

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH WEST HENDRICKS SCHOOL CORPORATION

HENDRICKS COUNTY, INDIANA

July 1, 2013 to June 30, 2015



**FILED**  
09/26/2017



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#### SCHEDULE OF OFFICIALS

Treasurer	Kristina James	07-01-13 to 06-30-18
Superintendent of Schools	Richard G. King Michael J. Springer	07-01-13 to 06-30-17 07-01-17 to 06-30-18
President of the School Board	Connie L. Bowman	07-01-13 to 06-30-18



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTH WEST HENDRICKS SCHOOL  
CORPORATION, HENDRICKS COUNTY, INDIANA

This report is supplemental to our audit report of the North West Hendricks 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/](http://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

July 24, 2017

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*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 and submitted federal award information into the Indiana Gateway for Government Units (Gateway), which is a financial system and the source of the School Corporation's SEFA. There was no evidence of a control process by the School Corporation to ensure federal awards information entered and submitted into Gateway was correct.

The following errors occurred on the SEFA:

- The Non-cash assistance for the Child Nutrition Cluster was understated in the amount of \$58,273 and \$54,239 for the 2013-2014 and 2014-2015 school years, respectively.
- The Special Education Grants to States were understated in the amount of \$74,625 for the 2013-2014 school year. This was due to the Special Education Improvement Grant and the Special Education Technical Assistance Grant not being included.
- The Special Education - Preschool Grants were understated in the amounts of \$7,734 and \$7,276 for the 2013-2014 and 2014-2015 school years, respectively.
- The Title I Grants to Local Educational Agencies were overstated in the amount of \$296.
- The Supporting Effective Instruction State Grant was understated in the amount of \$2,541 and overstated in the amount of \$12,626 for the 2013-2014 and 2014-2015 school year, 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:

"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. . . ."

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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."

*Cause*

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

*Effect*

The failure to establish internal controls enabled material misstatements of the SEFA to occur.

*Views of Responsible Officials*

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

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2015-002 - ELIGIBILITY***

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013-2014, FY 2014-2015  
Pass-Through Entity: Indiana Department of Education

*Condition*

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

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the determination of the applications for free or reduced priced meals were proper. An internal control process had not been established. The Food Service Director was the sole person responsible for determining eligibility of applications filed.

The School Corporation did not properly determine eligibility for 6 of the 60 free and reduced priced school meals applications tested.

*Context*

The lack of controls and noncompliance was a systemic issue during the audit period.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

7 CFR 245.6(c)(4) states:

"*Calculating income.* The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2 and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2 the children in that household must be approved for free or reduced price benefits, as applicable."

*Cause*

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with Eligibility requirements.

*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.

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Eligibility compliance requirement. In addition, we recommended that the School Corporation comply with 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 2015-003 - INTERNAL CONTROL 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 2013-2014, FY 2014-2015

Pass-Through Entity: Indiana Department of Education

*Condition*

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 following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Reporting.

*Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles requirements. There were no controls in place to ensure that purchases from contracted vendor invoices were for allowable activities and costs. There was no tangible evidence of the Assistant Superintendent of Schools' review of the invoices provided by the Food Service Management Company.

*Cash Management*

The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with Cash Management requirements. There were no controls in place to ensure that monthly balances were in compliance with the 3 months average expenditure requirement.

*Reporting*

The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with Reporting requirements. There were no controls in place to ensure that required reports were accurate.

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Context*

Internal control issues were systemic throughout the audit period.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

*Cause*

Management had not developed a system of internal controls to ensure compliance with the 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.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and 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 - 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 Number): FY 2013-2014, FY 2014-2015

Pass-Through Entity: Indiana Department of Education

*Condition*

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

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

It could not be determined if the School Corporation complied with requirements for accounting of program income generated from the operation of the food service program. All monthly receipts from sales, as well as prepaid food advance deposits, were recorded directly in the School Lunch fund; prepayments were not recorded in a Prepaid Student Accounts fund. Due to the method of recordkeeping, the requirements for the Program Income compliance requirement could not be verified for either school year.

*Context*

The lack of controls was a systemic problem throughout the audit period. Records were not available to determine compliance with the Program Income requirements for either year.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

7 CFR 3016.20 (b)(2) states:

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

*Cause*

Management had not developed a system of internal controls to verify that program income was properly recorded within the School Corporation ledger.

*Effect*

The lack of recordkeeping and documentation available for audit prevented the determination of the School Corporation's compliance with the grant agreement and the Program Income compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and Program Income compliance requirement. In addition, we recommended that the School Corporation properly account for and maintain documentation related to program income.

*Views of Responsible Officials*

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

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2015-005 - ALLOWABLE COSTS/COST PRINCIPLES***

Federal Agency: 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): 14213-099-PN01, 14214-099-PN01,  
14215-099-PN01

Pass-Through Entity: Indiana Department of Education.

