

STATE BOARD OF ACCOUNTS
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INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

WESTERN SCHOOL CORPORATION

HOWARD COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
04/06/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pam Carter	07-01-14 to 06-30-18
Superintendent of Schools	Randy McCracken	07-01-14 to 06-30-18
President of the School Board	Linda Singer J. Conrad Maugans Linda Singer	07-01-14 to 12-31-15 01-01-16 to 12-31-17 01-01-18 to 12-31-18



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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 WESTERN SCHOOL CORPORATION, HOWARD COUNTY, INDIANA

This report is supplemental to our audit report of the Western 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

February 20, 2018

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

Condition

The School Corporation had not established and implemented an effective system of internal controls to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which is the source of the SEFA. One employee prepared and submitted the grant information without an oversight or review process to detect and correct errors before submission.

Context

The lack of internal controls was a systemic issue throughout the audit period. The SEFA presented for audit contained the following errors:

1. The Child Nutrition Cluster expenditures were understated by \$145,607 for the 2015 fiscal year and understated by \$58,040 for the 2016 fiscal year.
2. The Special Education Cluster (IDEA) expenditures were overstated by \$4,532,458 for the 2015 fiscal year.
3. The Title I Grants to Local Educational Agencies expenditures were overstated by \$17,996 for 2015 fiscal year.
4. The English Language Acquisition State Grants were omitted for the 2015 and 2016 fiscal years.
5. The Improving Teacher Quality State Grants were omitted for the 2015 fiscal year. Additionally, expenditures were overstated by \$46,121 for the 2016 fiscal year.

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:

WESTERN 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes:

- Accurate and timely recording of transactions. . . ."

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 in part:

"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.
. . . ."

Cause

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

WESTERN 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 - Cash 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 2015, FY 2016
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
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 Cash Management compliance requirement. The School Corporation did not monitor the net cash resources of the School Lunch fund to ensure that the amount did not exceed the average expenditures for three months.

Context

The average expenditures for three months during the 2015 and 2016 fiscal years were \$346,459 and \$357,885 respectively. The net cash resources of the School Lunch fund exceeded these amounts for 20 of the 24 months within 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). . . ."

WESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 210.14(b) states: "*Net cash resources*. The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e)(1)(iv) states in part: "Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency; . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Cash Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Cash Management compliance requirement.

Views of Responsible Officials

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

FINDING 2016-003

Subject: Child Nutrition Cluster - Eligibility, Reporting, and 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 2015, FY 2016

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Eligibility, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Audit Finding: Material Weakness

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Eligibility, Reporting, and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

WESTERN SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Eligibility

The School Corporation had not designed or implemented adequate policies and procedures to ensure that free and reduced price meal applications were accurately evaluated for eligibility. The application information was entered into the food service software, which automatically made the eligibility determination dependent on the information entered. There was no oversight or review to ensure that the information entered into the food service software was accurate.

Reporting

The School Corporation had not designed or implemented adequate polices or procedures to ensure that all the required reports were accurately prepared and submitted. The Food Service Director prepared and submitted the Monthly Sponsor Claim (claim for reimbursement), the Annual Financial Reports, and the School Food Authority (SFA) Verification Collection Reports without a proper system of oversight or review.

Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

The School Corporation had not designed or implemented adequate policies or procedures to ensure the verifications were performed and determinations were made accurately. The Food Service Director performed the verifications of free and reduced price meal applications and made the determination of whether or not a change in eligibility was necessary without a proper system of oversight or review.

Context

The lack of internal controls was a systemic issue 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

The School Corporation had not developed a system of internal controls that would have segregated key functions related to the Eligibility, Reporting, and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

WESTERN 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 to ensure compliance with the Eligibility, Reporting, and Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirements.

Views of Responsible Officials

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

SCHOOL BOARD

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SCOTT E. GASKINS—VICE PRESIDENT
DONNA J. SHEPHERD—SECRETARY
HARRY L. KENWORTHY—MEMBER
MICHAEL J. KOLOSZAR—MEMBER
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HEATHER HENDRICH—ASSISTANT SUPERINTENDENT
PAM CARTER—DIRECTOR OF FINANCE
CRAIG SHEARER—DIRECTOR OF TECHNOLOGY
LISSA STRANAHAN—DIRECTOR OF EXCEPTIONAL
LEARNERS & TESTING

CORRECTIVE ACTION PLAN

**FEDERAL FINDING 2016-001
PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.**

Contact Person Responsible for Corrective Action: Pam Carter, Director of Finance
Contact Phone Number: (765) 883-1453

Views of Responsible Official:

We concur with findings.

