

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKE CENTRAL SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
06/26/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2016-001 - Internal Controls over Financial Transactions.....	4-5
Finding 2016-002 - Equipment and Real Property Management.....	5-7
Finding 2016-003 - Allowable Costs/Cost Principles.....	7-9
Finding 2016-004 - Special Tests and Provisions - Assessment of Need	9-11
Corrective Action Plan.....	12-15
Audit Results and Comments:	
Overdrawn Cash Balances.....	16
Prepaid School Lunch Account	16
Substitute Compensation	17
Curricular Materials Rental Charges	17
Annual Report - Accounts Payable.....	17-18
Capital Assets.....	18
Credit Card Policy.....	18-19
Official Response	20-21
Exit Conference.....	22

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cathie Romba	07-01-14 to 12-31-17
Director of Business Services	Robert James	07-01-14 to 12-31-17
Superintendent of Schools	Dr. Lawrence Veracco	07-01-14 to 06-30-17
President of the School Board	George Baranowski Don Bacso John DeVries Janice Malchow	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17



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TO: THE OFFICIALS OF THE LAKE CENTRAL SCHOOL CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Lake Central School Corporation (School Corporation), for the period from July 1, 2014 to June 30, 2016. 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

May 3, 2017

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to receipts and vendor disbursements.

Receipts: One individual issued and recorded receipts, prepared the deposits, took the deposits to the bank, and performed the monthly reconciliation of the bank balance to the record balance without a proper system of oversight or review.

Disbursements: Two individuals were involved in the vendor disbursements process. One individual processed the vendor disbursements that were supported with a purchase order; the other individual processed the vendor disbursements that the School Corporation had determined did not require the use of a purchase order. A separate review of the disbursements prior to School Board approval was performed by an appropriate school official; however, written evidence of an adequate oversight or review process was not provided.

2. Monitoring of Controls: The School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control.

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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . ."

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management of the School Corporation had not established a proper system of internal control related to receipts. Management of the School Corporation had not properly implemented the internal control system related to vendor disbursements.

Effect

The failure to establish and properly implement controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

Views of Responsible Officials

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

FINDING 2016-002 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Special Milk Program for Children

CFDA Numbers: 10.553, 10.555, 10.556

Federal Award Numbers and Years (or Other Identifying Numbers): FY14-15, 15-16

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Equipment and Real Property Management compliance requirement.

The School Corporation failed to comply with the Equipment and Real Property Management requirements that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Context

The School Corporation's failure to maintain property records to comply with the Equipment and Real Property Management requirements was a systemic issue during the audit period.

Criteria

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. . . ."

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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). . . ."

7 CFR 3016.32 state in part:

". . . (b) *States.* A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section. . . .

(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with the Equipment and Real Property Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Equipment and Real Property Management compliance requirement.

Views of Responsible Officials

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

FINDING 2016-003 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: U.S. Department of Education

Federal Programs: Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants
CFDA Numbers: 84.010, 84.367

Federal Award Numbers and Years (or Other Identifying Numbers): 14-4615, 15-4615, 16-4615,
FY 13-14, FY 14-15, 12-4615,
13-4615

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

The School Corporation failed to comply with the Allowable Costs/Cost Principles requirement that where employees work on a federal award and a non-federal award, the distribution of their salaries or wages will be supported by Personnel Activity Reports or equivalent documentation.

For the Title I Grants to Local Educational Agencies, two deans of students, a guidance counselor and an aide whose salaries were split on a percentage basis, did not provide Personnel Activity Reports or equivalent documentation to support the amount paid from the federal award. Due to the lack of documentation, it could not be determined whether \$35,841 of payroll and related costs were in accordance with Allowable Costs/Cost Principles requirements.

For the Improving Teacher Quality State Grants, a portion of a Director's salary was paid from the grant fund. Personnel Activity Reports or equivalent documentation were not maintained for the 2014-2015 school year for the portion of the Director's salary and related costs paid from the grant. Personnel Activity Reports or equivalent documentation for the 2015-2016 school year were maintained; however, the Personnel Activity Reports did not properly support the amount of payroll and related costs paid from the grant. Due to the lack of documentation, it could not be determined whether \$11,598 of payroll and related costs were in accordance with Allowable Costs/Cost Principles requirements. In addition, an instance of noncompliance was noted on a \$489 claim for school nurse training paid from the grant fund in error.

Context

The lack of controls and the noncompliance regarding salaries were systemic problems. The required supporting documentation (Personnel Activity Reports or equivalent documentation) for 4 of 48 employees tested was not maintained. The error on the vendor claim was an isolated incident.

