

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKELAND SCHOOL CORPORATION

LAGRANGE COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
08/03/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jennifer J. Landez Cathy J. Phillip	07-01-13 to 12-31-13 01-01-14 to 06-30-17
Superintendent of Schools	Risa J. Herber Eva G. Merkel (interim) Risa J. Herber Eva G. Merkel (interim) Eva G. Merkel	07-01-13 to 01-26-15 01-27-15 to 06-30-15 07-01-15 to 03-28-16 03-29-16 to 06-30-16 07-01-16 to 06-30-17
President of the School Board	Robert Bond	07-01-13 to 06-30-17



STATE OF INDIANA
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TO: THE OFFICIALS OF THE LAKELAND SCHOOL CORPORATION, LAGRANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Lakeland School Corporation (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

May 31, 2017

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 13-4535, 14-4535, 15-4535
Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

The School Corporation had not implemented adequate controls to ensure that Semi-Annual Certifications were prepared and retained for audit.

Context

All employees paid from Title I funds worked 100 percent on Title I services, but Semi-Annual Certifications were not retained and presented for audit.

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. . . ."

OMB Circular A-87, Attachment B, section 8h states in part:

". . . (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected, which could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and 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 2015-002 - PROGRAM INCOME

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Program Income compliance requirement. There were no procedures established to ensure that the receipts of the Child Nutrition Cluster were handled properly in accordance with the Program Income compliance requirement.

The School Corporation established a single fund, the School Lunch fund, for all activity of the food service programs.

The School Corporation also maintained prepaid accounts for students. When prepaid funds were received, they were receipted with the program income into the School Lunch fund as revenue, with no distinction between the prepaid accounts and the program income generated from the food service programs.

Context

The School Corporation's procedures for recording revenues in the School Lunch fund prevented the ability to determine whether the School Corporation was in compliance with the Program Income requirements.

Criteria

7 CFR 3016.20(b)(2) states:

"Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that prepaid receipts and program income receipts were segregated and available for audit.

Effect

The failure to establish a system of internal controls that would have ensured that prepaid receipts and program income receipts were segregated and available for audit prevented the determination of the School Corporation's compliance with the Program Income requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls and procedures to ensure that prepaid receipts and program income receipts were segregated and available for audit.

Views of Responsible Officials

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

***FINDING 2015-003 - REPORTING AND SPECIAL TESTS AND PROVISIONS -
VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS (NSLP)***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP).

Reporting

The Food Service Director prepared and submitted the Verification Summary Reports; however, there was no control in place to determine whether the reports were correct.

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

The Food Service Director performed the verifications; however, there was no control in place to determine whether the verifications performed were correct.

Context

Internal control issues were systemic, occurring throughout 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. . . ."

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2015-004 - ELIGIBILITY

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Eligibility compliance requirement.

The School Corporation had not established an effective control over the notification of households of the children's eligibility. There was no audit evidence available to test whether households who submitted Free and Reduced Price School Meals Applications were notified of the eligibility of their children.

Context

Internal control issues were systemic, occurring throughout 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. . . ."

7 CFR 3016.42 states in part:

"(a) *Applicability.*

- (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:
 - (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
 - (ii) Otherwise reasonably considered as pertinent to the program regulations or the grant agreement. . . .

(b) *Length of retention period.*

- (1) Except as otherwise provided, records must be retained for three years . . ."

Cause

Management had not maintained a system of internal controls that segregated key functions.

Effect

The failure to maintain supporting documentation prevented the ability to identify if the School Corporation was in compliance with the Eligibility requirements.

Questioned Costs

There were no questioned costs identified.

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls and implement procedures to ensure that supporting documentation for the Eligibility compliance requirement would be maintained and available for audit.

Views of Responsible Officials

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

FINDING 2015-005 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: United States Department of Education

Federal Programs: Special Education - Grants to States (IDEA, Part B),
Special Education - Preschool Grants (IDEA Preschool)

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-046-PN01, 14214-046-PN01,
99914-046-TA01, 14215-046-PN01,
45715-046-PN01, 45714-046-PN01

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation was a member of the Northeast Indiana Special Education Cooperative (Cooperative). The grant agreements for the federal programs were between the Indiana Department of Education (IDOE) and each member school of the Cooperative. The member schools of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative. The fiscal agent of the Cooperative spent the federal money on behalf of the School Corporation and other member schools and was responsible for following the compliance requirements related to Allowable Costs/Cost Principles.

