

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTH SPENCER COUNTY SCHOOL CORPORATION
SPENCER COUNTY, INDIANA
July 1, 2014 to June 30, 2016



FILED
03/28/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Heather A. Harbottle Rachel Ayer Martha Barnett	07-01-14 to 07-12-15 07-13-15 to 01-10-16 01-11-16 to 06-30-18
Superintendent of Schools	Daniel R. Scherry	07-01-14 to 06-30-18
President of the School Board	Anna L. Oxley L. Elaine Daubenspeck Lori Gogel	01-01-14 to 12-31-14 01-01-15 to 12-31-17 01-01-18 to 12-31-18



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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE NORTH SPENCER COUNTY SCHOOL CORPORATION, SPENCER COUNTY, INDIANA

This report is supplemental to our audit report of the North Spencer County 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 Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

March 12, 2018

NORTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2016-001

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 report. The prior audit finding number was 2014-001.

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The federal award information within the School Corporation's Annual Report on Indiana Gateway for Government Units (Gateway), which was used to generate the School Corporation's SEFA was entered by the Treasurer and the Superintendent of Schools reviewed and submitted the federal award information. However, the control procedures were not adequate to ensure the federal award information entered and submitted in Gateway was correct.

Context

The SEFA contained the following errors:

1. The School Breakfast Program expenditures were combined with and reported as National School Lunch Program expenditures.
2. The National School Lunch Program - Commodities were not reported, resulting in an understatement of program expenditures in the amount of \$76,428 for fiscal year 2014-2015 and \$87,743 for fiscal year 2015-2016.
3. Two Special Education_Preschool Grants projects expenditures were incorrectly reported resulting in an overstatement of program expenditures of \$19,604 for fiscal year 2014-2015.
4. Two Improving Teacher Quality State Grants projects expenditures were incorrectly reported, resulting in an overstatement of program expenditures of \$985 for fiscal year 2014-2015 and \$30,000 for fiscal year 2015-2016.
5. Six federal programs were not reported, resulting in an understatement of program expenditures of \$29,358 for fiscal year 2014-2015 and \$89,459 for fiscal year 2015-2016.
6. Five programs had incorrect federal program names.

Audit adjustments totaling \$232,399 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:

NORTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

"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:

- (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."

Cause

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

NORTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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*.

Views of Responsible Officials

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

FINDING 2016-002

Subject: Child Nutrition Cluster - Equipment and Real Property Management
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: Equipment and Real Property Management
Audit Findings: Material Weakness, Other Matters

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 Equipment and Real Property Management compliance requirement.

The School Corporation was not in compliance with the requirements for the Equipment and Real Property Management compliance requirement. Equipment was purchased and disposed of for the programs during the audit period, but inventory or property records had not been updated for the purchases and disposals. There was no evidence of a control, such as an oversight, review, and approval process, to ensure that inventory or property records were maintained.

Context

The inventory records provided were last updated through June 20, 2013, and did not include equipment that was purchased and disposed of during the audit period. The lack of controls was a systemic problem for the period audited.

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. . . ."

NORTH SPENCER COUNTY 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). . . ."

7 CFR 3016.32(d) states:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

2 CFR 200.313(d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. . . ."

Cause

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Equipment and Real Property Management compliance requirement.

NORTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

Recommendation

We recommended that the School Corporation's management establish internal controls to ensure that the School Corporation was in compliance with the grant agreement and the compliance requirement 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 2016-003

Subject: Special Education_Grants to States - Procurement and Suspension and Debarment

Federal Agency: Department of Education

Federal Program: Special Education_Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (or Other Identifying Numbers): 14213011PN01, 14214011PN01,
14215011PN01, 14216009PN01,
99914011TA01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation was a member of the Exceptional Children's Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grant funds.

Management of the Cooperative had not established an effective internal control system to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

The Cooperative's Director signed the Application and Assurance Plan as a Condition of Federal Assistance, which stated that the Cooperative would check subcontractors to ensure they were not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency, or political subdivision of the State of Indiana. However, the Cooperative did not have procedures in place to verify that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a contract with them.

NORTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation was ultimately responsible for compliance with the requirements, but relied solely on the Cooperative without its own system of controls or sufficient monitoring of the Cooperative's procedures to ensure compliance.

Context

During the 2015 and 2016 fiscal years, there were two covered transactions entered into each year that exceeded \$25,000. Neither the Cooperative nor the School Corporation verified that the vendors were not suspended or debarred prior to awarding the contracts.

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). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management of the School Corporation had not developed a system of internal control that would have ensured that the Cooperative complied with the grant agreement and the Procurement and Suspension and Debarment requirements.

NORTH SPENCER COUNTY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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.

Recommendation

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the Procurement and Suspension and Debarment requirements listed above.

Views of Responsible Officials

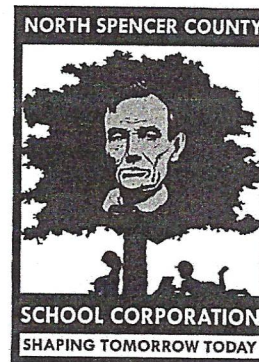
For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

North Spencer County School Corporation

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Box 316, 3720 E SR 162
Lincoln City, IN 47552

Phone: (812) 937-2400
Fax: (812) 937-7187
www.nspencer.k12.in.us



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Martha Barnett, Treasurer
Contact Phone Number: 812-937-2400 Ext. 1004

Views of Responsible Official: Knowledge and training of correctly reporting in Gateway was not passed down to the current treasurer. Auditor explained and corrections will be made in Gateway.

