We recommended that School Corporation officials implement procedures that would limit net cash resources to the average expenditures for three months and to establish internal controls to ensure that its School Food Service Program is operated as a nonprofit service.



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EDUCATIONAL SERVICES CENTER
18025 RIVER ROAD
NOBLESVILLE, INDIANA 46062
317-773-3171

**Corrective Action Plan
July 1, 2013 – June 30, 2015**

FINDING 2015-001

Contact Person Responsible for Corrective Action: Robin Phelps, Executive Director of Business
Contact Phone Number: 317-773-3171

Description of Corrective Action Plan:

The district is working with the State Board of Accounts to ensure the accuracy of future Schedule of Expenditures of Federal Awards (SEFA) reporting. We acknowledge our need to improve our internal controls to ensure accuracy. Balancing to additional state reports will be put into place to ensure the expenditure amounts are correct.

Anticipated Completion Date: June 30, 2016

FINDING 2015-002

Contact Person Responsible for Corrective Action: Robin Phelps, Executive Director of Business
Contact Phone Number: 317-773-3171

Description of Corrective Action Plan:

The district recognizes the cash balance in the Food Services' account is in excess of the federal regulations. Because of the size of the cash balance, salaries of food service employees has been adjusted up to help with attracting and retaining food service employees. In the future, any equipment needed in the kitchen will be purchased from the Food Services account. Both of these actions should minimize the cash balance in this account.

Anticipated Completion Date: The district will begin the corrective action plan immediately to minimize the cash balance.

Robin Phelps
(Signature)
Exec. Director of Business
(Title)
2/25/16
(Date)

NOBLESVILLE SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 22, 2016, with Terry Rich, former Treasurer; Robin Phelps, Treasurer; Linda Jones, Deputy Treasurer; and Beth Niedermeyer, Superintendent of Schools.