

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL TOWN OF MUNSTER

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	Janice Swanson	07-01-14 to 06-30-17
Superintendent of Schools	Jeffrey A. Hendrix	07-01-14 to 06-30-17
President of the School Board	Judith Florczak Paula Nellans Melissa Higgason Ron Ostojic	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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE SCHOOL TOWN OF MUNSTER, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the School Town of Munster (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

June 6, 2017

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS

FINDING 2016-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Condition

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

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to Receipts, Payroll Disbursements, Financial Close and Reporting, and the Schedule of Expenditures of Federal Awards (SEFA).

Receipts: One individual issued and recorded receipts, prepared the deposits, took the deposits to the bank, and reviewed the monthly reconciliation of the bank balance to the record balance without any compensating controls.

Payroll Disbursements: The Payroll Specialist inputted, prepared, recorded and remitted payrolls, and performed the monthly reconciliation of the bank balance to the record balance without any compensating controls.

Financial Close and Reporting: The Form 9, included the financial activity of all funds and was the basis for which the financial statement was prepared, was signed by the Treasurer, Superintendent, and School Board President. Although the Form 9 contained all of the required certifications, there was no evidence of any compensating controls before submission to the Indiana Department of Education.

SEFA: One employee prepared the SEFA without evidence of any compensating controls.

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.

Monthly bank reconciliations were prepared by the Payroll Specialist and signed by the Treasurer; however, the bank reconciliations were not prepared in a timely manner (by the end of the second following month). Because of this, the bank reconciliations were also not reviewed timely. (For example, the June 2016 bank reconciliation was not prepared and reviewed until the end of October 2016).

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.

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

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. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Cause

Management of the School Corporation had not established a proper system of internal controls related to receipts, payroll disbursements, financial close and reporting, and the Schedule of Expenditures of Federal Awards.

Effect

The failure to establish and properly implement controls 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 - CASH MANAGEMENT

Federal Agency: U.S. Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2014-16
Pass-Through Entity: Indiana Department of Education

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

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the requirements for Cash Management.

The School Corporation failed to comply with the Cash Management requirements that they limit their Net Cash Resources in the School Lunch fund to the average expenditures for three months of the food service program.

Context

The lack of controls and compliance was a systemic problem. The balance in the School Lunch fund exceeded the average expenditures for 3 months for all 24 months of 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 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 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 220.7(e) states in part:

"Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction: . . ."

(iv) Limit its net cash resource to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with the Cash Management compliance requirement.

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

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.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Cash 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 - ELIGIBILITY

Federal Agency: U.S. Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2014-16
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 Eligibility compliance requirement.

The School Corporation did not have any compensating controls in place to ensure that the income guidelines used by the software application were accurate after each annual update.

Context

The lack of controls was a systemic problem. There was no evidence of controls over income guidelines used in the software system.

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. . . ."

SCHOOL TOWN OF MUNSTER
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). . . ."

Cause

The School Corporation failed to establish a proper internal control structure to ensure compliance with the Eligibility compliance requirement.

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 requirement. The lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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 related to the grant agreement and the Eligibility 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 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: U.S. Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): FY 2014-16
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 requirements for procurement.

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

The School Corporation failed to comply with the procurement requirements, including that approved contracts were in compliance with their procurement procedures, as well as State laws and procedures.

The School Corporation contracted with a third-party purchasing service for food products, bread, and milk bids. The School Corporation and School Board approved the contract with the purchasing service, effective August 1, 2013, with an initial one year term of August 1, 2013 to July 31, 2014, with up to four optional one year extensions that are exercisable each year.

The Food Service Director approved and signed the extensions of the optional yearly extensions that were approved during the audit period. However, the Food Service Director did not have contracting authority per the School Corporation's procurement policies.

Context

This was a systematic problem. The School Corporation failed to comply 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 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 3016.36(b) states in part:

"Procurement standards.

- (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
- (2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. . . ."

