

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

CENTRAL NOBLE COMMUNITY
SCHOOL CORPORATION
NOBLE COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
01/31/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kimberly A. Schlotterback	07-01-14 to 06-10-17
	(Vacant)	06-11-17 to 07-31-17
	Miranda R. Wilkins	08-01-17 to 06-30-18
Superintendent of Schools	Dr. Christopher E. Daughtry	07-01-14 to 06-30-15
	Alan C. Middleton	07-01-15 to 12-31-16
	Troy A. Gaff	01-01-17 to 06-30-18
President of the School Board	Rodney P. Stayner	07-01-14 to 06-30-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CENTRAL NOBLE COMMUNITY
SCHOOL CORPORATION, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the Central Noble Community 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 and Audit Results and Comments 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 and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 21, 2017

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

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).

Context

During the audit of the SEFA, the following errors were noted: grant awards for the Child Nutrition Cluster totaling \$249,676 for fiscal year 2015 and \$431,267 for fiscal year 2016 and the Special Education Cluster (IDEA) totaling \$289,080 for fiscal year 2015 and \$285,756 for fiscal year 2016 were not included.

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. . . ."

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:

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
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."

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:

- (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.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 *Context*.

Recommendation

We recommended that the School Corporation's management establish controls to prevent, or detect and correct, errors on 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: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

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

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to receipts and cash and investment balances.
 - a. One individual was responsible for preparing the bank reconciliation. The same individual issued receipts and prepared the bank deposits.
 - b. Bank reconciliations were not reviewed and approved by someone other than the person performing the depository reconciliations.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

2. Monitoring of Controls: The School Corporation had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the School Corporation to monitor and assess the quality of the system of internal control.

Context

The lack of adequate internal controls and lack of monitoring of controls were systemic issues, which occurred throughout the audit period.

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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

Cause

Management of the School Corporation had not established a proper system of internal control.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to monthly cash reconcilements and the receipt issuance and establish a system to ensure that controls were monitored and evaluated periodically.

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: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

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): 14213-046-PN01, 14214-046-PN01,
14215-046-PN01, 99914-046-TA01,
14216-046-PN01, 45715-046-PN01,
45716-044-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the Northeast Indiana Special Education Cooperative (Cooperative). The grant agreements for the federal programs were between the Indiana Department of Education (IDOE) and each member school corporation of the Cooperative. The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide Special Education services to those in need. The Cooperative designated a Fiscal Agent, who was responsible for the accounting records of the Cooperative. The Fiscal Agent of the Cooperative spent the federal money on behalf of the School Corporation and other member school corporations and was responsible for following the compliance requirements related to Allowable Costs/Cost Principles.

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 Allowable Costs/Cost Principles compliance requirement. Because the grant agreements are between the IDOE and each member of the Cooperative, each member school corporation is ultimately responsible for ensuring compliance with the requirements. The Fiscal Agent had not implemented adequate controls to ensure that Semi-Annual Certifications prepared were properly signed by the Special Education Director.

Context

The Semi-Annual Certifications were not all properly signed by the Special Education Director.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
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 200.303 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). . . ."

OMB Circular A-87, Attachment B, section 8(h)(3) states:

"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system placed the Cooperative and the participating school corporations, in noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system allowed noncompliance with the compliance requirement and could have 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 Allowable Costs/Cost Principles compliance requirement. We also recommended that the School Corporation monitor and have proper oversight of the Cooperative.

Views of Responsible Officials

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

FINDING 2016-004

Subject: Child Nutrition Cluster - Internal Controls

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 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Program Income

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior finding number was 2014-002.

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: Cash Management, Eligibility, and Program Income.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cash Management

Management of the School Corporation had not established an effective internal control system related to the Cash Management compliance requirement. There were no procedures established to ensure that the School Lunch fund cash balances were maintained in compliance with the Cash Management requirements.

Eligibility

The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with the Eligibility compliance requirement. There were no controls in place to ensure that eligibility determinations were performed when required or were accurate. The Food Service Director independently completed the eligibility determinations. There was no segregation of duties, such as an oversight, review, or approval process.