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

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. . . ."

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). . . ."

OMB Circular A-87, Attachment B, Part 8(h) states in part:

". . . (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award, . . ."

OMB Circular A-87, Attachment A, Part C. Basic Guidelines states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . ."

2 CFR 200.430(h)(8)(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;

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 (for IHE, this per the IHE's definition of IBS) . . ."

Cause

The School Corporation had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were \$35,841 of questioned costs identified for the Title I Grants to Local Educational Agencies. There were \$12,087 of questioned costs identified for the Improving Teacher Quality State Grants.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

FINDING 2016-004 - SPECIAL TESTS AND PROVISIONS - ASSESSMENT OF NEED

Federal Agency: U.S. Department of Education
Federal Program: Improving Teacher Quality State Grants
CFDA Number: 84.367
Federal Award Number and Years (or Other Identifying Numbers): 12-4615, 13-4615, 14-4615, 15-4615
Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Assessment of Need compliance requirement.

To be eligible to receive Improving Teacher Quality State Grants, the U.S. Department of Education required School Corporations to conduct an assessment of local needs for professional development and hiring. The needs assessment must be conducted with the involvement of teachers, including teachers who work in Title I, Part A targeted assistance programs and schoolwide program schools.

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Each school in the School Corporation prepared its improvement plan every year and submitted the plan to the Indiana Department of Education. However, it could not be determined whether the needs assessment was conducted with the involvement of teachers, including teachers who work in Title I, Part A, as required, since supporting documentation was not provided to support that meetings were held or to verify the attendance of required participants.

Context

This was a systemic problem. Documentation was not provided to support the information in the School Corporation's improvement plan.

Criteria

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. . . ."

Elementary & Secondary Education Act (ESEA) Sections 2122(c) states:

"(c) NEEDS ASSESSMENT-

- (1) IN GENERAL- To be eligible to receive a subgrant under this subpart, a local educational agency shall conduct an assessment of local needs for professional development and hiring, as identified by the local educational agency and school staff.
- (2) REQUIREMENTS- Such needs assessment shall be conducted with the involvement of teachers, including teachers participating in programs under part A of title I, and shall take into account the activities that need to be conducted in order to give teachers the means, including subject-matter knowledge and teaching skills, and to give principals the instructional leadership skills to help teachers, to provide students with the opportunity to meet challenging State and local student academic achievement standards."

Cause

Management had not developed a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Assessment of Need compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

LAKE CENTRAL SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Special Tests and Provisions - Assessment of Need compliance requirement.

Views of Responsible Officials

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

Auditor's Response

The Corrective Action Plan stated that email correspondence was offered to document the required meetings and participants. However, we initially requested the documentation from three building principals, none of whom were able to provide us with email documentation that would have covered the audit period. This, along with the lack of sign-in sheets, led to our determination that sufficient supporting documentation to verify the required attendees was not able to be obtained.

Lake Central School Corporation

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website: lcsc.us



Lawrence Veracco, Ph.D.
Superintendent

Rob James
Director of Business
Services

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Rob James
Contact Phone Number: (219) 365-8507

Description of Corrective Action Plan:

Lack of Segregation of Duties

Receipts – The majority of money receipted through Central Office is received via ACH or bank wires. Currently, the Director of Business Services verifies that all of these transactions are receipted correctly. Most of the cash and checks remitted to the Corporation Treasurer (i.e. insurance checks, facility rental, food service, etc) are initially collected and counted by other individuals in the corporation. After the money is remitted to the Corporation Treasurer, a receipt is sent back to the person who collected the payments for them to compare to the amount remitted. With limited financial resources, we will not have the ability to add a staff member, for the sole purpose of segregating duties. If resources do not substantially increase, the administrative team will need to develop a system of additional oversight to review the receipts and deposits.

Disbursements – The Director of Business Services currently does review disbursements that appear on the claim docket by verifying that the payee, dollar amount, account code, etc agree to the original invoice and have been properly approved for payment. We will implement procedures to maintain evidence that the review is being conducted.

Monitoring of Controls

Once the aforementioned internal controls are implemented during the 2017-2018 school year, the next step will be for the district to review the effectiveness of these controls. This will involve a separate administrator who is not involved in the Business Department control structure.

Anticipated Completion Date: During the 2017-2018 school year.



