

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION

DUBOIS COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
09/19/2017

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2015-001	
Internal Controls over Financial Transactions and Reporting	4-5
Finding 2015-002	
Preparation of the Schedule of Expenditures of Federal Awards	5-7
Finding 2015-003	
Internal Controls over Child Nutrition Cluster	7-9
Finding 2015-004	
Child Nutrition Cluster - Activities Allowed or Unallowed, Program Income and Special Test and Provisions - School Food Accounts.....	9-12
Finding 2015-005	
Child Nutrition Cluster - Cash Management.....	12-13
Finding 2015-006	
Child Nutrition Cluster - Program Income.....	13-14
Finding 2015-007	
National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity.....	14-15
Finding 2015-008	
Special Education_Grants to States - Procurement and Suspension and Debarment.....	16-17
Corrective Action Plans	18-20
Audit Results and Comments:	
Compensation and Benefits	21-22
Record of Hours Worked	22
Prepaid Food Clearing Account.....	22-23
Exit Conference.....	24

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Ruth Leistner	01-01-13 to 12-31-17
Superintendent of Schools	William G. Hochgesang	07-01-13 to 06-30-18
President of the School Board	Mary Pankey	01-01-13 to 12-13-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION, DUBOIS COUNTY, INDIANA

This report is supplemental to our audit report of the Northeast Dubois County 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 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

August 10, 2017

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting, including segregation of duties. The School Corporation had not separated incompatible activities related to cash and investments, receipts, and payroll disbursements.

1. *Cash and Investments:* The bank reconciliations for the School Corporation funds were prepared by the Treasurer. There was no oversight, review, approval, or other compensating control of the bank reconciliations to ensure they were being prepared accurately and completely.
2. *Receipts:* The Treasurer 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, or other compensating control.
3. *Payroll Disbursements:* Payroll transactions were processed by one employee from start to finish and were verified for accuracy by the same employee. A review of processed payrolls was performed by one of the two employees in the business office to verify that hours reported on timesheets and absentees were reported correctly in the payroll system; however, the review was performed once every six months instead of being performed regularly. Payroll claims were approved by the School Board, but the information provided for their review and approval was a list of the gross amount by fund and not a detailed listing by employee.

Context

This was a systemic problem during the entire audit period.

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. . . .

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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. . . ."

Cause

Management of the School Corporation had not established a proper system of internal control that would have ensured accuracy in financial transactions and reporting.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

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

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Other Matter

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Treasurer entered the grant information into the Indiana Gateway for Government Units, which is a financial reporting system and the source of the SEFA without any oversight, review, approval process, or other control to ensure its accuracy.

Context

Nine federal grant awards were reported incorrectly on the SEFA. Information, such as cluster title, federal program title, and pass-through entity identifying number, were omitted or incorrect. Federal expenditures were incorrectly reported for fiscal years 2013-2014 and 2014-2015, with total expenditures being understated \$186,222 and overstated by \$375,521, respectively. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

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:

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"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. . . ."

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

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

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

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

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

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

Subject: Internal Controls over Child Nutrition Cluster

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

Compliance Requirements: Activities Allowed or Unallowed, Cash Management, Eligibility, Program Income, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Tests and Provisions - School Food Accounts, Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the following compliance requirements: Activities Allowed or Unallowed, Cash Management, Eligibility, Program Income, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Test and Provisions - School Food Accounts, and Special Tests and Provisions - Paid Lunch Equity.

Activities Allowed or Unallowed

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with the activities allowed requirements of the programs. Individuals approving disbursements from the program allowed expenses from the program that were not activities allowed.

Cash Management

An effective internal control system was not in place to monitor the School Lunch fund monthly cash balances (Net Cash Resources) to ensure that they did not exceed the three months average expenditures.

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Eligibility

An effective internal control system was not in place to ensure that all records related to eligibility determination were retained and available for audit.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded. An oversight, review, approval process, or other compensating control had not been established.