*Condition*

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

The School Corporation did not keep Semi-Annual Certifications or Personnel Activity Reports for employees who worked on activities or programs in addition to the Special Education programs.

*Context*

The lack of controls and noncompliance was a systemic problem 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. . . ."

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

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

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

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,

NORTH WEST HENDRICKS SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity. . . ."

*Cause*

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Allowable Costs/Cost Principles 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 identified.

*Recommendation*

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. In addition, we recommended that the School Corporation maintain Semi-Annual Certifications and Personnel Activity Reports for employees.

*Views of Responsible Officials*

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

# NORTH WEST HENDRICKS SCHOOL CORPORATION

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(317) 994-4100 Fax (317) 994-5963

Mike Springer  
*Superintendent*

Dave Hobaugh  
*Business Manager*



## CORRECTIVE ACTION PLAN

### ***FINDING 2015-001***

Contact Person Responsible for Corrective Action: Kristina James

Contact Phone Number: 317-994-4107

Views of Responsible Official: The Schedule of the Expenditures of Federal Grants was indeed completed incorrectly.

Description of Corrective Action Plan: Going forward the Corporation Treasurer will complete the Schedule of Expenditures of Federal Grants and will have the Business Manager verify the totals before submitting the report.

Anticipated Completion Date: Corrective action with the next period reporting.

### ***FINDING 2015-002***

Contact Person Responsible for Corrective Action: Kristina James

Contact Phone Number: 317-994-4107

Views of Responsible Official: It was confirmed that an effective internal control was not in place to ensure segregation of duties.

Description of Corrective Action Plan: Going forward the Food Service Director will determine the eligibility with the principals at the corresponding schools verifying the determination.

Anticipated Completion Date: July 31, 2017

### Board of School Trustees

Connie L. Bowman  
*President*

Brad Williams  
*Vice President*

Cindy Griffith  
*Secretary*

Jim Diagostino  
*Member*

Craig Peoples  
*Member*

**FINDING 2015-003**

Contact Person Responsible for Corrective Action: Kristina James

Contact Phone Number: 317-994-4107

Views of Responsible Official: It was confirmed that an effective internal control policy was not in place to ensure compliance with the requirements for the grant.

Description of Corrective Action Plan: Going forward the Business Manager will review all contracted vendor invoices before being paid.

Anticipated Completion Date: July 31, 2017

**FINDING 2015-004**

Contact Person Responsible for Corrective Action: Kristina James

Contact Phone Number: 317-994-4107

Views of Responsible Official: It was confirmed that the prepaid lunch account has not been used correctly in the corporation.

Description of Corrective Action Plan: The procedures for processing the prepaid lunch accounts have been updated and are correct going forward.

Anticipated Completion Date: July 31, 2017

**FINDING 2015-005**

Contact Person Responsible for Corrective Action: Kristina James

Contact Phone Number: 317-994-4107

Views of Responsible Official: It was confirmed that the time and effort logs were not kept like they should have been.

Description of Corrective Action Plan: Going forward the time and effort logs will be completed beginning with the 2017-2018 school year.

Anticipated Completion Date: 2017-2018 school year

Kristina James  
(Signature)

Corporation Treasurer  
(Title)

7/24/17  
(Date)

NORTH WEST HENDRICKS SCHOOL CORPORATION  
AUDIT RESULT AND COMMENT

***OVERDRAWN CASH BALANCE***

The financial statement presented in the Financial Statement and Federal Single Audit Report included the Self-Insurance fund with an overdrawn cash balance of \$466,754 at June 30, 2015.

The School Corporation is no longer self-funded and is actively working to get this fund reduced to a \$0 balance by charging an additional premium amount to all employees.

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)

***STUDENT PREPAID LUNCH COLLECTIONS***

The entire amount of student prepaid food advance deposits were recognized in the School Lunch fund, Fund 800. The School Corporation had not established Fund 8400 - Prepaid Food to account for advance deposits made to individual student and adult prepaid food accounts. Fund 8400- Prepaid Food is a trust account where monies are initially deposited on behalf of individual students. Monies are intended to remain in the trust account until they are spent on food purchases. Monies are to be transferred from Fund 8400 - Prepaid Food to Fund 800 - School Lunch to account for actual monies spent by students on food purchases.

Our opinion is that money a student puts into their individual meal account should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

NORTH WEST HENDRICKS SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2017, with Michael J. Springer, Superintendent of Schools; David Hobough, Business Manager; Kristina James, Treasurer; Dana Dillman, Deputy Treasurer; and Ronald L. Ward, former Assistant Superintendent of Schools/Consultant.