Description of Corrective Action Plan:

Inaccurate disclosure of grants on the Schedule of Expenditures and Federal Awards (SEFA) was an oversight at the time of data entry for the Gateway Annual Reporting performed by previous Treasurer. As the current treasurer, corrective action has taken place for the 2017-2018 Fiscal year so as to have accurate reporting of the federal awards. Verification for accuracy is being done by myself, the Deputy Treasurer, and the Superintendent.

Anticipated Completion Date: By March 31st, 2018


Signature

Treasurer
Title

March 5th, 2018
Date

The North Spencer County School Corporation is committed to equal opportunity. It is an Equal Opportunity Employer and does not discriminate on the basis of age, race, color, religion, sex, handicapping conditions, or national origin, including limited English proficiency, in any employment opportunity. No person is excluded from participation in, denied the benefits of, or otherwise subjected to unlawful discrimination on such basis under any educational program or student activity. Contact Ben Lawalin at (812)937-2400 Ext. 5001 for additional information.

ADMINISTRATION

Daniel R. Scherry – Superintendent
Julie Kemp – Learning Coordinator
Jennifer Jazyk – Title I Literacy Coordinator
Marc Schum – Director of Facilities & Transportation

BOARD OF SCHOOL TRUSTEES

Lori Gogel – President
Clint Coleman - Vice President
Don Detzer – Secretary
Arthur Nordhoff – School Attorney

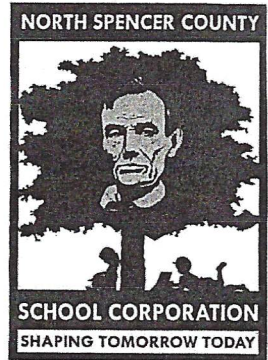
Elaine Daubenspeck – Member
Brian Gehlhausen - Member
Annie Oxley – Member
David Waninger – Member

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CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Martha Barnett, Treasurer
Contact Phone Number: 812-937-2400 Ext. 1004

Views of Responsible Official: Turnover of multiple Food Service Directors caused a breakdown in correct and effective internal controls.

Description of Corrective Action Plan:

Effective internal control system was not in place to ensure compliance with requirements for the Equipment and Real Property Management compliance requirement. Equipment was purchased and disposed of for the program during the audit period, but inventory or property records had not been updated for the purchases and disposals. Internal control system has now been put into place for this issue. Purchases will be approved, recorded, and information will be sent to the corporation office by the new Food Service Director, and then the Deputy Treasurer will maintain and update as per the guidelines.

Anticipated Completion Date: Immediately corrected

Signature

Treasurer

Title

March 5th, 2018

Date

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ADMINISTRATION

Daniel R. Scherry – Superintendent
Julie Kemp – Learning Coordinator
Jennifer Jazyk – Title I Literacy Coordinator
Marc Schum – Director of Facilities & Transportation

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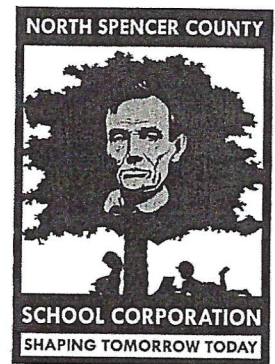
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CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Martha Barnett, Treasurer
Contact Phone Number: 812-937-2400 Ext. 1004

Views of Responsible Official:

Description of Corrective Action Plan:

Since we are members of the Exceptional Children's Cooperative that operates the special education program on our behalf and manages the special education grant funds. We will periodically check with the Cooperative, as part of our internal control system, that they are checking subcontractors to make sure they are not presently debarred, suspended, proposed debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency or political subdivision of the State of Indiana before contracts are signed. The Co-Op is now checking SAM exclusions, collecting a certification from that person, or adding a clause or condition to the covered transaction with that person as a result of Audit Findings from other Co-Op membership school corporations.

Anticipated Completion Date: Immediately corrected and established connections with the Cooperative.

Signature

Treasurer

Title

March 5th, 2018

Date

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ADMINISTRATION

Daniel R. Scherry – Superintendent
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Brian Gehlhausen-Member
Annie Oxley – Member
David Waninger – Member

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

CERTIFICATION ON INTERNAL CONTROL STANDARDS

On August 18, 2017, the Treasurer certified that the School Corporation had not adopted the minimum standard of internal controls. However, this certification was incorrect as the School Board adopted policy #6111 - Internal Control Standards and Procedures on October 10, 2016, as documented in the School Board meeting minutes.

Indiana Code 5-11-1-27(h) states:

"After June 30, 2016, the fiscal officer of a political subdivision shall certify in writing that:

- (1) the minimum internal control standards and procedures defined under subsection (e) have been adopted by the political subdivision; and
- (2) personnel, who are not otherwise on leave status, have received training as required by subsection (g)(2).

The certification shall be filed with the state board of accounts at the same time as the annual financial report required by section 4(a) of this chapter is filed. The certification shall be filed electronically in the manner prescribed under IC 5-14-3.8-7."

NORTH SPENCER COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2018, with Daniel R. Scherry, Superintendent of Schools; Martha Barnett, Treasurer; and Lori Gogel, President of the School Board.