Reporting

An effective internal control system was not in place to ensure that the monthly Sponsor Claim (claims for reimbursement), Annual Financial Reports, and School Food Authority (SFA) Verification Collection Reports were accurately prepared and submitted. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.

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

An effective internal control system was not in place to ensure that verification of free and reduced price applications was completed and that the supporting documentation of the verification process was retained and available for audit. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.

Special Test and Provisions - School Food Accounts

An effective internal control system was not in place to ensure that school food transactions were posted in a separate account. There was no segregation of duties, such as an oversight, review, approval process, or other compensating control.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)

An effective internal control system was not in place to ensure that the paid lunch prices were adjusted according to the weighted-average paid lunch price calculations.

Context

This was a systemic problem within the School Breakfast Program and National School Lunch Program. Controls did not exist over the compliance requirements listed above 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. . . ."

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls, including segregation of duties that would have ensured that the School Corporation complied with the compliance requirements listed above.

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 the 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.

Recommendation

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

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Program
Income, Special Tests and Provisions - School Food Accounts
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
Compliance Requirements: Activities Allowed or Unallowed, Program Income, Special
Tests and Provisions - School Food Accounts
Audit Finding: Other Matters/Modified Opinion

Condition

Receipts and disbursements were recorded in the School Lunch fund for activities that were not related to the operation of the school food service program.

- The School Corporation began posting the financial transactions for the Corporation Wellness Program (Program) to the School Lunch fund in December 2012. Receipts for the Program consisted of entry fees for a 5k walk/run, the sale of head bands, and the sale of food at various wellness events. Disbursements for the Program included the purchase of head bands and food for the various wellness events, including health fairs, health screenings, and other events. All receipts and expenses for these activities were recorded in the School Lunch fund. The expenses for the Program exceeded the receipts by \$1,155.
- Food and supplies were purchased from the School Lunch fund for various school activities that were not part of the operation of the food service program. Receipts from the sale of these items were posted to the School Lunch fund as miscellaneous revenue or as a transfer

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

in from other funds. Records were not available for audit to identify the costs of the food and supplies purchased. The reimbursements received for sales that could not be associated with the operation or improvement of food services was identified as questioned costs of \$28,283.

- Gifts for school lunch employees and meals for other School Corporation employees were purchased from the School Lunch fund. These disbursements resulted in questioned costs of \$1,817.
- The School Lunch fund purchased items for orientation. These purchases included T-shirts, door prizes, and food. These purchases resulted in questioned costs of \$606.

Context

The purchases of food and supplies for non-food service purposes, as well as the posting of the Program receipts and expenses occurred throughout the audit period.

Criteria

7 CFR 210.14(a) states:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under § 210.19(a) of this part. School food authorities may use facilities, equipment, and personnel supported with nonprofit school food revenues to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 *et seq.*)"

7 CFR 220.7(e)(1) states in part:

- "(i) Maintain a nonprofit school food service;
- (ii) In accordance with the financial management system established under § 220.13(i) of this part, use all revenues received by such food service only for the operation or improvement of that food service *Except that*, facilities, equipment, and personnel support with funds provided to a school food authority under this part may be used to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 *et seq.*); . . ."

7 CFR 210.23(c) states:

"Retention of records. State agencies and school food authorities may retain necessary records in their original form or on microfilm. State agency records shall be retained for a period of 3 years after the date of submission of the final Financial Status Report for the fiscal year. School food authority records shall be retained for a period of 3 years after submission of the final Claim for Reimbursement for the fiscal year. In either case, if audit findings have not been resolved, the records shall be retained beyond the 3-year period as long as required for the resolution of the issues raised by the audit."

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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: . . .

- (13) Upon request, make all accounts and records pertaining to its nonprofit school food service available to the State agency, to FNS and to OA for audit or review at a reasonable time and place. Such records shall be retained for a period of three years after the end of the fiscal year to which they pertain, except that if audit findings have not been resolved, the records shall be retained beyond the three-year period as long as required for the resolution of the issues raised by the audit; . . ."