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

Indiana Code 5-22-6-1 states: "The purchasing agency of a governmental body may purchase services using any procedure the governmental body or the purchasing agency of the governmental body considers appropriate."

Indiana Code 5-22-6-2 states:

"(a) A governmental body may adopt rules governing the purchase of services for the governmental body.

(b) The purchasing agency of a governmental body may establish policies regarding the purchase of services for the governmental body."

The School Corporation Bylaws and Policies, Policy 6320 - PURCHASING states:

"It is the policy of the School Board that the Director of Financial Operations or treasurer shall act as the purchasing agent for the Board . . ."

The School Corporation Administrative Guidelines, Policy 6320A - PURCHASING states:

"The Director of Financial Operations shall be the contracting agent for all financial obligations . . ."

Cause

The School Corporation had not developed a system of internal controls to ensure compliance with the procurement requirements.

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.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the procurement requirements.

Views of Responsible Officials

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

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

FINDING 2016-005 - ELIGIBILITY, LEVEL OF EFFORT, AND REPORTING

Federal Agency: U.S. 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): 14-4740, 15-4740, 16-4740
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 compliance requirements for Eligibility, Level of Effort, and Reporting.

Eligibility - Individual and Group

Individual determination was completed by the Title I Coordinator. It was based both on test scores and, in some cases, teacher recommendation. While the final list of individuals to receive Title I services was distributed to appropriate administrators, including the Assistant Superintendent of Schools, there was no evidence of any compensating controls.

The Eligible School Summary information regarding enrollment and poverty numbers by school was prepopulated by the Indiana Department of Education within the Title I application completed by the Assistant Superintendent of Schools. That information was submitted to the Indiana Department of Education by the School Corporation's Data Specialist. There was no evidence of any compensating controls of the information prepopulated in the Eligible School Summary portion of the grant application was not documented.

Level of Effort and Reporting

The financial information submitted by the School Corporation to the Indiana Department of Education through the Form 9 was used to calculate the School Corporation's Level of Effort as well as complete the State Per Pupil Expenditure Report.

The Form 9 was generated by the Director of Financial Operations. While both the President of the School Board and Superintendent of Schools signed the Form 9, there was no evidence of any compensating controls.

Context

The lack of controls was a systemic problem. There was no evidence of internal controls over the Eligibility, Level of Effort, and Reporting 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. . . ."

SCHOOL TOWN OF MUNSTER
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). . . ."

Cause

The School Corporation failed to establish a proper internal control structure to ensure compliance with requirements associated with the Eligibility, Level of Effort, and Reporting 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 program.

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 Eligibility, Level of Effort, and Reporting compliance requirements.

Views of Responsible Officials

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

FINDING 2016-006 - ELIGIBILITY, LEVEL OF EFFORT, AND REPORTING

Federal Agency: U.S. Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-064-PN01, 14214-064-PN01,
14215-064-PN01, 14216-064-PN01,
99914-064-TA01, 45714-064-PN01,
45715-064-PN01, 45716-062-PN01

Pass-Through Entity: Indiana Department of Education

This is a repeat of Finding 2014-006 from the immediate prior year.

SCHOOL TOWN OF MUNSTER
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the requirements for Level of Effort.

The financial information submitted by the School Corporation to the Indiana Department of Education through the Form 9 was used to calculate the School Corporation's level of effort.

The Form 9 was generated by the Director of Financial Operations. While both the President of the School Board and Superintendent of Schools signed the Form 9, there was no evidence of any compensating controls.

Context

The lack of controls was a systemic problem. There was no evidence of internal controls over the level of effort 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 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 level of effort 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 requirement. The lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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.

SCHOOL TOWN OF MUNSTER
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 Level of Effort compliance requirement.

Views of Responsible Officials

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



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Janice Swanson, Director of Financial Operations
Contact Phone Number: 219-836-9111

Views of Responsible Official: The finding, as stated is correct, however School Town of Munster is dealing with an extremely minimal staff and does not have the luxury of having staff cross-trained in order to segregate the business office duties further.

