

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
UNION-NORTH UNITED SCHOOL CORPORATION  
ST. JOSEPH COUNTY, INDIANA  
July 1, 2015 to June 30, 2017



**FILED**  
08/22/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Valerie Gillespie	07-01-15 to 01-29-16
	(Vacant)	01-30-16 to 02-10-16
	Brenda Beehler	02-11-16 to 06-23-16
	Elizabeth Mangus	06-24-16 to 12-31-18
Superintendent of Schools	Mitchell D. Mawhorter	07-01-15 to 06-30-19
President of the School Board	Dan Zeiger	01-01-15 to 12-31-15
	Ken Moore	01-01-16 to 12-31-16
	Karman Eash	01-01-17 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE UNION-NORTH UNITED SCHOOL CORPORATION, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the Union-North United 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/](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

July 25, 2018

UNION-NORTH UNITED SCHOOL CORPORATION  
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 immediately prior audit. The prior audit 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).

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 of the SEFA. One employee prepared the grant information for the federal awards without a system of oversight or review to detect and correct the errors before submission.

*Context*

Due to the lack of controls, the following errors occurred and were not detected or corrected:

1. Although the School Corporation had no subrecipients, amounts passed through to subrecipients of \$1,131,827 and \$884,077 for the fiscal years ended June 30, 2016 and 2017, respectively, were reported in error.
2. The School Breakfast Program expenditures were understated by \$66,283 and \$73,876 for the fiscal years ended June 30, 2016 and 2017, respectively.
3. The National School Lunch Program expenditures were overstated by \$66,283 and \$73,876 for the fiscal years ended June 30, 2016 and 2017, respectively.
4. The National School Lunch Program commodities were omitted, which understated program expenditures by \$35,614 and \$40,102 for the fiscal years ended June 30, 2016 and 2017, respectively.
5. The Summer Food Service Program for Children expenditures were understated by \$454 for the fiscal year ended June 30, 2016.
6. The Child Nutrition Cluster expenditures included state matching funds of \$4,736 and \$4,286 for the fiscal years ended June 30, 2016 and 2017, respectively.
7. The Special Education Cluster (IDEA) expenditures were understated by \$69,559 and \$44,193 for the fiscal years ended June 30, 2016 and 2017, respectively.
8. The Title I Grants to Local Educational Agencies expenditures were understated by \$92,702 and \$104,432 for the fiscal years ended June 30, 2016 and 2017, respectively.
9. The Supporting Effective Instruction State Grants expenditures were understated by \$6,930 and \$2,821 for the fiscal years ended June 30, 2016 and 2017, respectively.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

10. The State High Ability Gifted and Talented Grant expenditures of \$30,426 were erroneously classified as federal expenditures for the fiscal year ended June 30, 2016.
11. The Medical Assistance Program grant expenditures were omitted in the amounts of \$59,255 and \$32,642 for the fiscal years ended June 30, 2016 and 2017, respectively.

Audit adjustments were proposed, approved 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- 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:

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (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*.

*Recommendation*

We recommended that the School Corporation establish a system of internal controls to ensure that federal expenditures will be properly reported on the SEFA.

*Views of Responsible Officials*

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

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-002***

Subject: Financial Transactions and Reporting  
Audit Findings: Material Weakness, Noncompliance

*Repeat Finding*

This is a repeat finding from the immediately prior audit regarding cash and investments, receipts, vendor and payroll disbursements, and financial close and reporting. The prior audit finding number was 2015-001.

*Condition*

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. There was a lack of adequate segregation of duties, as the School Corporation had not separated incompatible activities related to cash and investments, receipts, disbursements, and financial reporting.

*Context*

*Cash and Investments*

Adequate controls had not been designed or implemented to ensure that reconciliations of the record balances to the depository balances were completed or that they were accurate.

1. The bank reconciliations for the period of July 2016 to June 2017 were not completed as of June 11, 2018.
2. An outstanding transaction list that included checks of \$2,728,014 as of June 30, 2017, also included \$2,636,397 in checks that had cleared the bank.
3. An outstanding transaction list that included deposits of \$5,022,648 as of June 30, 2017, also included \$4,987,108 in deposits that had cleared the bank.

*Receipts*

The School Corporation had not designed or implemented proper segregation of duties related to receipts. School Corporation employees' issued, recorded, and deposited collections without evidence of segregation of duties. One employee also recorded receipts without evidence of oversight or review to ensure the accuracy and classification of the receipts to the proper fund and account.

