

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF WHITING

LAKE COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED

12/19/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kim Pusateri	07-01-14 to 06-30-18
Superintendent of Schools	Dr. Sandra Martin Cynthia Scroggins	07-01-14 to 06-30-16 07-01-17 to 06-30-18
President of the School Board	Anthony Borgo Kathy Murzyn Jeremiah Moynihan	01-01-14 to 12-31-14 01-01-15 to 12-31-16 01-01-17 to 12-31-17



STATE OF INDIANA
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TO: THE OFFICIALS OF THE SCHOOL CITY OF WHITING, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the School City of Whiting (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

November 1, 2017

SCHOOL CITY OF WHITING
FEDERAL FINDINGS

FINDING 2016-001

Subject: Child Nutrition Cluster - Eligibility, Reporting and National School Lunch Program - Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.556, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY2015, FY2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Eligibility, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Eligibility

One food service employee was solely responsible for performing the eligibility determinations and entering applicant information into the point of sale system. An oversight or review process of the determinations made and data entered had not been established.

Reporting

One person was responsible for preparing the monthly Sponsor Claims (claim for reimbursement) and the School Food Authority (SFA) Verification Collection Reports without evidence of an oversight or review process.

Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) (National School Lunch Program only)

An oversight or review process over the required verifications had not been established to ensure the accuracy of the verifications.

Context

The lack of controls was a systemic problem. There were no documented controls over the compliance requirements noted in the *Condition* 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. . . ."

SCHOOL CITY OF WHITING
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) 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. The 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 to ensure compliance with the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

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: Child Nutrition Cluster - Procurement and Suspension and Debarment

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.556, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY2015, FY2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

For the 2014-2015 fiscal year, the School Corporation utilized a third-party service center for milk and bread bids. The third-party service center administered the bidding process as well as verified that the vendors were not suspended or debarred. The third-party service center made a recommendation to the School Corporation for the winning bids. However, the School Corporation and the School Board never formally approved or awarded the bids.

SCHOOL CITY OF WHITING
FEDERAL FINDINGS
(Continued)

For the 2014-2015 and 2015-2016 fiscal years, the School Corporation contracted with a third-party purchasing service for food products, materials, and supplies. The School Corporation and the School Board did not approve the contract with the purchasing service or verify that the vendors were not suspended or debarred.

An oversight, review, or approval process had not been established to ensure compliance with applicable local, state, and federal laws regarding these requirements.

Context

The lack of controls and noncompliance was a systemic problem. There were no documented controls over the Procurement and Suspension and Debarment compliance requirement 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. . . ."

The School Corporation Bylaws and Policies, Policy 6320 - PURCHASING states: "Contracts can be awarded by the Superintendent without Board approval for any single item or group of identical items costing less than \$50,000.00. All other contracts require Board approval prior to purchase."

7 CFR 3016.36 states in part:

"(a) *States*. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section.

(b) *Procurement standards*.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . ."

Indiana Code 5-22-6-1 states: "The purchasing agency of a governmental body may purchase services using any procedure the governmental body or the purchasing agency of the governmental body considers appropriate."

Indiana Code 5-22-6-2 states:

"(a) A governmental body may adopt rules governing the purchase of services for the governmental body.

(b) The purchasing agency of a governmental body may establish policies regarding the purchase of services for the governmental body."

SCHOOL CITY OF WHITING
FEDERAL FINDINGS
(Continued)

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:

- (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

The School Corporation had not established a system of internal controls that would have ensured compliance with the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. 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 to ensure compliance and comply with the Procurement and Suspension and Debarment 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 2016-003

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): FY2015, FY2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Findings: Material Weakness, Other Matters

SCHOOL CITY OF WHITING
FEDERAL FINDINGS
(Continued)

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Policies or procedures were not in place at the School Corporation that would have ensured that correct amounts were entered into and calculated in the Price Adjustment Calculator tool.

The Paid Lunch Equity calculation for the 2014-2015 school year could not be located by the School Corporation even though the School Board approved a ten cent increase in lunch prices.

For 2015-2016 school year, the lunch prices were increased in accordance with the paid lunch equity calculation; however, the School Board did not approve the increase in lunch prices.

Context

The lack of controls was a systemic problem. There were no documented controls over the Special Tests and Provisions - Paid Lunch Equity throughout the audit period. Noncompliance occurred in both fiscal years 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 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. . . ."

