

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

DUNELAND SCHOOL CORPORATION

PORTER COUNTY, INDIANA

July 1, 2014 to June 30, 2016



**FILED**  
12/21/2017



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2016-001	
Financial Transactions and Reporting and Preparation of the Schedule of Expenditures of Federal Awards .....	4-5
Finding 2016-002	
Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate.....	5-7
Finding 2016-003	
Title I Grants to Local Educational Agencies - Special Tests and Provisions - Assessment System Security .....	7-8
Finding 2016-004	
Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/ Cost Principles, Eligibility, Program Income, and Reporting .....	9-11
Corrective Action Plan.....	12-15
Exit Conference.....	16

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer/Chief Financial Officer	Lynn A. Kwilasz	07-01-14 to 06-30-18
Superintendent of Schools	Dr. David L. Pruis Dr. Ginger Bolinger	07-01-14 to 06-30-17 07-01-17 to 06-30-18
President of the School Board	Ralph Ayres Kristin Kroeger	01-01-14 to 03-29-16 03-30-16 to 12-31-17



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF THE DUNELAND SCHOOL CORPORATION, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Duneland School Corporation (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/](http://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 2, 2017

DUNELAND SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Financial Transactions and Reporting and Preparation  
of the Schedule of Expenditures of Federal Awards  
Audit Finding: Significant Deficiency

*Condition*

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting of payroll expenditures and the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

1. Payroll: Payroll expenditures were recorded based on final payroll reports which were reviewed for approval by the Deputy Treasurer and verified against a control sheet. However, this review was not documented.
2. SEFA: The School Corporation failed to properly document review of the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system (Gateway), which is the source for the SEFA. One employee prepared the grant information for the federal awards and submitted it in Gateway without a documented review.

*Context*

The lack of controls over financial transactions and reporting of payroll expenditures and the preparation of the SEFA were systemic problems which occurred throughout the audit period.

*Criteria*

The 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 had not established a system of internal control that would have ensured proper reporting of financial transactions and reporting and preparation of the SEFA.

DUNELAND SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish and properly implement controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting and preparation of the SEFA.

*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: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate  
Federal Agency: Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers and Years (or Other Identifying Numbers): 14-6470, 15-6470, 16-6470  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate  
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 Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

The School Corporation did not comply with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate requirements that students removed from the High School cohort graduation rate for mobility reasons have written documentation to support the student's removal from the cohort.

*Context*

This was a systemic problem. Ten percent of the population of students who were removed from the cohort during the audit period were tested. The School Corporation did not have supporting documentation for fifteen percent of these students.

*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. . . ."

DUNELAND SCHOOL CORPORATION  
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). . . ."

34 CFR 200.19(b) states in part:

"*High schools*—(1) *Graduation rate*. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a 'four-year adjusted cohort graduation rate,' defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . . .

(ii) The term 'adjusted cohort' means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term "students who transfer into the cohort" means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. . . ."

*Cause*

The School Corporation had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled material 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.

DUNELAND SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation establish controls to ensure compliance and comply with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate 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: Title I Grants to Local Educational Agencies - Special Tests and Provisions -  
Assessment System Security

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 14-6470, 15-6470, 16-6470

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Assessment System Security

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 Special Tests and Provisions - Assessment System Security compliance requirement. Evidence of a review or approval process to ensure that the School Corporation followed their testing policy was not retained or presented for audit.

*Context*

This 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. . . ."

DUNELAND SCHOOL CORPORATION  
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). . . ."

34 CFR 80.42(a) states:

"*Applicability.* (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are:

- (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or
- (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement."

*Cause*

The School Corporation had not developed a system of internal controls to ensure that documentation of a review or approval process ensuring the School Corporation followed its testing policy was retained and presented for audit relating to the Special Tests and Provisions - Assessment System Security compliance requirement.

*Effect*

The failure to retain and present for audit documentation of a review or approval process ensuring the School Corporation followed its testing policy prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Assessment System Security.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation establish controls to ensure that proper documentation was retained and presented for audit relating to the Special Tests and Provisions - Assessment System Security compliance requirement.

*Views of Responsible Officials*

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

DUNELAND SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-004***

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Program Income, 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): FY 2015 and 2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Program Income, Reporting

Audit Finding: Material Weakness

*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 following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Program Income, and Reporting.