*Vendor and Payroll Disbursements*

The School Corporation had not designed or implemented proper segregation of duties related to disbursements. The Treasurer generated, recorded, issued, and signed the accounts payable vouchers and manual checks without evidence of an oversight or review to ensure the accuracy and classification of the disbursements to the proper fund and accounts.

The School Corporation used a payroll service to process payroll during the audit period. Employees entered their time into the payroll company's online portal without oversight or approval by a supervisor or department head. There was also no evidence of oversight or review to ensure the accuracy of the payroll disbursements to the proper fund and account.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Prepaid Food School Funds Receipts and Disbursements*

Meal sales charged to students' prepaid account balances were recorded in the clearing accounts - Prepaid Food Elementary and Prepaid Food Jr-Sr. High School funds as negative receipts instead of disbursements from those funds.

*Financial Reporting*

The lack of effective controls affected the preparation of the financial statement. Beginning cash and investment balances, receipts, disbursements, and ending cash and investment balances of several funds were not included in the financial statement for the years ended June 30, 2016 and 2017, as follows:

Fund	For the Year Ended July 30, 2016			
	Cash and Investments	Receipts	Disbursements	Cash and Investments
Prepaid Food Elementary	\$ 1,559	\$ 76,801	\$ 74,539	\$ 3,821
Prepaid Food Jr-Sr. High School	2,946	119,761	120,873	1,834
Payroll Deductions	13,172	1,812,121	1,861,744	(36,451)
Student Technology Insurance	10,186	53,305	56,794	6,697
Totals	<u>\$ 27,863</u>	<u>\$ 2,061,988</u>	<u>\$ 2,113,950</u>	<u>\$ (24,099)</u>

Fund	For the Year Ended July 30, 2017			
	Cash and Investments	Receipts	Disbursements	Cash and Investments
Prepaid Food Elementary	\$ 3,821	\$ 86,463	\$ 66,328	\$ 23,956
Prepaid Food Jr-Sr. High School	1,834	133,695	103,314	32,215
Payroll Deductions	(36,451)	1,787,002	1,784,639	(34,088)
Student Technology Insurance	6,697	54,011	56,811	3,897
Totals	<u>\$ (24,099)</u>	<u>\$ 2,061,171</u>	<u>\$ 2,011,092</u>	<u>\$ 25,980</u>

Audit adjustments were proposed, accepted by the School Corporation, and made to the financial statement.

*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.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(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. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

Clearing Accounts serve as control accounts for certain areas of the accounting system. Therefore, they must be supported by receipt and disbursement entries in the general ledger and subsidiary ledgers or other supporting records. . . .

The necessary account titles are shown in the clearing account section of the master chart of accounts on the following pages. . . .

8400 Prepaid Food

8410 Receipts - Prepaid Meals Received

8420 Disbursements - Transfers to Appropriate Receipt Accounts in the School Lunch Fund  
(1611-1623)

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 7)

*Cause*

Management of the School Corporation had not established a proper system of internal controls that segregated key functions.

*Effect*

The failure to establish and properly implement controls enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the School Corporation establish a system of internal controls related to cash and investments, receipts, disbursements, and financial reporting.

*Views of Responsible Officials*

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

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2017-003***

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Reporting, Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP), Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

*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 compliance requirements listed above.

*Activities Allowed or Unallowed*

The School Corporation had not designed or implemented adequate policies or procedures to ensure that disbursements were for allowable activities. A review or approval process was not evident prior or subsequent to payroll and vendor disbursements.

*Allowable Costs/Cost Principles*

The School Corporation had not designed or implemented adequate policies or procedures to ensure that disbursements were for allowable costs. There were no controls to ensure that employees paid from the grant maintained timesheets or that those timesheets were approved by the appropriate level of management. Furthermore, a review or approval process was not evident prior or subsequent to payroll and vendor disbursements.

*Cash Management (School Breakfast Program and National School Lunch Program only)*

The School Corporation did not have documented controls in place to ensure that three months average expenditures were calculated for comparison to monthly cash balances or to ensure that the comparisons were performed.

*Eligibility*

The School Corporation used a food service software, which automatically made the eligibility determinations dependent upon the information entered into the software by school personnel. The School Corporation did not have a proper system of oversight or review documented to ensure that the federal income guidelines entered into the software program were accurate. Furthermore, there was not a proper system of oversight or review to ensure that the students' family information entered into the food service software was accurate.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Reporting*

The School Corporation had not designed or implemented adequate policies and procedures to ensure the accuracy of the Annual Financial Report, the Monthly Sponsor Claims (claims for reimbursement), and the School Food Authority (SFA) Verification Collection Report. The reports were completed by one individual without a proper system of oversight or review to ensure the accuracy of the reports before submission.

*Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) (School Breakfast Program and National School Lunch Program only)*

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

*Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)*

The School Corporation had not designed or implemented adequate policies and procedures to ensure the accuracy of the paid lunch equity calculations. The Food Service Director completed the calculations without a documented oversight or review process.

*Context*

The lack of 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's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the compliance requirements listed above.

UNION-NORTH UNITED 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 establish controls to ensure compliance with 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.

**FINDING 2017-004**

Subject: Child Nutrition Cluster - Equipment  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children  
CFDA Numbers: 10.553, 10.555, 10.559  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017  
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 requirements.

The School Corporation did not have adequate policies and procedures to ensure that the proper equipment records were maintained in accordance with 2 CFR 200.313. The School Corporation did not comply with the equipment requirements.

A complete list of equipment acquired with federal awards was not maintained. Although an inventory was performed, the inventory was not reviewed for errors or omissions. Therefore, the equipment inventory was incomplete. The inventory omitted an oven, pass-through food warmers, a milk cooler, ice cream freezer, reach-in cooler, merchandizer, and table top food warmers observed at the high school. In addition, equipment was not properly removed from the inventory when disposed of. Four convection ovens that were replaced during the audit period were still included on the inventory.

*Context*

The lack of controls and noncompliance were systemic issues throughout the audit period.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*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). . . ."

7 CFR 3016.32(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.
- (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 must be investigated. . . ."

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.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

- (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 must be investigated. . . ."

*Cause*

The School Corporation's management had not developed or implemented a system of internal controls to ensure compliance with the grant agreement and the equipment requirements.

*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 equipment requirements.

*Views of Responsible Officials*

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

**FINDING 2017-005**

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,

Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Modified Opinion

*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 procurement and suspension and debarment requirements.

The School Corporation did not have effective internal controls in place to ensure that the purchasing methods used complied with 2 CFR 200.320. The School Corporation also did not have effective internal controls in place to ensure that the suspension and debarment requirements of 2 CFR 180.300 were met.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The School Corporation used a service center to solicit, evaluate, and award bids for bread, milk, and other products. However, the School Corporation did not have procedures in place to ensure that the food service department used only vendors awarded by the service center or that they used proper purchasing procedures when purchases were made from vendors not awarded by the service center.

The School Corporation used a third-party purchasing service during the 2016-2017 school year that was not approved by the service center. The School Corporation participated with 14 member school corporations in 2013 to hire a third-party to procure supplies, material, and equipment at competitive prices on behalf of various school corporations through a cooperative arrangement. The School Corporation did not have a current signed contract or a current renewal of the original contract from 2013.

The School Corporation did not always obtain price or rate quotes from an adequate number of sources for purchases of goods or services exceeding \$3,500, which fell under the small purchase procedures. The School Corporation also did not document the rationale for the method of procurement, especially when a noncompetitive proposal method was used.

The School Corporation also failed to verify that vendors used apart from the service center were not suspended or debarred from participation in federal programs. The School Corporation did not search the Excluded Parties List Systems through the System of Award Manager Center, obtain a certification from the entity, or ensure that a clause or condition was added to the contract.

*Context*

The lack of effective controls was a systemic issue throughout the audit period. The noncompliance was a systemic issue throughout the audit period for vendors not awarded by the service center.

*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 200.320 states in part:

"The non-Federal entity must use one of the following methods of procurement. . . ."

- (b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. . . ."

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

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 the 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*

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the procurement and suspension and debarment requirements.

*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 controls to ensure compliance and comply with the procurement and suspension and debarment requirements.

*Views of Responsible Officials*

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

**FINDING 2017-006**

Subject: School Breakfast Program, National School Lunch Program - Program Income  
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 Requirement: Program Income  
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 the grant agreement and the program income requirements.

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the food service program reports were reconciled to program income receipted into the School Lunch fund. Two months of sales totaling \$48,851 were not recorded in the School Lunch fund.

*Context*

The lack of controls was a systemic issue throughout the audit period. The noncompliance was limited to two months of 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). . . ."

7 CFR 210.14(c) states:

"*Financial assurances.* The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

7 CFR 210.14(f)(3) states: "All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority."

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall enter into a written agreement with the State agency or the Department through the FNSRO, as applicable, that may be amended as necessary. . . . Such agreements shall provide that the School Food Authority shall, with respect to participating schools under its jurisdiction: . . .

(12) Maintain a financial management system as prescribed by the State agency, or FNSRO where applicable; . . ."

UNION-NORTH UNITED SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

*Cause*

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the program income requirements.