7 CFR 210.15(b) states in part:

"Recordkeeping summary. In order to participate in the Program, a school food authority or a school, as applicable, must maintain records to demonstrate compliance with Program requirements. These records include but are not limited to: . . .

SCHOOL CITY OF WHITING
FEDERAL FINDINGS
(Continued)

(6) Records to document compliance with the requirements in § 210.14(e); . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. 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 to ensure compliance and comply with the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

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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CORRECTIVE ACTION PLAN

BOARD OF SCHOOL TRUSTEES

Jeremiah J. Moynihan, President
Nicole L. Davenport, Vice President
Kathy Murzyn, Secretary
Christine Stribiak, Trustee
Amanda E. Perkins, Trustee

FINDING 2016-001 **Child Nutrition Cluster – Eligibility, Reporting
National School Lunch Program – Special Tests and Provisions – Verification of
Free and Reduced Price Applications**

Contact Person Responsible for Corrective Action: Kim Pusateri
Contact Phone Number: 219-659-0656 ext. 124

Views of Responsible Official:

We concur with the finding, see corrective action plan.

Description of Corrective Action Plan:

The food service department will establish internal controls to document segregation of duties in the future while performing the eligibility determinations and entering applicants into the point of sale system.

The food service department will establish internal controls to document that the monthly claim for reimbursements and verification summary reports are reviewed by another staff member prior to submission. A review by signature will be implemented on these documents moving forward.

The food service department will establish internal controls to document three signatures on the selected samples of applications that have been approved for free and reduced meal applications.

Anticipated Completion Date:

The food service department will implement the corrective action plan immediately.



(Signature)

Director of Finance
(Title)

10/31/2017
(Date)

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BOARD OF SCHOOL TRUSTEES
Jeremiah J. Moynihan, President
Nicole L. Davenport, Vice President
Kathy Murzyn, Secretary
Christine Stribiak, Trustee
Amanda E. Perkins, Trustee

CORRECTIVE ACTION PLAN

FINDING 2016-002 Child Nutrition Cluster - Procurement and Suspension and Debarment

Contact Person Responsible for Corrective Action: Kim Pusateri
Contact Phone Number: 219-656-0656 ext. 124

Views of Responsible Official:

We concur with the finding, see corrective action plan.

Description of Corrective Action Plan:

The School City of Whiting will establish internal controls to ensure that third party bids are formally approved by the School City of Whiting's Board of School Trustees. The School City of Whiting will also verify that the vendors were not suspended or debarred to ensure compliance with the procurement and suspension and debarment requirement.

Anticipated Completion Date:

The School City of Whiting has implemented verification of the Suspension Debarment for contracts beginning April 1, 2017. The School City of Whiting will also be sure that all third party bids are formally approved by the Board of School Trustees moving forward.


(Signature)

Director of Finance
(Title)

10/31/17
(Date)

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Nicole L. Davenport, Vice President
Kathy Murzyn, Secretary
Christine Stribiak, Trustee
Amanda E. Perkins, Trustee

CORRECTIVE ACTION PLAN

**FINDING 2016-003 National School Lunch Program – Special Tests and Provisions –
Paid Lunch Equity**

Contact Person Responsible for Corrective Action: Kim Pusateri
Contact Phone Number: 219-659-0656 ext. 124

Views of Responsible Official:

We concur with the finding, see corrective action plan.

Description of Corrective Action Plan:

The food service department will establish internal controls to ensure that the Paid Lunch Equity amounts entered and calculated are accurate. A copy of the paid lunches claimed in October from the previous year will be attached and kept on file with a copy of the Paid Equity Lunch calculation.

The food service director will follow up after the meal prices are board approved and request a copy of the board approved minutes to keep in her file along with the Paid Equity Lunch calculation sheet.

Anticipated Completion Date:

The food service department did begin keeping the Paid Lunch Equity calculation sheet after the 2014-2015 school year. It is in our procedures to board approve meal price increases each year, it was an oversight for the 2015-2016 school year.


(Signature)

Director of Finance
(Title)

10/31/17
(Date)

SCHOOL CITY OF WHITING
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2017, with Kim Pusateri, Treasurer; Cynthia Scroggins, Superintendent of Schools; Jeremiah Moynihan, President of the School Board; Lorri Covaciu, Assistant Superintendent of Schools; and Christine Lerma, Food Service Director.