(Signature)

Director of Business Services
(Title)

4-28-17
(Date)

Lake Central School Corporation

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Lawrence Veracco, Ph.D.
Superintendent

Rob James
Director of Business
Services

CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Rob James
Contact Phone Number: (219) 365-8507

Description of Corrective Action Plan:

Although the school corporation maintains records of the equipment it purchases, we concur that the Food Service Department does not currently maintain all of the equipment details outlined in the Finding. When equipment is purchased with School Lunch funds in the future, we will be sure to document all of the required information.

Anticipated Completion Date: During the 2017-2018 school year.



(Signature)

Director of Business Services
(Title)

4-28-17
(Date)

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Lawrence Veracco, Ph.D.
Superintendent

Rob James
Director of Business
Services

CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Rob James
Contact Phone Number: (219) 365-8507

Description of Corrective Action Plan:

The School Corporation provided information explaining how the salaries of employees were determined to be separated between federal and non-federal funds. However, the school corporation concurs that all employees did not adequately maintain time and effort logs during the audit period. When this was originally brought to our attention during a Title 1 review, we immediately informed our employees of the need to maintain proper time and effort documentation. This requirement was implemented at the beginning of the 2016-2017 for all employees partially paid from federal funds, regardless of the grant.

Anticipated Completion Date: Already corrected at the beginning of the 2016-2017 school year.



(Signature)

Director of Business Services
(Title)

4-28-17
(Date)

Lake Central School Corporation

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Lawrence Veracco, Ph.D.
Superintendent

Rob James
Director of Business
Services

CORRECTIVE ACTION PLAN

FINDING 2016-004

Contact Person Responsible for Corrective Action: Rob James
Contact Phone Number: (219) 365-8507

Description of Corrective Action Plan:

The improvement plans submitted to the Indiana Department of Education (IDOE) detail all of the staff members who were involved in the plan. Three of the school corporation's ten schools are Title 1 schools. All three of these schools had a Title 1 staff member as part of the committee and were documented on the plan submitted and approved by the IDOE. Additionally, emails were offered showing correspondence between the school principal and the committee members, which did include the Title 1 staff members. Unfortunately, the school corporation did not maintain a sign-in sheet for the meetings, so we were unable to prove that the committee members actually attended the meetings. In the future, we will maintain a sign-in sheet for all staff meetings and those will be retained for audit purposes.

Anticipated Completion Date: Already corrected at the beginning of the 2016-2017 school year.



(Signature)

Director of Business Services
(Title)

4-28-17
(Date)

LAKE CENTRAL SCHOOL CORPORATION
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 following funds with overdrawn cash balances at June 30, 2015, and June 30, 2016:

Fund	June 30, 2015	June 30, 2016
Textbook Rental	\$ 131,680	\$ 523,164
West Lake Special Education Cooperative	-	195,613

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PREPAID SCHOOL LUNCH ACCOUNT

The School Corporation recorded all school lunch collections directly into the School Lunch fund. Starting in April 2016, the School Corporation established the School Lunch Clearing Fund (8400). A monthly transfer was generated from the School Lunch Fund (0800) into the School Lunch Fund Clearing Account (8400) in order that the Clearing Fund was in agreement with the subsidiary records of the student accounts.

The following deficiencies in the School Lunch accounts were noted:

1. The collections for prepaid food were not receipted into the appropriate fund (Clearing Account Number 8400).
2. The appropriate revenue classifications were not established in the School Lunch fund.
3. The transfers of revenues into the School Lunch fund were not completed correctly in order to allow the correct revenue classification.

A similar comment appeared in the prior Report B45380.

Our opinion is that money a student puts into their individual meal account should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Administrator and Uniform Compliance Guidelines, Volume 211)

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

SUBSTITUTE COMPENSATION

Compensation for substitute teachers and substitute custodians was paid, but was not included in the salary ordinance or resolution. The School Board did not originally approve the pay rate for substitute teachers or custodians.

The School Board retroactively approved those pay rates on March 6, 2017.

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 law. Compensation must be paid 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 1)

CURRICULAR MATERIALS RENTAL CHARGES

Curricular materials rental charges for all grades were not adopted by the School Board on an annual basis. Only the other educational fees were adopted by the School Board. The School Corporation did not present the written opinion from the School Corporation attorney as to whether or not the educational fees adopted were appropriate per provisions of the Indiana Constitution.

A similar comment appeared in the prior Report B45380.

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 . . . 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 twenty-five percent (25%) 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. . . ."

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

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 Indiana Public School Corporations, Chapter 9)

ANNUAL REPORT - ACCOUNTS PAYABLE

The 2016 Annual Report did not include \$1,039,032 in Accounts Payable amount for the School Corporation as of June 30, 2016.

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-1-4(a) states in part:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically. . . ."

