

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HANOVER COMMUNITY SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2014 to June 30, 2016



**FILED**  
08/08/2017



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### SCHEDULE OF OFFICIALS

| <u>Office</u>                    | <u>Official</u>   | <u>Term</u>  |
|----------------------------------|---|--|
| Treasurer                        | Eric D. Kurtz<br>Adam C. Minth                          | 07-01-14 to 07-31-16<br>08-01-16 to 06-30-17                         |
| Superintendent<br>of Schools     | Thomas L. Taylor  | 07-01-14 to 06-30-17   |
| President of the<br>School Board | James Sakelaris<br>Mary Joan Dickson<br>James Sakelaris | 07-01-14 to 12-31-15<br>01-01-16 to 12-31-16<br>01-01-17 to 12-31-17 |



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE HANOVER COMMUNITY SCHOOL  
CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Hanover Community 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 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.

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

June 15, 2017

HANOVER COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS

**FINDING 2016-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS**

*Condition*

There were 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 payroll disbursements.

Receipts: One individual received collections, issued and recorded receipts, prepared the deposits, and took the deposits to the bank without evidence of a proper system of oversight or review.

Payroll Disbursements: One individual was responsible for entering pay rates into the accounting software system without evidence of a proper system of oversight or review.

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 required 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

Accurate and timely recording of transactions. . . .

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. . . ."

HANOVER COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management of the School Corporation had not established a proper system of internal controls related to receipts and payroll 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 - ELIGIBILITY, SUSPENSION AND DEBARMENT,  
REPORTING, AND SPECIAL TESTS AND PROVISIONS - VERIFICATION  
OF FREE AND REDUCED PRICE APPLICATIONS (NSLP)***

Federal Agency: U.S. 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): FY2015, FY2016

Pass-Through Entity: Indiana Department of Education

This is a partial repeat of Finding 2014-002 from the immediate prior year.

*Condition*

The School Corporation had not established an effective internal control system related to the grant agreement and the Eligibility, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

*Eligibility*

The School Corporation had not designed or implemented adequate policies and procedures to ensure that students' eligibility for free and reduced price meals were properly determined.

A computer software program was used to determine eligibility; however, one employee manually entered family information into the computer software program without a proper system of oversight or review to ensure correct information was entered. In addition, the School Corporation did not have any procedures in place to ensure that the eligibility guidelines in the software program were accurate.

*Procurement and Suspension and Debarment*

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with suspension and debarment requirements. Food Service officials were unaware of the suspension and debarment requirements of the program.

HANOVER COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Reporting*

The Annual Financial Report and Sponsor Claim (claims for reimbursements) were prepared by the Nutrition Services Director without a proper system of oversight or review.

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

The School Corporation had designed policies and procedures to ensure that the verification of free and reduced price applications were accurate; however, evidence of the review process was not documented.

*Context*

The lack of controls was a systemic problem. There was no evidence of controls over Eligibility, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements 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. . . ."

2 CFR section 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). . . ."

*Cause*

The School Corporation failed to establish a proper internal control structure to ensure compliance with requirements associated with the Eligibility, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

*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. The 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.

HANOVER COMMUNITY SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls related to the grant agreement and the Eligibility, Procurement and Suspension and Debarment, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

*Views of Responsible Officials*

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



Board of School Trustees

Scott Burdan  
James Sakelaris  
Connie Sterkowitz  
Dennis Wilkening  
Kelly York

Central Office

Thomas L. Taylor, Ed.S.  
Superintendent of Schools

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CORRECTIVE ACTION PLAN

***FINDING 2016-001***

Contact Person Responsible for Corrective Action: Adam C. Minth  
Contact Phone Number: 219-374-3504

Views of Responsible Official: The School Corporation is aware of its need to enhance its internal controls and oversight and will be implementing corrective procedures immediately.

Description of Corrective Action Plan: The School Corporation will continue to enhance its internal controls and oversight. Procedures have been implemented to ensure segregation of duties and adequate oversight. Beginning in June of 2017 the following segregation of duties will occur in respect to Receipts: A member of the Business Services Department will be responsible for receiving collections as well as issuing and recording receipts. A separate member of the Business Services Department will then prepare the deposit which will be reviewed and initialed by both members and then taken to the bank. Also beginning in June of 2017 the following segregation of duties will occur in respect to Payroll Disbursements: A member of the Business Services Department will be responsible for entering in any and all School Board approved pay rates into the accounting software while a separate member of the Business Services Department reviews and verifies the approved changes.

The School Corporation will continue to enhance its internal control procedures and oversight. It is the School Corporations intent to have adequate internal controls in place in order to provide reasonable assurance that said controls will prevent, or detect and correct, material misstatements in a timely manner.

Anticipated Completion Date: 6/16/2017

Adam C. Minth  
(Signature)

Director of Business Svcs  
(Title)

6/14/17  
(Date)

*Making a difference . . . realizing potential*



**Board of School Trustees**

Scott Burdan  
James Sakelaris  
Connie Sterkowitz  
Dennis Wilkening  
Kelly York

**Central Office**

Thomas L. Taylor, Ed.S.  
Superintendent of Schools

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CORRECTIVE ACTION PLAN

***FINDING 2016-002***

Contact Person Responsible for Corrective Action: Adam C. Minth  
Contact Phone Number: 219-374-3504

Views of Responsible Official: The School Corporation is aware of its need to enhance its internal controls and oversight and will be implementing corrective procedures immediately.

Description of Corrective Action Plan: The following procedures will be implemented in the 2017-2018 school year for determining eligibility and the verification process: The Director of Food Services will continue to manually enter eligibility information into the computer software program but going forward it will then be reviewed and verified by the Nutrition Services Office Manager to ensure the correct information was entered.

The School Corporation utilizes the services of and is a member of the Northwest Indiana Education Service Center (NWIESC), a governmental entity, and relies on them in regards to Suspension and Debarment requirements and reporting. Starting in the 2017-2018 school year the Director of Food Services as well as the Nutrition Services Office Manager will verify Suspension and Debarment results for each vendor via [sam.gov](http://sam.gov).

The following procedures will be implemented in the 2017-2018 school year for preparing the Annual Financial Report and Monthly Claims for Reimbursement: The Director of Food Services will continue to prepare the Annual Financial report as well as Monthly Claims for Reimbursement and they will then be reviewed and verified by the Nutrition Services Office Manager to ensure the correct information was entered.

The following procedures will be implemented in the 2017-2018 school year in regards to the accuracy of Verification of Free and Reduced Price Applications: All Free and Reduced Price Applications will continue to be verified by either the Director of Food Services or the Nutrition Services Office Manager and this review process will be documented on each individual application via signature.

Anticipated Completion Date: 6/16/2017

Adam E. Minth

(Signature)

Director of Business Svcs

(Title)

6/14/17

(Date)

HANOVER COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2017, with Adam C. Minth, Treasurer; Thomas L. Taylor, Superintendent of Schools; James Sakelaris, President of the School Board; Denise Sempf, Deputy Treasurer; and Lori Carey, Payroll Specialist.