Receipts and Expenditures for each month are provided to the Administrative Team and the Managing School Board after the end of each month. The monthly accounts payable register (with payroll expenditures) are approved at the regular school board meeting each month.

The Form 9 is a 6-month compilation of all of the receipt and expenditure (including payroll) information that has already been provided to the administration and managing school board on a monthly basis and they have approved at their monthly school board meeting.

The SEFA has been prepared by the person responsible for the Gateway Annual Financial Report.

Description of Corrective Action Plan: The business office will continue to provide the Administrative Team and the Managing School Board with the monthly reports and will continue the accounts payable register approval at their regularly scheduled meetings.

The business office will continue to look for ways to incorporate other individuals in a review and oversight manner.


Once again, the business office will attempt to keep the bank reconcilements more up-to-date. The fall is an extremely busy time with getting the school year up and running for a new school year and this task loses its priority with everything else that must be done.

In future preparation of the Gateway Annual Financial Report, including the SEFA, STM will include oversight from the individuals involved in securing the various grants.

Anticipated Completion Date: This will be a work in progress.


(Signature)

Director of Financial Operations


(Date)



Student Nutrition Services

8616 Columbia Avenue •• Munster, IN 46321 •• 219.836.3204

CORRECTIVE ACTION PLAN

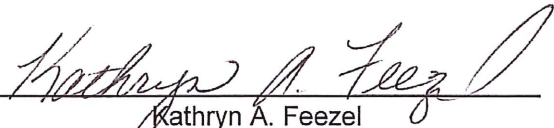
FINDING 2016-002

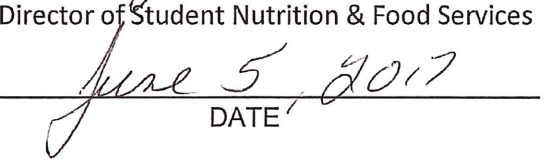
Contact Person Responsible for Corrective Action: Kathryn Feezel, Director of Student Nutrition and Food Services
Contact Phone Number: 219-836-3204

Views of Responsible Official: The School Town of Munster and Food Service Department concur with the finding.

Description of Corrective Action Plan: CASH MANAGEMENT

Anticipated Completion Date: The Food Service Director will work with the Treasurer to monitor cash balances more frequently. This corrective action plan will be implemented with the 2017-2018 School Year.



Kathryn A. Feezel
Director of Student Nutrition & Food Services


DATE



8616 Columbia Avenue •• Munster, IN 46321 •• 219.836.3204

CORRECTIVE ACTION PLAN

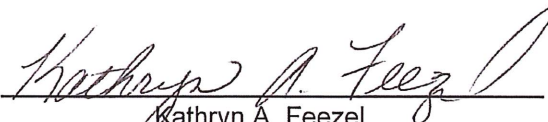
FINDING 2016-003

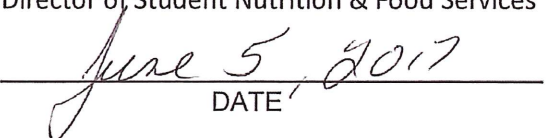
Contact Person Responsible for Corrective Action: Kathryn Feezel, Director of Student Nutrition and Food Services
Contact Phone Number: 219-836-3204

Views of Responsible Official: The School Town of Munster and Food Service Department concur with the finding.

Description of Corrective Action Plan: ELIGIBILITY

Anticipated Completion Date: The Food Service Department plans to refine their procedures. This corrective action plan will be implemented with the 2017-2018 School Year.