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

Vendor disbursements for the Child Nutrition Cluster were prepared by the Food Service Systems Coordinator. An internal control process was established that required the Food Service Director to review and approve the disbursements as evidenced by her initials. However, the control was not properly implemented. The accounts payable vouchers tested did not include initials of the Food Service Director.

One employee changed from an hourly employee to a contracted employee in January 2015. The employee's pay was then split evenly between the School Lunch fund and the General fund. However, there was no evidence of a review of the employee's allocation of their salary between the two funds.

*Eligibility*

The Food Service Department used the Horizon OneSource software to receive online applications for free and reduced priced meals. The software determined eligibility based on income guidelines entered into the software from the federal government's website. The Food Service Systems Coordinator and the Food Service Operations Coordinator reviewed the guidelines to ensure that they were entered correctly. However, there was no documentation of this review.

*Program Income*

There was no effective control in place at the School Corporation that would have ensured that correct amounts for program income were entered into the School Corporation's financial accounting system from the Food Service financial reporting system. Amounts were entered into the Corporation's financial accounting system without verification or review by anyone other than the person who calculated and entered the amounts.

DUNELAND SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Reporting*

The Food Service Director independently completed and submitted the Verification Summary Report without a review or approval process.

*Context*

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

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 developed a system of internal controls that segregated key functions.

*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.

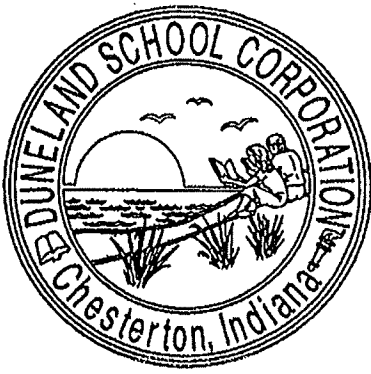
*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Program Income, and Reporting compliance requirements.

DUNELAND SCHOOL CORPORATION  
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.



# *Duneland School Corporation*

*ADMINISTRATION CENTER*

*601 West Morgan Avenue*

*Chesterton, Indiana 46304-2205*

*Phone: 219-983-3601 FAX: 219-983-3614*

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## CORRECTIVE ACTION PLAN

### **FINDING 2016-001**

Contact Person Responsible for Corrective Action: Lynn A. Kwilasz, Chief Financial Officer/Treasurer  
Contact Phone Number: 219-983-3600

Views of Responsible Official: We concur with the findings.

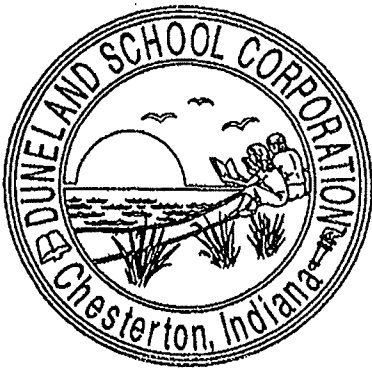
### Description of Corrective Action Plan:

1. Payroll: An internal control will be added to the payroll process to verify that the payroll input data balances with the final payroll reports. An EXCEL payroll master spreadsheet will be updated by the Accounting Assistant after initial data is input into the system. The spreadsheet will be reviewed by the Payroll Processor against the system-generated payroll claim. Discrepancies will be noted, researched and changes will be made based upon research results. The Business Manager/Deputy Treasurer will review the final payroll claim, the final payroll master spreadsheet and all notes and other related documentation. Each step will be evidenced by reviewer's initials and date. All reports and documentation will be retained as a part of the payroll processing file.
2. SEFA: The annual SEFA grant report will be completed by either the Treasurer or Deputy Treasurer and reviewed by the other prior to submitting the SEFA data to the Indiana GATEWAY for Government Units financial reporting system. Completion and review will both be evidenced by the initials and date of each person with notation that indicates who reviewed versus who completed the report. The reviewed and evidenced report copy will be retained in the SEFA file.

### Anticipated Completion Date:

1. This control process will begin with the December 5, 2017 payroll processing.
2. This will begin with the 2017-18 SEFA filing in August 2018.