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 220.13(i) states in part: "Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

Cause

Management of the School Corporation had not developed a system of internal controls that would have ensured that receipts and disbursements recorded in the School Lunch fund were for the School Breakfast Program and National School Lunch Program only.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

- Purchases of gifts and meals for employees - \$1,817
- Expenses from the Program not reimbursed - \$1,155
- Sale of food and supplies that are not related to the school food program - \$28,283
- Purchases for Orientation - \$607

Questioned Costs totaled \$31,861.

Recommendation

We recommended that the School Corporation's management implement procedures to ensure compliance with the grant agreement and the compliance requirements listed above.

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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

Subject: Child Nutrition Cluster - Cash Management
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
Compliance Requirement: Cash Management
Audit Finding: Other Matters/Modified Opinion

Condition

The School Lunch fund monthly cash balance (Net Cash Resource) exceeded the three months average expenditures during each month of the audit period. The cash balances (Net Cash Resources) exceeded the 3 months average expenditures in amounts ranging from \$36,631 to \$112,493 for the 2013-2014 school year, and from \$49,970 to \$116,060 for the 2014-2015 school year.

Context

This was a systemic issue. The monthly cash balance (Net Cash Resources) of the School Lunch fund was greater than the 3 months average expenditures for all 24 months of the audit period.

Criteria

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

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs

Recommendation

We recommended that the School Corporation monitor the cash balance (Net Cash Resources) of the School Lunch fund and comply with the Cash Management requirements.

Views of Responsible Officials

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

FINDING 2015-006

Subject: Child Nutrition Cluster - 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

Compliance Requirement: Program Income

Audit Finding: Other Matters/Modified Opinion

Condition

The School Corporation did not comply with requirements for accounting for program income generated from the operation of the food service program. All monthly receipts from sales, as well as prepayments on account, were recorded directly in the School Lunch fund. Prepayments are not considered program income and should not be recorded as income in the School Lunch fund.

Context

This was a systemic problem as all prepayments were recognized as revenue of the school food service program with no tracking in a separate fund during the entire audit period.

Criteria

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 220.13(i) states in part: "Each State agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their non-profit school food service. . . ."

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs.

Recommendation

We recommended that the School Corporation comply with the Program Income requirements to ensure that program income is properly receipted and recorded in the School Corporation records.

Views of Responsible Officials

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

FINDING 2015-007

Subject: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Finding: Other Matters/Modified Opinion

Condition

The School Corporation did not adjust the paid lunch prices in accordance with the paid lunch equity calculations for the 2013-2014 school year. The School Corporation did not complete the Paid Lunch Equity calculations for 2014-2015 as required nor were adjustment made to paid lunch prices for that year.

Context

The Indiana Department of Education performed the weighted-average paid lunch price calculation on behalf of the School Corporation for the 2013-2014 school year. Based on this calculation, the School Corporation was required to increase paid lunch prices by the maximum price adjustment of 10 cents. The actual paid lunch prices were not increased for the 2013-2014 school year.

The School Corporation was required to perform the weighted-average paid lunch price calculation for the 2014-2015 school year. The School Corporation did not perform the calculation as required and it could not be determined if the Paid Lunch Equity requirement was met for the 2014-2015 school year.

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

7 CFR 210.14(e) states in part:

"*Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

(1) *Calculation procedures.* Each school food authority shall:

- (i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority;
- (ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (i.e., the reimbursement difference);
- (iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Special Tests and Provisions - Paid Lunch Equity requirements.

Effect

The failure to establish controls enabled material noncompliance to occur. Noncompliance of 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.

Recommendation

We recommended that the School Corporation develop and implement procedures and establish controls to ensure compliance with the Special Tests and Provisions - Paid Lunch Equity requirements.