Kathryn A. Feezel
Director of Student Nutrition & Food Services


DATE



8616 Columbia Avenue •• Munster, IN 46321 •• 219.836.3204

CORRECTIVE ACTION PLAN

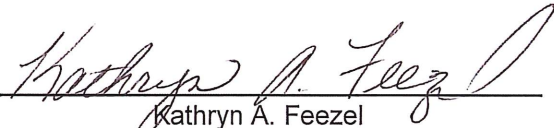
FINDING 2016-004

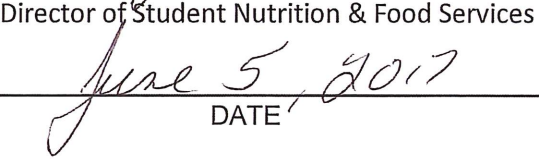
Contact Person Responsible for Corrective Action: Kathryn Feezel, Director of Student Nutrition and Food Services
Contact Phone Number: 219-836-3204

Views of Responsible Official: The School Town of Munster and Food Service Department concur with the finding.

Description of Corrective Action Plan: PROCUREMENT

Anticipated Completion Date: The Food Service Department will have Board Approval for future Contracts. This corrective action plan will be implemented with the 2017-2018 School Year.



Kathryn A. Feezel
Director of Student Nutrition & Food Services


DATE



ADMINISTRATION CENTER
8616 COLUMBIA AVENUE • MUNSTER, INDIANA 46321
PHONE: 219-836-9111 • FAX: 219-836-3215

DR. PHYLLIS GILWORTH
ASSISTANT SUPERINTENDENT

MRS. JANICE SWANSON
DIRECTOR OF FINANCIAL OPERATIONS

CORRECTIVE ACTION PLAN

FINDING 2016-005

Contact Person Responsible for Corrective Action: Janice Swanson, Director of Financial Operations
Contact Phone Number: 219-836-9111

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan: As we acquire a new Assistant Superintendent July 1, 2017, I will discuss these audit findings with the new personnel and determine a process to move forward with compliance in all three areas.

Anticipated Completion Date: This will be a work in progress.

Janice Swanson
(Signature)

Director of Financial Operations

6/5/2017
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-006

Contact Person Responsible for Corrective Action: Janice Swanson, Director of Financial Operations
Contact Phone Number: 219-836-9111

Views of Responsible Official: We disagree with the finding.

Description of Corrective Action Plan: As stated in the previous corrective action plan, School Town of Munster participates in the West Lake Special Education Cooperative with Lake Central Schools. When completing School Town of Munster's portion of the level of effort – maintenance of effort, the appropriate Form 9 data was used, which has been reviewed by administration and the board of school trustees, as part of the ongoing information that comprises the Form 9 data.

When preparing future level of effort – maintenance of effort documents to be provided to Lake Central Schools for grant submission, the documents will be reviewed with the superintendent of schools with more substantial notations as to what has been reviewed.

Anticipated Completion Date: next submission

Janice Swanson
(Signature)

Director of Financial Operations

6/5/2017
(Date)

SCHOOL TOWN OF MUNSTER
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 2016:

Fund	Amount Overdrawn as of June 30	
	2015	2016
General	\$ 8,287,619	\$ 6,095,834
Textbook Rental	614,746	326,736

A similar comment appeared in prior reports.

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)

APPROPRIATIONS

The following funds recorded disbursements in excess of the 2016 calendar year budgeted appropriations:

Fund	Excess Amount Expended
General	\$ 4,501,427
Capital Projects	731,387

A similar comment appeared in prior Report B46019.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

COMPENSATION AND BENEFITS

Compensation for five administrative staff salaries and extra-curricular duties was paid, but was not included on the salary resolution or schedule. The School Board did not approve all compensation and benefits paid to employees as required.

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)

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS
(Continued)

CURRICULAR MATERIAL RENTAL CHARGES

The School Corporation included a shipping markup of 25 percent of the curricular materials' retail price when determining the base rental charges, not the actual shipping charges.

A similar comment appeared in prior Report B46019.

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 is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

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

PREPAID SCHOOL LUNCH ACCOUNT

The School Corporation accounted for the prepaid food activity within the School Lunch fund. A separate clearing account for the prepaid food account activity had not been established during the audit period. A prepaid school lunch account was established during the 2016-2017 school year.

