

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

SUPPLEMENTAL COMPLIANCE REPORT
OF

NORTHWESTERN CONSOLIDATED
SCHOOL DISTRICT OF SHELBY COUNTY
SHELBY COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
11/21/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2017-001	
Special Education Cluster (IDEA) - Cash Management, Reporting	4-5
Finding 2017-002	
Special Education Cluster (IDEA) - Activities Allowed or Unallowed, Allowable Costs/Cost Principles	6-8
Finding 2017-003	
Special Education Grants to States - Procurement and Suspension and Debarment	8-10
Corrective Action Plan.....	11-13
Exit Conference.....	14

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Laura Mullen	01-01-15 to 12-31-18
Superintendent of Schools	Chris Hoke	07-01-15 to 06-30-19
President of the School Board	John Merlau Ken Polston	01-01-15 to 01-12-15 01-13-15 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTHWESTERN CONSOLIDATED SCHOOL
DISTRICT OF SHELBY COUNTY, SHELBY COUNTY, INDIANA

This report is supplemental to our audit report of the Northwestern Consolidated School District of Shelby County (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 Findings, identified in the above referenced audit report, are included in this report.

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

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

October 18, 2018

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS

FINDING 2017-001

Subject: Special Education Cluster (IDEA) - Cash Management, Reporting

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 99914-027-TA01, 14214-027-PN01,
45714-027-PN01, 45715-027-PN01,
45716-027-PN01, 14215-027-PN01,
14216-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Reporting

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 Cash Management and Reporting compliance requirements. The School Corporation is a participating member school corporation of the Hancock Madison Shelby Educational Services Cooperative (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative.

During the audit period, the fiscal agent of the Cooperative expended Special Education Cluster (IDEA) program funds on behalf of the School Corporation for grant awards prior to fiscal year 2017. The School Corporation relied on the Cooperative to comply with the Cash Management and Reporting compliance requirements of the programs. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

Cash Management

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with the requirement that program costs be paid before reimbursement of those costs is requested. Reimbursement requests were prepared and submitted by the Cooperative's Treasurer with no oversight, review, or approval.

Reporting

The School Corporation had not designed or implemented adequate policies and procedures to ensure that there was proper segregation of duties regarding reporting. Reimbursement requests and Final Expenditure Reports were prepared and submitted by the Cooperative's Treasurer with no oversight, review, or approval.

Context

The lack of controls was a systemic issue throughout the audit period.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the cash management and reporting requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the cash management and reporting requirements 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 and Reporting compliance requirements.

Views of Responsible Officials

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

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

FINDING 2017-002

Subject: Special Education Cluster (IDEA) - Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 99914-027-TA01, 14214-027-PN01, 45714-027-PN01, 45715-027-PN01, 45716-027-PN01, 14215-027-PN01, 14216-027-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

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 Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. The School Corporation is a participating member school corporation of the Hancock Madison Shelby Educational Services Cooperative (Cooperative). The member school corporations of the Cooperative had determined that it was beneficial to pool their resources to provide special education services to those in need. The Cooperative designated a fiscal agent, who was responsible for the accounting records of the Cooperative.

During the audit period, the fiscal agent of the Cooperative expended Special Education Cluster (IDEA) program funds on behalf of the School Corporation for grant awards prior to fiscal year 2017. The School Corporation relied on the Cooperative to comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements of the programs. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

The Cooperative Treasurer prepared claims for payment of programs activities and costs and paid the claims prior to review or approval. The School Corporation also had not designed or implemented adequate policies and procedures to ensure that the required Semi-Annual Certifications were reviewed and approved by the employee's supervisor and retained for audit.

No Semi-Annual Certifications or other documentation of personnel expenses were presented for the period of July 1, 2015 to December 31, 2015. In addition, Semi-Annual Certifications provided for the remainder of the audit period were not always approved by the Executive Director of the School Corporation Council.

Context

The lack of controls and noncompliance were systemic issues 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. . . ."

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
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). . . ."

OMB Circular A-87, Attachment B, section 8h(3) states:

"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

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 Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance 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 requirements could have resulted in the loss of federal funds to the School Corporation.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

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 Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Views of Responsible Officials

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

FINDING 2017-003

Subject: Special Education Grants to States - Procurement and Suspension and Debarment

Federal Agency: Department of Education

Federal Program: Special Education_Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-027-PN01, 14215-027-PN01,
14216-027-PN01, 14217-025-PN01,
99914-027-TA01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

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 Procurement and Suspension and Debarment compliance requirement. The School Corporation is a participating member school corporation of the Hancock Madison Shelby Educational Services Cooperative (Cooperative).