CAPITAL ASSETS

The School Corporation did not properly maintain a complete inventory of capital assets owned. The School Corporation did not have a detailed listing of capital assets as of June 30, 2016. The unit had a 2016 Statement of Values report that summarized by type of capital asset within the locations. This value was not the historical cost or estimated historical cost but was the replacement cost of the capital assets.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

CREDIT CARD POLICY

The School Corporation's administrative "Use of Credit Cards" policy number 6423 states in part: "The Superintendent shall develop administrative guidelines that specify those authorized to use credit cards, the types of expense which can be paid by credit card, and their proper supervision and use."

Administrative guidelines had not been developed by the Superintendent of Schools.

A similar comment appeared in the prior Report B45380.

Each 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 1)

The SBOA will not take exception to the use of credit cards by a unit provided the following criteria are observed:

1. The governing body must authorize credit card use through an ordinance/resolution, which has been approved in a meeting and documented in the minutes.
2. Issuance and use must be handled by an official or employee designated by the governing body.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance/resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the responsible person.

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

5. The designated responsible official or employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned.
6. Credit cards must not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing body and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment cannot be made on the basis of a statement or a credit card slip only. Procedures for payments must be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee may be the personal obligation of the responsible officer or employee.
8. If authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Lake Central School Corporation

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Lawrence Veracco, Ph.D.
Superintendent

Rob James
Director of Business
Services

OFFICIAL RESPONSE

May 9, 2017

Mr. Paul Joyce
State Examiner
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

Dear Mr. Joyce:

This is the official response to the Indiana State Board of Accounts audit report of the Lake Central School Corporation for the period July 1, 2014 to June 30, 2016.

Overdrawn Cash Balances

The Textbook Rental Fund has had an increasing overdrawn balance over the years due to delinquent textbook rental payments. During the 2016-2017 school year, the Lake Central School Corporation began to utilize an outside collection agency for assistance in the collection of these outstanding amounts. The West Lake Special Education Cooperative Fund is funded by a partnership with the School Town of Munster. We attempt to keep this cash balance as close to zero as possible so that the fund is not overfunded by the respective school corporations. Due to the cash flow of payroll, this fund was overdrawn as of June 30, 2016. However, it regained a positive balance by August 2016, which was maintained through the rest of the 2016 calendar year.

Prepaid School Lunch Accounts

The district created the prepaid school lunch account during the audit period, but we acknowledge that the fund was not operating in the manner prescribed by the State Board of Accounts. Beginning with the 2017-2018 school year, we intend to record the prepaid revenue and corresponding expenditures through the prepaid school lunch account.

Substitute Compensation

The district acknowledges that the substitution pay rates were not approved by the School Board during the audit period. When this was brought to our attention, the School Board immediately retroactively approved the pay rates on March 6, 2017.

Curricular Materials Rental Charges

The Lake Central School Corporation charged textbook rental fees in accordance with Indiana Code 20-26-12-2. Since the fees were within the statutory guidelines, the fees were not furthermore approved by the School Board. In the future, we will have the local School Board approve the curricular fees and we will obtain a legal opinion on the education fees charged.

Annual Report – Accounts Payable

The school district acknowledges that an Accounts Payable amount was not included in the Annual Report as of June 30, 2016. Since the State Board of Accounts stipulates that Indiana School Corporations maintain their financial records on the cash basis of accounting, an Accounts Payable amount is not perpetually calculated. The district erroneously felt that any payables at June 30th would be immaterial. In the future, the school district will review claims paid in July and August to manually calculate an Accounts Payable value as of June 30th.

Capital Assets

The school district acknowledges that it does not currently have a complete detailed inventory of its capital assets. We wanted to wait until the completion of the recent construction of the new High School and Protsman Elementary School before engaging with a third party to compile the detailed inventory listing. Now that construction is complete, we will create a complete inventory of the capital assets owned by the School Corporation.

Credit Card Policy

The school corporation recently updated all of its school board policies. This was a major undertaking by the administrative staff and the School Board. After the Board adopted the policies, the next step is to write the administrative regulations to implement those policies. Even though the school corporation does have a proper credit card policy, as recommended by the State Board of Accounts, we have not written the corresponding administrative regulations yet. The district hopes to have these completed within the next year.



Robert K. James, CPA, CBO
Director of Business Services

LAKE CENTRAL SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 3, 2017, with Cathie Romba, Treasurer; Robert James, Director of Business Services; Dr. Lawrence Veracco, Superintendent of Schools; and Janice Malchow, President of the School Board.