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. Because the grant agreements are between the IDOE and each member of the Cooperative, each member school is ultimately responsible for ensuring compliance with the requirements. The fiscal agent had not implemented adequate controls to ensure that Semi-Annual Certifications prepared were properly signed by the Special Education Director.

Context

The Semi-Annual Certifications were not all properly signed by the Special Education Director.

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. . . ."

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-87, Attachment B, section 8h states in part:

". . . (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. . . ."

Cause

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation management establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. We also recommended that the School Corporation monitor and have proper oversight of the Cooperative.

Views of Responsible Officials

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



Lakeland School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Crystal Leu and Jennifer Landez
Contact Phone Number: 260-499-2400, option 6

Views of Responsible Official: Lakeland School Corporation has been completing the annual semi-annual certifications since we became aware of that requirement and will continue to do so on an on-going basis.

Description of Corrective Action Plan: Crystal Leu, Curriculum Director, will be responsible for completing the semi-annual certifications on a timely basis and when complete they will be reviewed by Jennifer Landez, Human Resources Director. Jennifer will sign each report to indicate she has made the review. The originals will be kept in a file by grant period and made available for audit purposes.

Anticipated Completion Date: April 13, 2017

FINDING 2015-002

Contact Person Responsible for Corrective Action: Cathy Phillip and Tammy Fennell
Contact Phone Number: 260-499-2400, option 6

Views of Responsible Official: Accounting for pre-paid lunch money was establish in August, 2015.

Description of Corrective Action Plan: Tammy Fennell, Food Service Director, pulls a pre-paid on account report from the NUTRI KIDS software at the end of each month. The report summarizes the amount per school and is accompanied by a detailed report by individual showing each person's prepaid amount. Cathy Phillip, Treasurer, reviews the report and passes the information on to Debra Simon, AP/AR Clerk and the required corresponding entries are made in the accounting system prior to monthly closing.

Anticipated Completion Date: April 13, 2017

FINDING 2015-003

Contact Person Responsible for Corrective Action: Cathy Phillip and Tammy Fennell
Contact Phone Number: 260-499-2400, option 6

Views of Responsible Official: Failure to provide written proof of the Verification Summary report was a management oversight. Review procedure is in place for the meal applications as they are received.

Description of Corrective Action Plan: Tammy Fennell, Food Service Director, will continue to prepare all Verification Summary Reports and Cathy Phillip, Treasurer will be responsible to review and sign that the review has occurred. Applications for Free and Reduced Price meals are reviewed and counter signed per the internal controls in place since November 25, 2013. The control calls for a minimum of 20% of all applications received in a week to be reviewed.

Anticipated Completion Date: April 13, 2017


FINDING 2015-004

Contact Person Responsible for Corrective Action: Tammy Fennell
Contact Phone Number: 260-499-2400, option 6


Views of Responsible Official: Since this audit period new software is in place that includes a verification of the notification sent to the family.

Description of Corrective Action Plan: Tammy Fennell can produce a report from within the NUTRI KIDS software program that will verify the context of the letter and the date the letter was issued to each family.

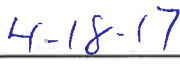
Anticipated Completion Date: April 13, 2017



(Signature)



(Title)



(Date)



Lakeland School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2015-005

Contact Person Responsible for Corrective Action: Cathy Phillip and Eva Merkel
Contact Phone Number: 260-499-2400

Views of Responsible Official: Lakeland will due its appropriate share of assuring that the school and the cooperative are compliant.

Description of Corrective Action Plan: Lakeland will internally comply with the Semi-Annual Certification requirement for all employees who's wages, benefits and related expenses are paid for by any portion of federally provided special education funding. Cathy and Eva will work with our special education director Ben Morgan to assure compliance. Appropriate records will be maintained at Lakeland School Corporation in the Human Resources office.

Further, as Eva sits on the board of the Northeast Indiana Special Education Cooperative, as do all superintendents, she will follow through at the board's monthly meetings to assure herself and other board members that the Cooperative is compliant with this requirement.

Anticipated Completion Date: August 15, 2017

Cathy Phillip
(Signature)

BUSINESS MGR / TREASURER
(Title)

5-31-17
(Date)

Robert Bond, President
David Larimer, Vice President
Kathy Fuller, Secretary

Eva G. Merkel, Superintendent
Crystal A. Leu, Director of Curriculum
Cathy J. Phillip, Business Manager

Sue Keenan, Member
Carey McKibben, Member
Robert Murphy, Member

LAKELAND SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 31, 2017, with Cathy J. Phillip, Treasurer; Eva G. Merkel, Superintendent of Schools; Jennifer J. Landez, Human Resources Director; and Robert Bond, President of the School Board.