During the audit period, the fiscal agent of the Cooperative expended Special Education Cluster (IDEA) program funds on behalf of the School Corporation for grant awards prior to fiscal year 2017. The School Corporation relied on the Cooperative to comply with the procurement and suspension and debarment requirements for the grants prior to fiscal year 2017. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, the School Corporation was ultimately responsible for ensuring compliance with the requirements.

Procurement

The School Corporation had not established effective controls to ensure that proper procurement policies were followed by the Cooperative.

Suspension and Debarment

The School Corporation had not established effective controls to ensure that vendors were not suspended or debarred or otherwise excluded from participation in federal assistance programs.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

The School Corporation did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and noncompliance were systemic issues 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). . . ."

2 CFR 180.300 states:

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

You do this by:

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

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

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.

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
FEDERAL FINDINGS
(Continued)

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 compliance requirement.

Views of Responsible Officials

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



Northwestern
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District of Shelby County

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Fax: 317-835-4441

www.nwshelbyschools.org

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Laura Mullen
Contact Phone Number: 317-835-7461

Views of Responsible Official: We agree

Description of Corrective Action Plan:

We were a member school corporation of the Hancock Madison Shelby Education Services Cooperative during part of the audit period. The 2015/2016 Special Education Grant monies were held by the Cooperative. During the 2016/2017 period, the grant monies were held by our school corporation. The cooperative disbanded at the end of the 2016/2017 fiscal year. When we took over the management of our own grant monies, we have made an ongoing effort to address and correct the internal control issues listed in reference to Cash Management, and Reporting. Examples are duplicate signatures on reimbursement requests, double signatures on reporting, creation of a Suspension and Disbarment file, etc.

Anticipated Completion Date: January 1, 2019

A handwritten signature in blue ink that reads "Laura Mullen". The signature is written in a cursive style and is positioned above a horizontal line.

Corporation Treasurer
October, 2, 2018

Superintendent
Mr. Chris Hoke

Treasurer
Mrs. Laura Mullen

Technology Director
Mr. Josh Landis

Maintenance Director
Mr. Chuck Miller

Transportation Director
Mrs. Susie Childress

Special Education Director
Mrs. Terri Branson

School Board
Mr. Ken Polston
Mr. Steve Steele
Mrs. Wendy Gearlds
Mr. Tim Kelly
Mr. Vince Sanders
Mr. Todd Brandman
Mr. Glenn Bass



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CORRECTIVE ACTION PLAN

FINDING 2017-002

Contact Person Responsible for Corrective Action: Laura Mullen
Contact Phone Number: 317-835-7461

Views of Responsible Official: We agree

Description of Corrective Action Plan:

We were a member school corporation of the Hancock Madison Shelby Education Services Cooperative during part of the audit period. The 2015/2016 Special Education Grant monies were held by the Cooperative. During the 2016/2017 period, the grant monies were held by our school corporation. The cooperative disbanded at the end of the 2016/2017 fiscal year. When we took over the management of our own grant monies, we have made an ongoing effort to address and correct the internal control issues listed in reference to Activities Allowed or Un-allowed, and Allowable Costs. We will only make distributions from the federal grant monies that are approved in the grant. We will obtain Semi-Annual Certifications and be sure that they are signed by the appropriate directors.

Anticipated Completion Date: January 1, 2019

Corporation Treasurer
October, 2, 2018

Superintendent
Mr. Chris Hoke

Treasurer
Mrs. Laura Mullen

Technology Director
Mr. Josh Landis

Maintenance Director
Mr. Chuck Miller

Transportation Director
Mrs. Susie Childress

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CORRECTIVE ACTION PLAN

FINDING 2017-003

Contact Person Responsible for Corrective Action: Laura Mullen
Contact Phone Number: 317-835-7461

Views of Responsible Official: We agree

Description of Corrective Action Plan:

We will continue to address and correct internal control issues over procurement, and Suspension & Disbarment. We will follow the procurement policies specific to the Special Education program. We will our monitor vendors paid from federal grants by setting up annual check of the vendors' status. We will also check the vendors listed in the grant at the time of the grant approval.

Anticipated Completion Date: January 1, 2019

A handwritten signature in blue ink, appearing to read "Laura Mullen", is written over a horizontal line.

Corporation Treasurer
October, 2, 2018

Superintendent
Mr. Chris Hoke

Treasurer
Mrs. Laura Mullen

Technology Director
Mr. Josh Landis

Maintenance Director
Mr. Chuck Miller

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Mr. Todd Brandman
Mr. Glenn Bass

NORTHWESTERN CONSOLIDATED SCHOOL DISTRICT OF SHELBY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 18, 2018, with Ken Polston, President of the School Board; Chris Hoke, Superintendent of Schools; and Laura Mullen, Treasurer.