

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTH ADAMS COMMUNITY SCHOOLS

ADAMS COUNTY, INDIANA

July 1, 2015 to June 30, 2017



**FILED**  
03/27/2018



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2017-001	
Preparation of the Schedule of Expenditures of Federal Awards .....	4-6
Finding 2017-002	
Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking and Reporting.....	6-7
Finding 2017-003	
Twenty-First Century Community Learning Centers - Reporting.....	7-8
Corrective Action Plan.....	9-11
Audit Results and Comments:	
Prepaid School Meal Accounts.....	12
Capital Assets.....	12
Exit Conference.....	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Larry G. Carty	07-01-15 to 06-30-18
Superintendent of Schools	Brent M. Lehman	07-01-15 to 06-30-18
President of the School Board	Benjamin S. Faurote	01-01-15 to 12-31-18



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF THE NORTH ADAMS COMMUNITY SCHOOLS, ADAMS COUNTY, INDIANA

This report is supplemental to our audit report of the North Adams Community Schools (School Corporation), for the period from July 1, 2015 to June 30, 2017. 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/](http://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

March 1, 2017

NORTH ADAMS COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2017-001***

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

This is a repeat finding from the immediate prior audit. The prior finding number was 2015-001.

*Condition*

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA occurred.

*Context*

In total, the Schedule of Expenditures of Federal Awards was understated by \$1,570,075 for fiscal year 2015-2016 and \$791,754 for fiscal year 2016-2017. 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. . . ."

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

NORTH ADAMS COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

*Cause*

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

*Effect*

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*.

NORTH ADAMS COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls related to the 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 2017-002**

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

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-001-PN01, 14215-001-PN01,  
14216-001-PN01, 14217-001-PN01,  
99914-001-TA01, 45715-001-PN01,  
45716-001-PN01, 45717-001-PN01

Pass-Through Entity: Indiana Department of Education

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

Audit Finding: Material Weakness

*Condition*

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

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

*Context*

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

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

NORTH ADAMS COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The lack of controls was a systemic problem, which occurred throughout the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

*Cause*

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

*Effect*

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

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

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

*Views of Responsible Officials*

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

**FINDING 2017-003**

Subject: Twenty-First Century Community Learning Centers - Reporting

Federal Agency: Department of Education

Federal Program: Twenty-First Century Community Learning Centers

CFDA Number: 84.287

Federal Award Numbers and Years (or Other Identifying Numbers): 13-0025, 14-0025, 15-0025

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Significant Deficiency, Other Matters

NORTH ADAMS COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Condition*

The internal control system in place at the School Corporation was not effective to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement.

Due in part to an isolated communication situation with the pass-through entity, the School Corporation did not file an Annual Final Expenditure Report for the 2016-2017 grant year.

*Context*

The internal control issue was an isolated instance that enabled noncompliance with the Reporting compliance requirement for the second year of the audit period.

*Criteria*

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

2 CFR 200.302(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 an effective internal control system in order to ensure compliance with the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Reporting compliance requirement.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management implement additional controls to ensure compliance with 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.



# North Adams Community Schools

625 Stadium Dr.  
Decatur, IN 46733

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## CORRECTIVE ACTION PLAN

Report Period: July 1, 2015 – June 30, 2016

July 1, 2016 – June 30, 2017

### **FINDING 2017-001**

#### ***Preparation of the Schedule of Expenditures of Federal Awards***

Contact Person Responsible for Corrective Action: Deputy Treasurer Beth Quinn  
Contact Phone Number: 260-724-7146

We concur with the finding.


#### Description of Corrective Action Plan:

1. To assure that all Federal grant-funded programs are included in the Schedule of Expenditures of Federal Awards (SEFA), review of the grant schedule from the Gateway Annual Performance Report will be done by the Deputy Treasurer each year prior to initiating the SEFA.
2. The Biannual Financial Report, Descriptive Listing by Fund and Account will be used by the Deputy Treasurer to verify amounts of revenue and expenditure, respectively, for each Federal grant.
3. The school corporation Treasurer will review and approve the grant listing and the financial data in the SEFA prior to its submittal.

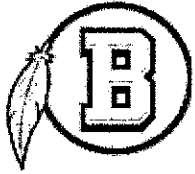
#### Anticipated Completion Date:

August 2018.

