

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTHWESTERN SCHOOL CORPORATION
HOWARD COUNTY, INDIANA
July 1, 2015 to June 30, 2017



FILED
05/29/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Business Manager	Jamie Shepherd	07-01-15 to 06-30-18
Superintendent of Schools	Ryan Snoddy	07-01-15 to 06-30-18
President of the School Board	Steve Jones Jonathan Underwood Bryan Alexander Steve Jones	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18



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TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

This report is supplemental to our audit report of the Northwestern (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 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 Finding, identified in the above referenced audit report, is included in this report.

Any Corrective Action Plan for the Federal Finding, incorporated within this report, was not verified for accuracy.

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

May 1, 2018

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDING

FINDING 2017-001

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

Repeat Finding

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

Condition

The School Corporation had not established and implemented an effective system of internal control 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 was the source for the SEFA. One employee prepared and submitted the grant information; however, the oversight or review process did not detect and correct errors prior to 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 School Breakfast Program was not included for the 2016 and 2017 fiscal school years by \$22,263 and \$25,628, respectively.
2. The National School Lunch Program did not include commodities for the 2016 fiscal school year for \$30,381. In addition, the School Breakfast Program for the 2017 fiscal year was included in the National School Lunch Program for \$22,744.
3. The Special Education Cluster (IDEA) for the 2017 fiscal school year was overstated by \$59,003.

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.

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDING
(Continued)

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. . . ."

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.
- (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.

NORTHWESTERN SCHOOL CORPORATION
FEDERAL FINDING
(Continued)

- (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

The School Corporation 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.



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CORRECTIVE ACTION PLAN

FINDING 2017-001– PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Jamie Shepherd, Business Manager
Contact Phone Number: (765) 452-3060

Description of Corrective Action Plan:

Due to SEFA being a relatively new requirement to complete and an insufficient familiarity with some of the required elements of the SEFA, procedures are now in place to report the correct expenditures. In addition to the requirements, the date of the last audit overlapped the SEFA time period of the current audit which caused a repeat finding from the prior audit finding number 2015-001.

The School Breakfast Program was reported with the School Lunch Program line. This would show the School Breakfast Program understated and the School Lunch Program overstated. Future filings will have the programs entered separately. Commodities are now reported as a non-cash federal expenditure and was reported correctly for the 2017 school year.

After the SEFA is prepared, the LEA will review the information reported and sign off on the accuracy to ensure proper oversight or review process.

Anticipated Completion Date: Immediate

Jamie L. Shepherd
Business Manager
05/01/2018

NORTHWESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 1, 2018, with Jamie Shepherd, Business Manager; Ryan Snoddy, Superintendent of Schools; and Steve Jones, President of the School Board.