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## CORRECTIVE ACTION PLAN

### **FINDING 2016-002**

Contact Person Responsible for Corrective Action: James Goetz, Assistant Superintendent for Curriculum & Instruction

Contact Phone Number: (219) 983-3600

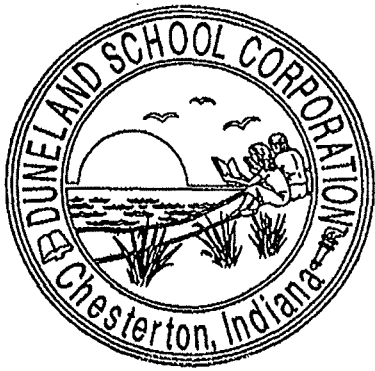
Views of Responsible Official: We concur with the findings.

#### Description of Corrective Action Plan:

An internal control will be added to ensure proper coding has been entered for all students withdrawing/transferring from the Duneland School Corporation. Periodic review will be conducted by an individual who is knowledgeable of the withdrawal process and codes to verify that withdrawn students have been coded in the student information system and that such coding matches the corresponding withdrawal reason. This process will be evidenced by the initials of the reviewer and the date of the review. This report along with the required supporting documentation shall be retained.

#### Anticipated Completion Date:

This control process will be implemented starting November 3, 2017.



# *Duneland School Corporation*

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## CORRECTIVE ACTION PLAN

### **FINDING 2016-003**

Contact Person Responsible for Corrective Action: James Goetz, Assistant Superintendent for Curriculum & Instruction

Contact Phone Number: (219) 983-3600

Views of Responsible Official: We concur with the finding.

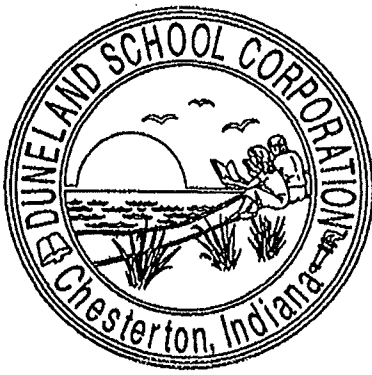
### Description of Corrective Action Plan:

Internal controls will be developed to assure that the existing policy related to test security and integrity is followed. This will be evidenced by documentation that will be retained.

### Anticipated Completion Date:

These internal controls will be established prior to the next testing window.

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## CORRECTIVE ACTION PLAN

### **FINDING 2016-004**

Contact Person Responsible for Corrective Action: Kay Nallenweg, Director of Food Service

Contact Phone Number: (219) 983-3723

Views of Responsible Official: We concur with the findings

Description of Corrective Action Plan:

Activities Allowed or Unallowed, Allowable Cost/Cost Principles:

- Accounts Payable Vouchers: Vouchers will be reviewed and approved by the Director of Food Service. Such review shall be evidenced by initial of the Director or, in her absence, by the Food Service Operations Coordinator.
- Split-Funded Employee Payroll: Only employees who work exclusively under the Child Nutrition cluster grant programs shall be paid from the food service fund.

Eligibility: Annually, the Food Service Operations and Food Service Systems Coordinators will maintain written documentation that the federal income guidelines have been correctly input into the Horizon OneSource on-line system which is used to process free/reduced meal eligibility. Documentation shall be evidenced by initial and date and maintained with the F/R application data.

Program Income: An internal control will be added to review all Food Service financial data prior to it being posted into the corporation financial accounting system. The food service financial data compiled by the Food Service Systems Coordinator will be reviewed along with all supporting documentation by the Director of Food Service who will evidence the review by initial and date on the report that is provided to the Corporation Business Office. An evidenced copy of the report and supporting documentation shall be maintained in the Food Service Department.

Reporting: An internal control shall be implemented that includes a review by the Food Service Operations Coordinator of the Verification Summary Report that is produced by the Director of Food Service. Such review shall be evidenced by initial and date of the reviewer and a copy of the evidenced report shall be maintained in the Food Service Department along with the verification documentation.

Anticipated Completion Dates:

- A/P Voucher Review shall begin effective 11/3/2017.
- Split-Funded Employee Payroll will no longer occur effective on the 11/20/2017 payroll.
- Income guideline review documentation shall be maintained effective with the 2018-2019 Free/Reduced application processing cycle.
- Program Income data shall be reviewed and evidenced beginning with the November 2017 month-end data provided to the corporation business office.
- Review of the Verification Summary Report shall be conducted after 11/3/2017 with the 2017-2018 Report.

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DUNELAND SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on November 2, 2017, with Lynn A. Kwilasz, Treasurer/Chief Financial Officer; Dr. Ginger Bolinger, Superintendent of Schools; and Kristin Kroeger, President of the School Board.