*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 program income requirements.

*Views of Responsible Officials*

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



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**CORRECTIVE ACTION PLAN**

***FINDING 2017-001***

Contact Person Responsible for Corrective Action: Beth Mangus, Corporation Treasurer  
Contact Phone Number: (574) 784-8141

Views of Responsible Official: Union-North United School Corporation agrees with the above finding.

Description of Corrective Action Plan: The Union-North United School Corporation will develop detailed internal controls to ensure that federal expenditures are properly reported on the SEFA. In addition, Union-North will also ensure that they will properly review federal grant information and will assign one other person to review, detect and correct errors before submission into the Indiana Gateway for Government Units financial reporting system.

Anticipated Completion Date: May, 2019

Beth Mangus  
(Signature)

Corp. Treasurer  
(Title)

7/23/18  
(Date)



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**CORRECTIVE ACTION PLAN**

**FINDING 2017-002**

Contact Person Responsible for Corrective Action: Beth Mangus, Corporation Treasurer  
Contact Phone Number: (574) 784-8141

Views of Responsible Official: Union-North United School Corporation agrees with the above finding.

Description of Corrective Action Plan: The Union-North United School Corporation has prepared a detailed segregation of duties to help improve internal controls of all financial transactions and reporting. All cash and investments; receipts and vendor disbursements; payroll disbursements and financial close and reporting are currently being reviewed by the corporation treasurer and the deputy treasurer prior to submission. Because of the timing of the last audit, Union-North was not able to put these procedures into place for the audit period of July 1, 2015- June 30, 2017.

Anticipated Completion Date: May, 2019

Beth Mangus  
(Signature)

Corp. Treasurer  
(Title)

7/23/19  
(Date)



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**CORRECTIVE ACTION PLAN**

**FINDING 2017-003**

Contact Person Responsible for Corrective Action: Beth Mangus, Corp. Treasurer & Cindy Hanson, Food Service Director  
Contact Phone Number: (574) 784-8141

Views of Responsible Official: Union-North United School Corporation agrees with the above finding.

**Description of Corrective Action Plan:**

The Union-North United School Corporation will develop detailed internal control plans for the School Breakfast Program, National School Lunch Program and Summer Food Service Program for Children. These plans include an appropriate segregation of duties to ensure that all disbursements are for allowable activities, that three months average expenditures are calculated for comparison to monthly cash balances and that eligibility determinations are reviewed after the information has been entered into the software by school personnel. In addition, Union-North will ensure that all eligible employees' time sheets are approved by the appropriate level of management. The School Corporation is implementing adequate procedures and detailed internal controls to ensure the accuracy of the Annual Financial Report, the Monthly Sponsor Claims and the SFA Verification Collection Report and the accuracy of the verifications of free and reduced price applications. We are also developing plans and procedures to ensure the accuracy of the paid lunch equity calculations.

Anticipated Completion Date: May 31, 2019

Beth Mangus      Cindy Hanson  
(Signature)

Corp. Treasurer      Food Service Director  
(Title)

7/23/18  
(Date)



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**CORRECTIVE ACTION PLAN**

**FINDING 2017-004**

Contact Person Responsible for Corrective Action: Cindy Hanson, Food Service Director  
Contact Phone Number: (574) 784-8141

Views of Responsible Official: Union-North United School Corporation agrees with the above finding.

**Description of Corrective Action Plan:**

The Union-North United School Corporation will develop detailed internal control plans for the School Breakfast Program, National School Lunch Program and Summer Food Service Program for Children. These plans include that the Food Service Director will annually complete a detailed list of equipment acquired with federal awards. The Food Service Director will have a second nutrition employee ensure the accuracy of the report. The Food Service Director will develop a control system to ensure adequate safeguards to prevent loss, damage or theft of property.

Anticipated Completion Date: May 31, 2019

Cindy Hanson  
(Signature)

Food Service Director  
(Title)

7-23-18  
(Date)



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**CORRECTIVE ACTION PLAN**

**FINDING 2017-005**

Contact Person Responsible for Corrective Action: Cindy Hanson, Food Service Director & Beth Mangus, Corporation Treasurer  
Contact Phone Number: (574) 784-8141

Views of Responsible Official: Union-North United School Corporation agrees with the above finding.