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 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, Vol. 211)

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS

The School Corporation had not properly maintained a complete inventory of capital assets owned as of June 30, 2016. The detailed capital asset listing is as of June 30, 2014. Possible additions totaling \$2,749,523 were not included in the Schedule of Capital Assets or in the capital asset detail maintained by the School Corporation.

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)



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DR. PHYLLIS GILWORTH
ASSISTANT SUPERINTENDENT

MRS. JANICE SWANSON
DIRECTOR OF FINANCIAL OPERATIONS

June 16, 2017

Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

RE: OFFICIAL RESPONSE TO THE SCHOOL TOWN OF MUNSTER AUDIT RESULTS AND COMMENTS

To Whom it May Concern:

This letter is in response to the exit interview for the audit period of July 1, 2014 to June 30, 2016 conducted by representatives of the Indiana State Board of Accounts. The School Town of Munster (STM) wishes to respond to each of the audit concerns which were discussed at the exit interview. In addition, STM expresses its gratitude and appreciation for a thorough and professional audit conducted by the SBA personnel.

I. OVERDRAWN CASH BALANCES

STM continues to make significant progress at eliminating its deficit General Fund balance. We continue to utilize professional financial consultants and continue to use cost saving practices to achieve this goal. In May, 2017, Munster voters approved an additional General Fund referendum which replaces the May, 2013 voter approved referendum. This will assist STM in achieving our goal.

II. EXPENDITURES IN EXCESS OF APPROPRIATIONS

The large General Fund expenditures in excess of STM’s budgeted appropriations for 2016 is directly related to the reduced general fund budget issued by the Department of Local Government Finance (DLGF). Over the past 5 years, the DLGF has not awarded a budget consistent with the estimated revenue to be produced by the State of Indiana Basic Grant or any miscellaneous revenue that would be generated. Please refer to the DLGF budget history below:

2012 - \$14,769,684	2013 - \$23,389,515
2014 - \$18,124,215	2015 - \$22,950,262
2016 - \$16,414,808	2017 - \$23,370,760

The State Basic Grant was estimated to generate in excess of \$24,000,000 for the 2016 calendar year, with the DLGF approving a budget of only \$16,414,808. STM did request an additional appropriation for the General Fund once it had received its total revenue for 2016, but that request was denied by the DLGF.

The excess expenditures in the Capital Projects fund were due to late receipt of funds from the sale of corporation land and settlement of two property/casualty insurance claims. The funds were received too late in the calendar year to allow STM to work through the process of requesting an additional appropriation.

III. COMPENSATION AND BENEFITS

Management will make every effort to have all employee rates/salaries approved by the managing school board.

IV. CURRICULAR MATERIAL RENTAL CHARGES

Management has already corrected the process for computing the curricular material rental charges. This will be evident for the 2017-18 school year.

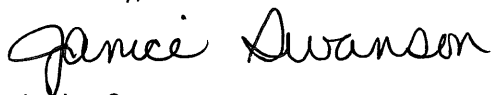
V. PREPAID SCHOOL LUNCH ACCOUNT

Management established its Prepaid School Lunch Fund in July, 2016 and this will be evident in the next audit.

VI. CAPITAL ASSETS

STM's capital asset report was completed in the spring of 2017 which is outside of the audit period. The report will be available for the next audit.

Sincerely,



Janice Swanson
Treasurer

cc: Jeffrey Hendrix, Superintendent
Ron Ostojic, STM School Board President

SCHOOL TOWN OF MUNSTER
EXIT CONFERENCE

The contents of this report were discussed on June 6, 2017, with Janice Swanson, Treasurer; Dr. Jeffrey A. Hendrix, Superintendent of Schools; Ron Ostojic, President of the School Board; Melissa Higgason, Vice President of the School Board; Ingrid Schwarz Wolf, Secretary of the School Board; and John Doherty, member of the School Board.