

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

NORTHWESTERN CONSOLIDATED
SCHOOL DISTRICT OF SHELBY COUNTY
SHELBY COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
09/27/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Laura Mullen	10-01-12 to 12-31-17
Superintendent of Schools	Dr. Shane Robbins Chris Hoke	07-01-12 to 06-30-15 07-01-15 to 12-31-17
President of the School Board	John Merlau Ken Polston	07-01-11 to 01-13-15 01-13-15 to 12-31-17



STATE OF INDIANA
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TO: THE OFFICIALS OF THE NORTHWESTERN CONSOLIDATED SCHOOL
DISTRICT OF SHELBY COUNTY, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the Northwestern Consolidated School District of Shelby County (School Corporation), for the period from July 1, 2013 to June 30, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 29, 2017

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Repeat Finding

This is a repeat finding from the immediate prior year. The prior year finding number was 2013-001.

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts. The School Corporation relied on one employee to complete all activities related to the receipting of School Corporation funds without any additional monitoring or other controls in place.

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. . . ."

Cause

Management of the School Corporation have not developed a system of internal controls that segregated key functions.

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.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2015-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Repeat Finding

This is a repeat finding from the immediate prior year. The prior year finding number was 2013-002.

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). Management of the School Corporation assigned one individual to prepare, review, and approve the SEFA. There was no segregation of duties, such as an approval or review process, or other compensating control to ensure the information reported was accurate.

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. . . ."

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:

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

- (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

Without a proper system of internal control in place that operated effectively, misstatements of the SEFA could have remained undetected.

Views of Responsible Officials

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

FINDING 2015-003 - CASH MANAGEMENT AND REPORTING

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): FY2014, FY2015
Pass-Through Entity: Indiana Department of Education

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior finding number was 2013-006.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Cash Management and Reporting compliance requirements. There were no controls in place to ensure the Sponsor Claims (claims for reimbursement) or the Annual Financial Reports were accurate prior to submission.

Context

This was a systemic problem. Two of the four Sponsor Claims (claims for reimbursement) tested were not reviewed and approved by someone other than the original preparer. The School Corporation contracted with a vendor in October of 2014 to manage the food service program, but there was no system of review put into place once this contract became effective. In addition, the Annual Financial Reports were not reviewed and approved by a member of the School Corporation prior to submission to the Indiana Department of Education.

Criteria

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

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

Cause

Management had not developed a system of internal controls that would have ensured the accuracy of the Sponsor Claims (claims for reimbursement) and the Annual Financial Report.

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.

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.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2015-004 - 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): FY2014, FY2015
Pass-Through Entity: Indiana Department of Education

Repeat Finding

This is not a repeat finding from the immediate prior audit.

Condition

An effective internal control system was not in place to ensure that the weighted-average paid lunch price calculations were completed and that the paid lunch prices were established accordingly. The School Corporation did not perform the weighted-average paid lunch price calculation for either school year.

Context

The School Corporation was required to perform the weighted-average calculation for both school years in the audit period. The weighted-average paid lunch price calculation was not performed for either school year as required; therefore, we could not determine if the price charged for meals was appropriate.

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 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. . . ."

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

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 compliance requirement.

Effect

The failure to establish internal controls enabled material noncompliance to occur. Noncompliance with the grant agreement and 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 and complete the paid lunch equity calculations as required by the grant agreement and the compliance requirement listed above.

We recommended that the School Corporation complete the paid lunch equity calculations as required.

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 - SUSPENSION AND DEBARMENT

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): FY2014, FY2015

Pass-Through Entity: Indiana Department of Education

Repeat Finding

This is not a repeat finding from the immediate prior audit.

Condition

An effective internal control system was not in place to ensure that verification of suspension and debarment requirements for food service contracts was completed and that the supporting documentation of the food service contracts was retained and available for audit.

Context

The School Corporation was unable to provide two of the three contracts for testing of suspension and debarment requirements for the Child Nutrition Cluster.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

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 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation maintained and made available for audit the documentation necessary to support the verification of suspension and debarment requirements of the food service contracts.

Effect

The failure to retain or provide appropriate supporting documentation prevented the determination of the School Corporation's compliance with the Procurement and Suspension and Debarment compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls over the Procurement and Suspension and Debarment compliance requirement and implement procedures that would ensure that records are retained and available for audit.