  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Title)

  
\_\_\_\_\_  
(Date)



# North Adams Community Schools

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**CORRECTIVE ACTION PLAN**

## **FINDING 2017-002**

### **Special Education Cluster (IDEA) – Matching, Level of Effort, Earmarking and Reporting**

Contact Person Responsible for Corrective Action: Deputy Treasurer Beth Quinn  
Contact Phone Number: 260-724-7146


We concur with the finding.


#### Description of Corrective Action Plan:

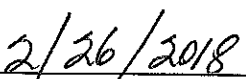
1. Proportionate Share quarterly reports are prepared by the Special Education Director and are shared with each of the six (6) school corporation business managers. The reports are signed by each of the business managers, signed by the director of Special Education at the Cooperative and then sent to IDOE following quarterly deadlines.
2. Reimbursement reports are prepared by the Special Education Office Manager, and then signed by the Office Manager and the Special Education Director. The reports are sent to all six (6) school corporation superintendents on a monthly basis. The reimbursement reports are sent by the Special Education Cooperative to IDOE for reimbursement to the LEA.
3. Expenditure reports are prepared monthly by the LEA Deputy Treasurer and sent to the Cooperative Office Manager and to the Special Education Director. Both the office manager and the director review the expenditure report and initial each page. The report is then sent to each business manager within the six (6) school corporations.
4. The Special Education Cooperative Office Manager prepares each expense claim for payment. Each claim is reviewed and signed by the Office Manager and by the Special Education Director prior to being submitted to the LEA for payment.
5. For the 2019 611 and 619 Federal Grants, proportionate share dollars will be budgeted and spent in a manner that is more straightforward and easier to track.

#### Anticipated Completion Date:

The corrective actions were implemented the last quarter of 2017.

  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Title)

  
\_\_\_\_\_  
(Date)

Brent Lehman – Superintendent  
[www.nadams.k12.in.us](http://www.nadams.k12.in.us)



# North Adams Community Schools

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## CORRECTIVE ACTION PLAN

### **FINDING 2017-003**

#### ***Twenty-First Century Community Learning Centers - Reporting***

Contact Person Responsible for Corrective Action: Dr. Olivia V. Valencic-Miller  
Contact Phone Number: (260) 728-3302

Views of Responsible Official:

We concur with the finding.

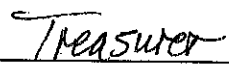
Description of Corrective Action Plan:

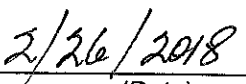
The corrective action plan includes creating a year-long calendar to ensure that the required dates are not missed as well as putting the dates on our Central Office calendar (within Microsoft Outlook). These dates will be shared with Beth Quinn (Deputy Treasurer) who receives them in a Word document form (handout provided from our 21<sup>st</sup> CCLC specialist).

Although we cannot go back and replicate the document that was not completed mid-year 2016-17, we believe that this double accountability in both a wall calendar and online, as well the electronic sharing with the deputy treasurer (the one who actually completes the forms), will correct this finding.

Anticipated Completion Date: July, 2018

  
\_\_\_\_\_  
(Signature)

  
\_\_\_\_\_  
(Title)

  
\_\_\_\_\_  
(Date)

NORTH ADAMS COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

**PREPAID SCHOOL MEAL ACCOUNTS**

A similar comment also appeared in prior Report B46418, entitled *PREPAID FOOD CLEARING ACCOUNT*.

During the audit period, the School Corporation accounted for prepaid food activity within the School Lunch Fund. Starting with the fiscal year 2017-2018 the School Corporation established a separate clearing account for the prepaid food activity as prescribed.

Our opinion is that money 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 Bulletin and Uniform Compliance Guidelines, September 2015)

**CAPITAL ASSETS**

The same comment also appeared in prior Report B46418, entitled *CAPITAL ASSETS*.

The School Corporation did not properly maintain a complete inventory of capital assets owned.

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

NORTH ADAMS COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 1, 2018, with Larry G. Carty, Treasurer; Brent M. Lehman, Superintendent of Schools; Beth A. Quinn, Deputy Treasurer; Olivia Valencic-Miller, Director of Learning; and Benjamin S. Faurote, President of the School Board.