Views of Responsible Officials

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

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-008

Subject: Special Education_Grants to States - Procurement and Suspension and Debarment
Federal Agency: Department of Education
Federal Program: Special Education_Grants to States
CFDA Number: 84.027
Federal Award Numbers and Years (or Other Identifying Numbers): 14213011PN01, 14214011PN01,
14215011PN01, 99914011TA01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the Exceptional Children's Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

Management of the School Corporation had not established an effective internal control system, to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The Cooperative's Director signed the Application and Assurance Plan as a Condition of Federal Assistance, which stated that the Cooperative would check subcontractors to ensure they were not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency or political subdivision of the State of Indiana. However, the Cooperative did not have procedures in place to verify that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a contract with them.

Context

During the 2014-2015 school year, there were two contracts entered into that exceeded \$25,000. The Cooperative did not verify that the vendors were not suspended or debarred prior to awarding the contracts.

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 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the grant agreement and the Procurement and Suspension and Debarment 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 question costs identified.

Recommendation

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement listed above.

Views of Responsible Officials

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

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION

William G. Hochgesang, Superintendent
Ryan Case, Trans. Director



Ruth Leistner, Treasurer
DeAnn Meyer, Deputy Treasurer

P.O. Box 158, 5379 E Main St.
Dubois, IN 47527

Phone # 812-678-2781
Fax # 812-678-4418

CORRECTIVE ACTION PLAN

Finding 2015-001—We agree with the finding

Contact Person Responsible for Corrective Action: Ruth Leistner, Treasurer
Contact Phone Number: 812-678-2781

The corrective action plans are:

The internal controls were already in place without documentation.

Documentation and updated procedures went into effect January 1, 2016 or first event after.

The bank reconciliation now signed/initialed by the Superintendent or Deputy Treasurer beginning January 1, 2016.

The receipts are signed by the Deputy Treasurer or Superintendent beginning January 1, 2016.

Payrolls are processed by the Treasurer or Deputy Treasurer and the opposite signs off on the check register for each payroll. This went into effect January 1, 2016.

The entire payroll claim listing will be sent to the Board and signed off on starting August 15, 2017.

Finding 2015-002---We agree with the finding

Contact Person Responsible for Corrective Action: Ruth Leistner, Treasurer
Contact Phone Number: 812-678-2781

The 2013-2014 and 2014-2015 SEFA amounts were off from Special Ed funds due to corrective actions directed by the Special Ed Coop.

Documentation and new procedures will go into effect July 1, 2017. Treasurer will prepare the report, Special Ed Coop will sign off on the report as well as the Superintendent or Deputy Treasurer.

Finding 2015-003---We agree with the finding

Contact Person Responsible for Corrective Action: Katherine Knies, Cafeteria Director

Contact Phone Number: 812-678-2781

The corrective action plan is:

The internal controls were already in place without documentation. Documentation and updated procedures went into effect January 1, 2016 or first event after.

Finding 2015-004---We agree with the finding

Contact Person Responsible for Corrective Action: Katherine Knies, Cafeteria Director

Contact Phone Number: 812-678-2781

The corrective action plan is:

The Wellness Fund reimbursed the Cafeteria July, 2017. Purchases for gifts, meals for employees and purchases for sale of food and supplies through the cafeteria were stopped as of July 1, 2017.

Finding 2015-005---We agree with the finding

Contact Person Responsible for Corrective Action: Katherine Knies, Cafeteria Director

Contact Phone Number: 812-678-2781

The corrective action plan is:

Prepaid school lunch money was transferred into a separate account as of July 1, 2017. If the remaining balance exceeds the 3 month maximum then the balance will be earmarked for future purchases of equipment.

Finding 2015-006---We agree with the finding

Contact Person Responsible for Corrective Action: Katherine Knies, Cafeteria Director
Contact Phone Number: 812-678-2781

The corrective action plan is:

Prepaid school lunch money was transferred into a separate account as of July 1, 2017.