Views of Responsible Officials

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



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Treasurer
Mrs. Laura Mullen

Technology Director
Mr. Josh Landis

Maintenance Director
Mr. Chuck Miller

Transportation Director
Mrs. Susie Childress

Special Education Director
Mrs. Terri Branson

School Board
Mr. Ken Polston
Mr. Steve Steele
Mrs. Wendy Gearlds
Mr. Tim Kelly
Mr. Vince Sanders
Mr. Todd Brandman
Mr. Glenn Bass

CORRECTIVE ACTION PLAN

FINDING 2015-001 Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Laura Mullen
Contact Phone Number: 317-835-7461

Views of Responsible Official: Corporation Treasurer

Description of Corrective Action Plan: During the previous audit finding (2013-001) we were advised to have our Deputy Treasurer post the receipts to the accounts, as the Corporation Treasurer made up the actual bank deposits. We implemented those changes in 2014 when the prior audit was completed. During the current audit, we were asked for a log of the checks that are received. This was not mentioned in the prior audit. To correct this, we will implement a check log for checks that are received beginning August 2017. If the person who makes the bank deposit needs to also post the deposit due to timing, another person in the office will verify the posting and sign off on the printouts.

Anticipated Completion Date: September 1, 2017

FINDING 2015-002 Preparation of the Schedule of Expenditures of Federal Awards

Contact Person Responsible for Corrective Action: Laura Mullen
Contact Phone Number: 317-835-7461

Views of Responsible Official: Corporation Treasurer

During the previous audit, errors were found on the Schedule of Expenditures of Federal Awards. The Corporation Treasurer identified ways to ensure that the report was completed accurately. We believe that was accomplished. No mention was made in the prior audit (2013-002) of having a second person sign off on the report. To correct this, the Corporation Treasurer will begin to have a second person in the office verify the information for accuracy and sign the documentation before submission in Gateway. Anticipated Completion Date: September 1, 2017

FINDING 2015-003 Cash Management Reporting

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553; 10.555
Federal Award Number and Year (or Other Identifying Number): SY 2013-14 and SY 2014-15
Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Laura Mullen
Contact Phone Number: 317-835-7461

Views of Responsible Official: Corporation Treasurer

Beginning with the finding number 2013-006, the Food Service Director began to have a second person review and sign off on the monthly claims. When a new school year started, the previous Food Service Director and the food service management company

did not continue to have a second person double check and sign the claims. To correct this, the Food Service Director will be required to bring a copy of the monthly claim to the Corporation Treasurer for verification. The Corporation Treasurer will sign off on the reports. Copies will be kept in the Corporation Office and the Food Service Office.

The Corporation Treasurer, who completes the Annual Financial Report, will begin to have the Food Service Director verify the information for accuracy before submission. In both of these cases, each person will sign off on the paperwork filed.

Anticipated Completion Date: September 1, 2017

FINDING 2015-004 Special Tests and Provision – Paid Lunch Equity

Federal Agency: U.S. Department of Agriculture

Federal Programs: National School Lunch Program

CFDA Number: 10.555

Federal Award Number and Year (or Other Identifying Number): SY 2013-14 and SY 2014-15

Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Laura Mullen

Contact Phone Number: 317-835-7461

Views of Responsible Official: Corporation Treasurer

In the past, the Food Service Director would complete the weighted-average calculation so that the correct meal prices were presented to the school board for approval. The director did not keep a copy of the calculation. To correct this, the Food Service Director will now be required to provide a copy of the calculation printout along with their suggestions for meal prices to the Superintendent before it is presented to the school board.

Anticipated Completion Date: September 1, 2017

FINDING 2015-005 Suspension and Debarment

Federal Agency: U.S. Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553; 10.555

Federal Award Number and Year (or Other Identifying Number): SY 2013-14 and SY 2014-15

Pass-Through Entity: Indiana Department of Education

Contact Person Responsible for Corrective Action: Laura Mullen

Contact Phone Number: 317-835-7461

Views of Responsible Official: Corporation Treasurer

The Corporation Treasurer will begin to verify that all vendors used in the School Lunch/Breakfast account are not on the Suspension and Debarment list. A file will be kept of those verifications. The previous Food Service Director did not keep copies of the bread and milk contracts. To correct this, the Corporation Treasurer will verify that any new contracts are on file.

Anticipated Completion Date: September 1, 2017

Laura D Miller

Corporation Treasurer

(Title)

8/15/17

(Date)

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 29, 2017, with Laura Mullen, Treasurer, and Chris Hoke, Superintendent of Schools.