Program Income

The School Corporation had not established an effective internal control over verifying the proper determination and recording of program income. The School Corporation did not review the monthly cafeteria sales reports for all of its schools to ensure that all program income was properly determined and recorded in the School Corporation ledger.

Context

Internal control issues were systemic, occurring 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. . . ."

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.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

FINDING 2016-005

Subject: Child Nutrition Cluster - 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 14-15, FY 15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior finding numbers were 2014-002 and 2014-003.

Condition

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

The School Corporation had a consulting agreement with a private vendor to oversee the School Corporation's food service operations. The Food Service Director, an employee of the private vendor, filed the required monthly Sponsor Claims (claim for reimbursement) and the Annual Financial Reports (AFR) with the Indiana Department of Education for the Child Nutrition Cluster programs.

The School Corporation did not file a June 2015 monthly Sponsor Claim (claim for reimbursement), although there was activity to support a claim. Additionally, the March 2015 Sponsor Claim (claim for reimbursement) was filed late, causing a delay in the receipt of reimbursement until February 2016.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The AFR filed by the School Corporation for the fiscal year ending June 30, 2016, did not agree with the School Corporation's financial records. Additionally, the November 2015 filed Sponsor Claim (claim for reimbursement) did not agree with the School Corporation's records. The Food Service Director reported financial records that were maintained by the private vendor.

Context

Internal control issues were systemic, occurring throughout the audit period, and enabled non-compliance with the reporting requirements.

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). . . ."

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

(1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . ."

2 CFR 200.302(b)(2) states in part: "Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

Cause

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

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish internal controls enabled material noncompliance to go undetected, which 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, including segregation of duties, related to the grant agreement and the Reporting 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 2016-006

Subject: Child Nutrition Cluster - 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
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)
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 - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

The verification process was performed on a predetermined percentage of applications. For the 2014-2015 and 2015-2016 school years, a total of fourteen applications were verified by the School Corporation officials, as required. Of the four verified applications tested, two applications resulted in incorrect eligibility determinations and the verification summary portion of three applications was incomplete. The incorrect eligibility determinations were due to the usage of net pay instead of gross wages in the calculation of income.

Context

Internal control issues were systemic, occurring throughout the audit period, and this resulted in non-compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Criteria

7 CFR 245.6(a)(f)(7) states:

"*Eligibility changes.* Based on the verification activities, the local educational agency shall make appropriate modifications to the eligibility determinations made initially. The local educational agency must notify the household of any change. Households must be notified of any reduction in benefits in accordance with paragraph (j) of this section. Households with reduced benefits or that are longer eligible for free or reduced price meals must be notified of their right to reapply at any time with documentation of income or participation in one of the eligible programs in paragraph (a)(1) of this section."

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 internal controls enabled material noncompliance to go undetected, which could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Views of Responsible Officials

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

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2016-007

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 Number and Year (or Other Identifying Number): FY 14-15
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the School Corporation in order to ensure that noncompliance with requirements related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement would have been prevented, or detected and corrected.

Context

The School Corporation did not have policies or procedures in place to ensure Special Tests and Provisions - Paid Lunch Equity requirements were properly calculated and considered. The School Corporation did not retain its paid lunch equity calculations documentation for the 2014-2015 school year; therefore, the School Corporation was not in compliance with the Special Tests and Provisions - Paid Lunch Equity requirement.

Criteria

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: . . .

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

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. . . ."

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 or that ensured the maintenance of proper supporting documentation.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and 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.



Central Noble Community School Corporation

Albion Elementary Central Noble Junior-Senior High School Wolf Lake Elementary

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🏠 200 E. Main St.
Albion, IN 46701

CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Central Noble Schools will implement internal controls related to preparation of the schedule of expenditures of federal awards by creating review procedures to ensure accurate reporting on the SEFA. The appropriate personnel at the Central Office will be responsible for ensuring all necessary information is included on the report. The reviewer will be given a checklist to ensure the internal review checks and balances are in place.

