

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKELAND SCHOOL CORPORATION

LAGRANGE COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
05/07/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cathy J. Phillip	07-01-15 to 06-30-18
Superintendent of Schools	Risa J. Herber Eva G. Merkel (interim) Eva G. Merkel	07-01-15 to 03-28-16 03-29-16 to 06-30-16 07-01-16 to 06-30-18
President of the School Board	Robert Bond David M. Larimer	07-01-15 to 12-31-17 01-01-18 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE LAKELAND SCHOOL CORPORATION, LAGRANGE COUNTY, INDIANA

This report is supplemental to our audit report of the Lakeland School Corporation (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/.

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

April 10, 2018

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

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

The SEFA contained the following errors:

1. The Special Education Cluster (IDEA) was omitted. This resulted in an understatement of federal expenditures of \$517,834 for fiscal year 2016 and \$527,670 for fiscal year 2017.
2. The Child Nutrition Cluster was understated by \$72,396 for fiscal year 2016 and overstated by \$6,252 for fiscal year 2017.
3. The English Language Acquisition State Grants were overstated by \$998 for fiscal year 2016.

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. . . ."

LAKELAND SCHOOL CORPORATION
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*.

Views of Responsible Officials

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

LAKELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-002

Subject: Child Nutrition Cluster - 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 2016, FY 2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Reporting, Special Tests and Provisions - Verification
of Free and Reduced Price Applications (NSLP)
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior audit finding number was 2015-003.

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

Reporting

The Food Service Director prepared and submitted the School Food Authority (SFA) Verification Collection Reports; however, there was no control in place to determine whether the reports were correct.

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

The Food Service Director performed the verifications; however, there was no control in place to determine whether the verifications performed were correct.

Context

Internal control issues were systemic, occurring throughout the audit period.

Criteria

7 CFR 245.6a(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."

LAKELAND 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). . . ."

Cause

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

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, 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.



Lakeland School Corporation

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CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Cathy Phillip
Contact Phone Number: 260-499-2400, option 6

Views of Responsible Official: Lakeland School Corporation has agreed to the listing of corrections noted in the "Schedule of findings" to correct the items noted in the SEFA report for 15-16 and 16-17 due to oversight and omission of the amounts noted during the audit.

Description of Corrective Action Plan: Cathy Phillip has noted the need to add the Special Education financial information in future SEFA reports as well as verifying the amounts reported in all other funds.

Anticipated Completion Date: August, 2018 with the submission of the next SEFA report.

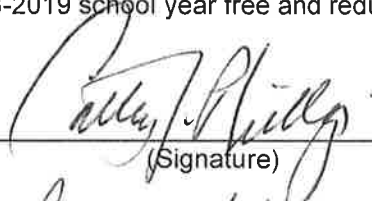
FINDING 2017-002

Contact Person Responsible for Corrective Action: Cathy Phillip and Tammy Fennell
Contact Phone Number: 260-499-2400, option 6

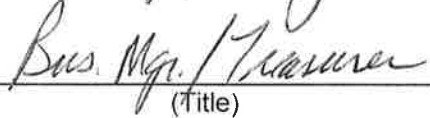
Views of Responsible Official: Failure to provide written verification of free and reduced price applications.

Description of Corrective Action Plan: Tammy Fennell, Food Service Director, will continue to process all applications as they are received, Cathy Phillip, Treasurer will be responsible to review and sign that the review has occurred. The accounts payable clerk will complete the verification portion of the selected applications and the receptionist will then be asked to review the verification and sign that the review has occurred. With this change, we will have four (4) different persons completing the processing, review, and verification of each application.


Anticipated Completion Date: August, 2018 with the start of the 2018-2019 school year free and reduced applications.



(Signature)



(Title)



(Date)

David Larimer, President
Robert Murphy, Vice President
Carey McKibben, Secretary

Eva G. Merkel, Superintendent
Crystal A. Leu, Director of Curriculum
Cathy J. Phillip, Business Manager

Robert Bond, Member
Kathy Fuller, Member
Sue Keenan, Member

LAKELAND SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCE

The financial statement presented in the Financial Statement and Federal Single Audit Report of the School Corporation included the School Bus Replacement fund with overdrawn cash balances of \$47,976 at June 30, 2016, and \$19,061 at June 30, 2017.

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)

LAKELAND SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 10, 2018, with Cathy J. Phillip, Treasurer; David M. Larimer, President of the School Board; and Sue Keenan, School Board member.

The contents of this report were discussed on April 16, 2018, with Eva G. Merkel, Superintendent of Schools.