Description of Corrective Action Plan:

The SEFA is still a continual learning process for the Business Office. After this audit I have a better understanding of all grants that should be submitted. I also understand that breakfast and lunch should be separated in the reporting. We will put into place a better internal control on this by either the Deputy Treasurer of the Superintendent will review the SEFA before it is submitted.

Anticipated Completion Date: Immediate

**FEDERAL FINDING 2016-002
CHILD NUTRITION CLUSTER – CASH MANAGEMENT**

Contact Person Responsible for Corrective Action: Emily Klingler, Director of Food Service
Contact Phone Number (765) 883-1462

Views of Responsible Official:

We concur with findings.

Description of Corrective Action Plan:

The net cash resources in the School Lunch fund will be monitored by the Director of Food Service and Director of Finance to ensure the fund does not exceed three months' average expenditures.

Anticipated Completion Date: Immediate

WESTERN SCHOOL CORPORATION

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FEDERAL FINDING 2016-003
CHILD NUTRITION CLUSTER – ELIGIBILITY, REPORTING, SPECIAL TESTS AND PROVISIONS

Contact Person Responsible for Corrective Actions: Emily Klingler, Director of Food Service
Contact Phone Number (765) 883-1462

Views of Responsible Official:

We concur with findings.

Description of Corrective Action Plan:

Regarding *Eligibility*, beginning with the 2016-2017 school year, the Food Service Department put in place a policy to conduct a second audit of all free and reduced price meal applications. The Secretary to the Director of Food Service is responsible for auditing every fifth application processed in order to determine that the initial eligibility determination made by the Director of Food Service is accurate.

Regarding *Reporting*, beginning with the 2016-2017 school year, the Secretary to the Director of Food Service began reviewing & signing off on all Monthly Sponsor Claims for Reimbursement prepared by the Director of Food Service to ensure accuracy before the Claim was submitted to the State for approval. In addition, beginning with the 2018-2019 school year, the Director of Food Service will submit the Annual Financial Report to the Director of Finance for review to ensure it has been accurately prepared before submitting it to the State for approval.

Regarding *Special Tests and Provisions-Verification of Free and Reduced Price Applications*, beginning with the 2018-2019 school year, the Secretary to the Director of Food Service will review the Verification process that is completed yearly by the Director of Food Service to ensure determinations and/or changes in eligibility are accurate. She will also sign off on the Verification Summary Report before it is submitted to the State for approval.

WESTERN SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

This is a repeat comment from the immediate prior audit B46315.

The financial statement presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the following funds with overdrawn cash balances:

<u>Fund</u>	<u>Amount Overdrawn at June 30, 2015</u>	<u>Amount Overdrawn at June 30, 2016</u>
School Bus Replacement	\$ -	\$ -
Textbook Rental	77,750	-
Project 2/\$2,000,000	-	70,610
Project 3/\$2,000,000	-	908

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)

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WESTERN SCHOOL CORPORATION

RESPONSE TO AUDIT RESULTS AND COMMENTS

OFFICIAL RESPONSE

We are in agreement the financial statement did reflect overdrawn cash balances at June 30, 2015 and June 30, 2016. We will be more diligent in our efforts that no fund not related to a reimbursable grant does not have an overdrawn balance. The Textbook Rental Fund is one we have struggled with in the past as it has been difficult to collect textbook fees. We have a better collection process in place and have been able to keep that fund in the black. The Bus Replacement Fund overdrawn balance is due to buses being purchased before we had received all of our Property tax draws. Projects 2 & 3 are building projects that we would receive change orders for and affect the bottom line of the project. Alternative Education is due to the continuing of paying a teacher out of this grant until we had received the revenue. The other funds are all donations. I believe expenditures were made before the revenue was receipted.

Pam Carter
Director of Finance
765-883-1453

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WESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 20, 2018, with Pam Carter, Treasurer; Randy McCracken, Superintendent of Schools; and J. Conrad Maugans, School Board member.