Finding 2015-007---We agree with the finding

Contact Person Responsible for Corrective Action: Katherine Knies, Cafeteria Director
Contact Phone Number: 812-678-2781

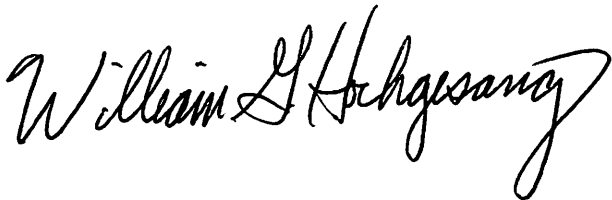
The corrective action plan is:

The paid lunch equity calculation was prepared beginning 2017-2018 and lunch prices were increased accordingly.

Finding 2015-008---We agree with the finding

Contact Person Responsible for Corrective Action: William G. Hochgesang, Superintendent
Contact Phone Number: 812-678-2781

The Dubois-Spencer-Perry-Pike Special Ed Coop will establish their corrective actions. The Northeast Dubois County School Superintendent will also print, sign and file copies of the minutes effective July 1, 2017.



NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

The following errors were noted with compensation and benefits:

- A part-time custodian was paid for eight hours of personal leave time. Per School Board Policy 4220, part-time custodians and matrons are paid for the hours worked without fringe benefits.
- The School Corporation entered into a Contract for Technology Support on August 26, 2014, in the amount of \$31,744 per year. The contract stated that the Consultant was engaged by the School Corporation on an independent contractor basis, and not as an employee. The Consultant was compensated through the payroll process and tax withholdings were withheld by the School Corporation as if the contractor was an employee.
- Classified employees entered into a 2014-2015 School Year 26 Pay Agreement was based on a calculated salary. Timesheets were submitted for actual hours worked, but employees were paid at a calculated rate not matching actual hours worked in the corresponding pay cycle. Adjustments to each employees' pay were made after all timesheets were turned in for the school year.
- A classified employee received a pay increase due to an increase in work during the 2014-2015 school year. There was documentation supporting the calculation of the pay increase; and there was no documentation that the School Board had authorized the increase.

Indiana Code 20-26-5-4 states in part:

"In carrying out the school purposes of a school corporation, the governing body acting on the school corporation's behalf has the following specific powers: . . .

(8) To do the following . . .

(A) Employ, contract for, and discharge superintendents, supervisors, principals, teachers, librarians, athletic coaches (whether or not they are otherwise employed by the school corporation and whether or not they are licensed under IC 20-28-5), business managers, superintendents of buildings and grounds, janitors, engineers, architects, physicians, dentists, nurses, accountants, teacher aides performing non-instructional duties, educational and other professional consultants, data processing and computer service for school purposes, including the making of schedules, the keeping and analyzing of grades and other student data, the keeping and preparing of warrants, payroll, and similar data where approved by the state board of accounts as provided below, and other personnel or services as the governing body considers necessary for school purposes. . . ."

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 statute. 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)

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Each unit must adopt a written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing body would be considered as written policy. The policy must conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions, and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

RECORD OF HOURS WORKED

Three employees held multiple positions during the audit period and were paid from multiple funds based on those positions. Records were not prepared and maintained to support the employees' time worked in each position.

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

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

PREPAID FOOD CLEARING ACCOUNT

Prepaid Lunch Receipts were not recorded into a Prepaid Lunch fund, but were instead accounted for within the School Lunch fund. Additionally, the School Lunch fund was not maintained in a way that would allow determination of which receipts were related to prepaid amounts.

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

When 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 receipts 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 that 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)

NORTHEAST DUBOIS COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2017 with Ruth Leistner, Treasurer; DeAnn Meyer, Deputy Treasurer; William G. Hochgesang, Superintendent of Schools; Bernard Knies, School Board member; and John Siebert, School Board member.