

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTH LAWRENCE COMMUNITY SCHOOLS
LAWRENCE COUNTY, INDIANA
July 1, 2014 to June 30, 2016



FILED
09/29/2017

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|----------------------------------------|----------------------------------------------|
| Treasurer | Michele Cox Corbin E. Dietrich | 07-01-14 to 06-30-15 07-01-15 to 06-30-18 |
| Superintendent of Schools | Dr. Dennis D. Turner Gary D. Conner | 07-01-14 to 06-30-15 07-01-15 to 06-30-18 |
| President of the School Board | Larry Arnold Kirsten N. Collier | 07-01-14 to 12-31-16 01-01-17 to 12-31-17 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTH LAWRENCE COMMUNITY
SCHOOLS, LAWRENCE COUNTY, INDIANA

This report is supplemental to our audit report of the North Lawrence Community Schools (School Corporation), for the period from July 1, 2014 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa.

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

September 25, 2017

NORTH LAWRENCE COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation relied on one employee to prepare the SEFA. There was no evidence of a control, such as an oversight, review, or approval process by the School Corporation to ensure federal awards information entered and submitted was correct.

Context

The SEFA contained the following errors:

- The program title was incorrectly reported for seven federal programs.
- The National School Lunch Program commodities were overstated by \$22,482.
- The Summer Food Service Program for Children expenditures were overstated by \$10,383.
- The Title I Grants to Local Educational Agencies expenditures were understated by \$112,754.
- The Career and Technical Education -- Basic Grants to States fiscal year 2016 expenditures were understated by \$190,290.
- There was an unidentified grant in the amount of \$328 that was reported in error for fiscal year 2015.

The errors resulted in a net understatement of federal expenditures of \$269,851. 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. . . .

NORTH LAWRENCE COMMUNITY SCHOOLS
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. . . ."

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."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

NORTH LAWRENCE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

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

Effect

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

Recommendation

We recommended that the School Corporation's management establish controls to prevent, or detect and correct, errors on the SEFA.

NORTH LAWRENCE COMMUNITY SCHOOLS
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 2016-002

Subject: Career and Technical Education -- Basic Grants to States -
Procurement and Suspension and Debarment

Federal Agency: Department of Education

Federal Program: Career and Technical Education -- Basic Grants to States

CFDA Number: 84.048

Federal Award Numbers and Years (or Other Identifying Numbers): 16-4700-5075, A58515CI2759,
A58616CI3260

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

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 Procurement and Suspension and Debarment compliance requirement.

The School Corporation did not have procedures in place for procurement purchases between \$3,000 and \$150,000 nor did they document the rationale for the procurement method used.

The School Corporation 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

The School Corporation did not follow procurement requirements for small purchases or verify that vendors were not suspended or debarred prior to awarding the contracts with 100 percent of applicable vendors for the 2015-2016 school 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. . . ."

2 CFR 200.320(b) states:

"Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, and other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources."

NORTH LAWRENCE COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.318(i) states:

"The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Procurement and Suspension and Debarment requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

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



NORTH LAWRENCE COMMUNITY SCHOOLS

460 W Street • P.O. Box 729 • Bedford, IN 47421-0729
(812) 279-3521

CORRECTIVE ACTION PLAN

SCHOOLS

- Bedford North Lawrence High School
- Bedford Middle School
- Dollens Elementary School
- Englewood School
- Fayetteville Elementary School
- Heltonville Elementary School
- Lincoln Elementary School
- Needmore Elementary School
- Oolitic Middle School
- Parkview Primary Elementary School
- Parkview Intermediate Elementary School
- Shawswick Elementary/Middle School
- Springville Elementary School
- Stalker Elementary School
- North Lawrence Vocational Technical Center

FINDING 2016-001

Contact Person Responsible for Corrective Action: Corbin Dietrich, Treasurer
Contact Phone Number: 812-279-3521

Description of Corrective Action Plan:

Lack of initial training and therefore proper knowledge greatly contributed to the errors on the Schedule of Expenditures of Federal Awards (SEFA) for fiscal years ending 2015 and 2016. We now have a much better understanding of the information we need to provide for future submissions. The Treasurer will thoroughly review new grants to determine if they are Federal grants that should be included on the SEFA. Program titles will be determined by matching the appropriate title with the CFDA number on the www.CFDA.gov website.

Anticipated Completion Date:

Immediately

Corbin Dietrich
(Signature)

NLCS Treasurer
(Title)

July 25, 2017
(Date)



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- Parkview Intermediate Elementary School
- Shawswick Elementary/ Middle School
- Springville Elementary School
- Stalker Elementary School
- North Lawrence Vocational Technical Center

FINDING 2016-002

Contact Person Responsible for Corrective Action: Corbin Dietrich, Treasurer
Contact Phone Number: 812-279-3521

Description of Corrective Action Plan:

The appropriate procurement method will be used for future purchases. Quotations will be obtained from an adequate number of qualified sources for purchases that fall into the Small Purchase category (\$3,000 to \$150,000). If the purchase is specialized and multiple quotations cannot be obtained, then the purchaser will document why multiple quotations cannot be obtained. The Suspension and Debarment compliance requirements will be followed. For purchases over \$25,000, the purchaser will verify that the vendor has not been suspended or debarred before purchasing from said vendor.

Anticipated Completion Date:

Immediately

Corbin Dietrich
(Signature)

Treasurer
(Title)

August 2, 2017
(Date)

NORTH LAWRENCE COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on September 25, 2017, with Kirsten N. Collier, President of the School Board; Corbin E. Dietrich, Treasurer; and Gary D. Conner, Superintendent of Schools.