**Description of Corrective Action Plan:**

The Union-North United School Corporation will develop detailed internal control plans for the School Breakfast Program, National School Lunch Program and Summer Food Service Program for Children. The Food Service Director will ensure the purchasing methods are in compliance by obtaining three quotes from vendors and will obtain the appropriate approval from the State before completing the requisition to purchase the items. The Corporation will obtain Board approval before proceeding with the purchase. The Food Service Director will obtain suspension debarment requirements, signed contracts and other appropriate documents related to vendors. A copy of these documents will be kept on file at the Corporation Office as well as with the Food Service Director's records.

Anticipated Completion Date: May 31, 2019

Beth Mangus Cindy Hanson  
(Signature)

Corp. Treasurer Food Service Director  
(Title)

7/23/19  
(Date)



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**CORRECTIVE ACTION PLAN**

**FINDING 2017-006**

Contact Person Responsible for Corrective Action: Cindy Hanson, Food Service Director & Beth Mangus, Corporation Treasurer  
Contact Phone Number: (574) 784-8141

Views of Responsible Official: Union-North United School Corporation agrees with the above finding.

Description of Corrective Action Plan:

The Union-North United School Corporation will develop detailed internal control plans for the School Breakfast Program, National School Lunch Program and Summer Food Service Program for Children. The Food Service Director will print off and send to the Corporation Office, food served reports on a monthly basis. The Deputy Treasurer will transfer the money from the clearing accounts to the appropriate School Lunch account. The Corporation Treasurer verifies that the transfer has occurred and sends a software generated revenue report back to the Food Service Director.

Anticipated Completion Date: May 31, 2019

Beth Mangus      Cindy Hanson  
(Signature)

Corp. Treasurer      Food Service Director  
(Title)

7/23/19  
(Date)

UNION-NORTH UNITED SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

***ERRORS ON CLAIMS***

Nine of ten claims tested were not signed by the fiscal officer, and two of the ten were not approved by the School Board.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

***OVERDRAWN CASH BALANCES***

A similar comment also appeared in prior Report B48486, entitled *OVERDRAWN CASH BALANCES*.

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 at June 30, 2016 and 2017:

UNION-NORTH UNITED SCHOOL CORPORATION  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

Fund	Amount Overdrawn As of June 30,	
	2016	2017
Textbook Rental	\$ 33,954	\$ 106,849
Payroll Deductions	36,451	34,088

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)

**PAYROLL COMPLIANCE - TIME AND EARNINGS RECORDS**

A similar comment also appeared in prior Report B48486, entitled *PAYROLL COMPLIANCE*.

The School Corporation used a service organization to process payroll. Yearly reports of earnings by pay date and check number, similar to the Employee Earnings Records, were not provided to the School Corporation by the service organization that prepared their payroll.

One employee was paid a stipend amount that was not in agreement with the School Board approved rate. This resulted in an overpayment of \$41.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Schools, Chapter 1)



**UNION-NORTH UNITED SCHOOL CORPORATION**  
*Office of the Superintendent*

**OFFICIAL RESPONSE**

To: State Board of Accounts  
from: Beth Mangus, Union-North United School Corporation Treasurer

**ERRORS ON CLAIMS**

Union-North acknowledges results and comments of audit findings with the exception that one of the two claims was signed by the board. As a result, we have put processes in place where the treasurer now signs all individual vouchers and verifies that the board signs all claims dockets.

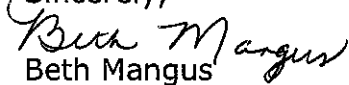
**OVERDRAWN CASH BALANCES**

Union-North acknowledges results and comments. The textbook rental clearing account by nature is often not fully funded due to uncollected fees. The payroll clearing account was short due to a retiree benefit that no longer exists and therefore should not cause future overdraft issues. Procedures are being implemented for all clearing accounts to ensure shortages are investigated, verified as to validity and sufficiently covered by General Fund transfers as needed on an annual basis to prevent future overdrawn balances. Union-North is working to correct overdrawn balances identified during the audit.

**PAYROLL COMPLIANCE - TME AND EARNINGS RECORDS**

Union-North acknowledges results and comments. Union-North no longer uses this payroll company and have brought the payroll back "in house", as of October, 2017. The software we are using does allow us to obtain reports of earnings by pay date and check number. Additional reconciliation processes are being implemented to tie out all payroll dollars.

I would like to thank the auditors for both their diligence and time.

Sincerely,  
  
Beth Mangus  
Union-North United  
School Corporation Treasurer

UNION-NORTH UNITED SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on July 25, 2018, with Elizabeth Mangus, Treasurer; Mitchell D. Mawhorter, Superintendent of Schools; Karman Eash, President of the School Board; Jill Wagoner, Deputy Treasurer; Cindy Hanson, Food Service Director; and Valerie Gillespie, former Treasurer.