Anticipated Completion Date: March 31, 2018

FINDING 2016-002

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Central Noble Schools will implement internal controls related to financial transactions and reporting by creating review procedures and documentation for receipts and bank reconciliation. The role of the reviewer will be assigned to the appropriate personnel in the Central Noble Administrative Office. The reviewer will have a monthly checklist to ensure that internal review and checks and balances are in place.

Anticipated Completion Date: March 31, 2018

FINDING 2016-003

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official: We concur with this finding

Description of Corrective Action Plan: Central Noble Schools will expand it's monitoring activities, including requests for signed semi-annual certification on an annual basis from the Northeast Indiana Special Education Cooperative.

Anticipated Completion Date: March 31, 2018

FINDING 2016-004

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Central Noble Schools in cooperation with the approved food service vendor will implement internal controls over the Child Nutrition Cluster Programs. Central Noble will also request the Food Services Director provide reports to support the deposits made into the bank account and the monthly cafeteria sales. The appropriate personnel at the Central Office will be assigned and trained to review free and reduced applications to ensure proper eligibility. The school board will be responsible for reviewing and approving monthly transfers of income to the correct fund ensuring all program income is identified. The school board will be presented with a monthly update on the cash balance of the 800 fund. They will be responsible for reviewing and ensuring it is kept under three months expenditures.

Anticipated Completion Date: March 31, 2018

FINDING 2016-005

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Central Noble Schools in cooperation with the approved food service vendor will implement a new procedure for reporting. The appropriate personnel at the Central Office will be assigned and trained to review annual financial reporting and reimbursement reports filed by the Food Service Management Company.

Anticipated Completion Date: March 31, 2018

FINDING 2016-006

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: Central Noble Schools in cooperation with the approved food service vendor will implement internal controls over the Child Nutrition Cluster Programs. The appropriate personnel at the Central Office will be assigned and trained to review free and reduced applications, monitor the verification process, and accounts to ensure compliance.

Anticipated Completion Date: March 31, 2018

FINDING 2016-007

Contact Person Responsible for Corrective Action: Miranda Wilkins
Contact Phone Number: 260-636-2175

Views of Responsible Official:

Description of Corrective Action Plan: We will have a copy of the completed PLE calculator submitted for board approval and review included in the board packet on an annual basis prior to the start of each school year.

Anticipated Completion Date: July 31, 2018

Miranda Wilkins
(Signature)

Business Manager
(Title)

12/18/17
(Date)

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in prior Report B45063.

The financial statement presented in the Financial Statement and Federal Single Audit Report included the following fund with overdrawn cash balances at June 30, 2015, and June 30, 2016, that were not related to a reimbursable grant fund.

Fund	June 30, 2015	June 30, 2016
Self-Insurance	\$ (527,549)	\$ (629,206)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

PREPAID SCHOOL MEAL ACCOUNTS

The same comment also appeared in prior Report B45063.

The Historical Balances report was a detailed listing of all student and adult school lunch account balances. The Historical Balances Report cash balance did not agree with the School Corporation's financial ledger Food Service Trust cash balance. At June 30, 2015, the Historical Balances report totaled a deficit of (\$11,151) and the Food Service Trust fund cash balance was \$186,856. At June 30, 2016, the Historical Balances report totaled a deficit of (\$16,161) and the Food Service Trust fund cash balance was \$98,533. The differences appear to be the result of untimely posting and inaccurate assessment of program income.

The Historical Balances report, at June 30, 2016, that totaled (\$16,161) consisted of (\$25,921) as negative prepaid and \$9,760 as positive pre-paid balances. Some students had accumulated an unpaid balances in excess of \$249 which would be equivalent of 106 unpaid lunches. The School Board changed their meal charge policy dated May 17, 2016, to include ". . . students . . . may be permitted to charge no more than three school meals." If the School Board will be writing off these unpaid balances, then they must be approved by the School Board as uncollectible.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

When a student puts into their individual meal account should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Administrator and Uniform Compliance Guidelines, September 2015)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2017, with Miranda R. Wilkins, Treasurer; Troy A. Gaff, Superintendent of Schools; and John Fitzpatrick, Vice President of the School Board.