

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

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



FILED
12/01/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Deborah L. Adams	07-01-14 to 06-30-18
Superintendent of Schools	Dr. Scott A. Mills	07-01-14 to 06-30-18
President of the School Board	R. Scott Elzey	01-01-14 to 12-31-17



STATE OF INDIANA
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TO: THE OFFICIALS OF THE NORTHERN WELLS COMMUNITY
SCHOOLS, WELLS COUNTY, INDIANA

This report is supplemental to our audit report of the Northern Wells 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

October 17, 2017

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2014-001.

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 SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were overstated by \$365,945 for fiscal year 2014-2015 and \$454,943 for fiscal year 2015-2016.
2. The Special Education Cluster (IDEA) was overstated by \$1,388,159 for fiscal year 2014-2015 and understated by \$38,497 for fiscal year 2015-2016.

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. . . ."

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. . . ."

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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. . . ."

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:

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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

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 *Condition*.

Recommendation

We recommended the School Corporation's management establish controls, including segregation of duties, related to the SEFA.

Views of Responsible Officials

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

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2016-002

Subject: Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking and Reporting

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): 14213-001-PN01, 14214-001-PN01,
14215-001-PN01, 14216-001-PN01,
99914-001-TA01, 45714-001-PN01,
45715-001-PN01, 45716-001-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Matching, Level of Effort, Earmarking; Reporting

Audit Finding: Material Weakness

Condition

The School Corporation was a member of the Adams-Wells Special Services Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grants. There was no oversight of the Cooperative by the School Corporation. Since the grant agreements are between the Indiana Department of Education (IDOE) and each member school corporation of the Cooperative, each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

Context

The Cooperative's internal control was that the reports were to be reviewed by the Cooperative's Director prior to submission to the IDOE. The Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for audit were not the original reviewed and signed reports. Also, some reports presented were incomplete. Per inquiry of School Corporation's officials, there was no oversight, at the School Corporation, over the filing of required reports submitted to the IDOE.

Of the Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for the audit, we could not verify the reported "proportionate share" expenditures. Per inquiry of the Director of the Cooperative, the reported expenditures were calculated by multiplying the applicable monthly reimbursed expenditures by the nonpublic school usage percentage, which was calculated based on a time study conducted annually by the Cooperative's Director. We requested a copy of the time study; however, it was not available for audit.

The lack of controls was a systemic problem, which occurred 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. . . ."

NORTHERN WELLS 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). . . ."

Cause

Management had not designed or implemented a system of internal control for the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporations' management establish controls related to the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

Views of Responsible Officials

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

Northern Wells Community Schools

312 North Jefferson Street,
Ossian, IN 46777

Telephone (260) 622-4125
Fax (260) 622-7893

Dr. Scott Mills, Superintendent

CORRECTIVE ACTION PLAN AUDIT PERIOD: JULY 1, 2014 – JUNE 30, 2016

Contact Person Responsible for Corrective Action: Deborah Adams (Treasurer)
Contact Information: (260)-622.4125, deb.adams@nwcs.k12.in.us
Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan:

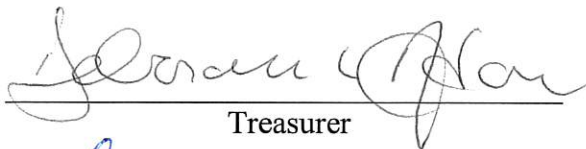
FINDING 2016-001

Northern Wells Community Schools will create instructions detailing how to complete the Federal Awards report (SEFA) accurately. The Treasurer will execute the reports and the Deputy Treasurer will review and sign off. The Treasurer will then complete the Gateway reporting for submission prior to the due date.

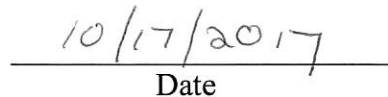
FINDING 2016-002

Northern Wells Community Schools will review (initial and date) the Quarterly Proportionate Share Monitoring Reports for Non-Public Schools prepared by Adams Wells Cooperative, along with the supporting documentation. After review, we will advise Adams Wells of any relative comments and approve Northern Wells Community Schools' portion of the report for submittal to the State.

Anticipated Completion Date: December 31, 2017



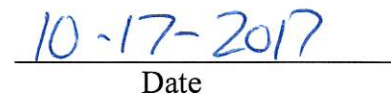
Treasurer



Date



Superintendent



Date

NORTHERN WELLS COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2017, with Dr. Scott A. Mills, Superintendent of Schools; Deborah L. Adams, Treasurer; Gene Donaghy, School Board member; and Angie Topp, School Board member.