

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NORTHEAST SCHOOL CORPORATION

SULLIVAN COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Vikki Huntworth	07-01-15 to 06-30-18
Superintendent of Schools	Dr. Mark A. Baker	08-01-13 to 06-30-18
President of the School Board	Norman R. Santus	01-01-15 to 12-31-18



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AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE NORTHEAST SCHOOL CORPORATION, SULLIVAN COUNTY, INDIANA

This report is supplemental to our audit report of the Northeast 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 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

December 12, 2018

NORTHEAST SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Program: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-024-PN01, 14215-024-PN01,
14216-022-PN01, 99914-024-PN01,
45715-024-PN01, 45716-022-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Repeat Finding

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

Condition

The School Corporation was a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grants. There was no oversight of the Cooperative by the School Corporation. 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.

Management of the School Corporation had not established an internal control system to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. The School Corporation did not keep the necessary documentation for time and effort reporting for the 2015-2016 school year. For those employees that were paid entirely from the special education program, the Cooperative did not submit Semi-Annual Certification Report. For employees that had a portion of their wages paid from the special education grants, there was no personnel activity reports or equivalent documentation to support the amount of wages charged to each cost objective. There was no evidence of an oversight or review by the School Corporation to ensure compliance.

Context

The lack of controls was a systemic issue. The noncompliance applied to the 2015-2016 school year. There were no Semi-Annual Certification Reports completed, nor were personnel activity reports or equivalent documentation maintained to support the amount of wages paid from each cost objective, during the 2015-2016 school year.

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."

NORTHEAST 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). . . ."

OMB Circular A-87, Attachment B, Section 8(h), states in part:

". . . (3) 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.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed 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:

NORTHEAST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

- (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 nonFederal 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

Management of the School Corporation had not developed a system of internal controls that would have ensured that the Cooperative complied with the Allowable Costs/Cost Principles requirements concerning time and effort reporting.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Noncompliance with 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 and implement procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Special Education Cluster (IDEA) - Procurement and Suspension and Debarment

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): 14214-024-PN01, 99914-024-PN01,
14215-024-PN01, 14216-022-PN01,
14217-022-PN01, 45715-024-PN01,
45716-022-PN01, 45717-022-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

NORTHEAST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Repeat Finding

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

Condition

The School Corporation was a member of the Greene-Sullivan Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grants. There was no oversight of the Cooperative by the School Corporation. 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.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment requirement.

Procurement

The School Corporation did not have internal controls in place to ensure that the purchasing methods used complied with procurement procedures or with applicable state and local requirements.

A local procurement policy was not implemented by the Cooperative for the entire audit period.

Suspension and Debarment

The Cooperative had not established an effective internal control system to ensure compliance with suspension and debarment requirements. There were no controls in place to ensure that the vendors were not suspended or debarred from participation in federal programs. There was no oversight or review by the School Corporation to ensure compliance.

No procedures were performed to verify that vendors were not suspended or debarred from participation in federal programs before entering into a contract for the 2015-2016 school year.

Context

The lack of controls and noncompliance were systemic issues throughout the audit period. There was no verification that vendors were not suspended or debarred prior to awarding the contracts for 100 percent of applicable vendors for the 2015-2016 school year. A procurement policy had not been implemented for the entire audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

NORTHEAST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(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 200.318(a) states: "The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part."

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 requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or 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 and implement procedures to monitor the Cooperative to ensure compliance with the grant agreement and 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.

NORTHEAST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-003

Subject: Child Nutrition Cluster - Reporting
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): FY15-16, FY16-17
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-004.

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 Reporting compliance requirement.

The Food Service Director submitted the monthly claims for reimbursement with information obtained from reports generated monthly from the cafeteria software. The Food Service Director was solely responsible for preparing and submitting the monthly claims for reimbursement without any oversight, review, or approval process.

Context

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

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). . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the Reporting compliance requirement.

NORTHEAST SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 Reporting compliance requirement.

Views of Responsible Officials

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

**Northeast School Corporation
Sullivan County**

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DR. MARK A. BAKER
Superintendent of Schools

VIKKI HUNTWORTH
Treasurer

ANGEL RILEY
Payroll Secretary

CORRECTIVE ACTION PLAN

FINDING 2017-001

Contact Person Responsible for Corrective Action: Mark Baker
Contact Phone Number: 812-383-5761

View of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

The Greene-Sullivan Cooperative will see that Semi-Annual Certifications will be maintained for all employees paid from a Grant. All Semi-Annual Certifications will be signed off by the Director of Special Education. All Semi-Annual Certifications will be sent to each superintendent's office.

Anticipated Completion Date: August 2016

FINDING 2017-002

Contact Person Responsible for Corrective Action: Mark Baker
Contact Phone Number: 812-383-5761

View of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

The Greene-Sullivan Cooperative will require a written clause in all agreements stating the contractor is not suspended or ineligible to receive federal funds. The GSSEC will check the System for Award Management (SAM website) before entering into any covered transactions with contractors. The GSSEC will maintain printed documentation from SAM for verification purposes.

Anticipated Completion Date: August 2016

A procurement policy will be implemented by the Greene-Sullivan Special Education Cooperative.

Anticipated Completion Date: January 1, 2019

FINDING 2017-003

Contact Person Responsible for Corrective Action: Mark Baker

Contact Phone Number: 812-383-5761


View of Responsible Official: We concur with the findings.

Description of Corrective Action Plan:

The Food Service Director submits the monthly claim for reimbursement after it has been established by the Treasurer of the Corporation that it is correct. The Treasurer receives the monthly meals served report from the schools and compares them to the reimbursement claim that has been prepared by the Food Service Director. This has been done starting with the August 2017 Reimbursement Claim.

The Superintendent verifies the AFR report prepared by both the Food Service Director and the Treasurer is correct before it is submitted. The superintendent initials and dates the AFR starting with the 2017-2018 school year.

Anticipated Completion Date: August 2017



Superintendent

Title

12-07-18

Date

NORTHEAST SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PREPAID LUNCH ACCOUNT

The same comment also appeared in prior Report B48708.

During the audit period, prepaid lunch receipts were not recorded into a Prepaid Lunch fund, but were instead recorded in a separate line item of the School Lunch fund. This fund is necessary in order to maintain a control of the prepaid student lunch account balances. Subsidiary records of student lunch account balances should be reconciled to the control account monthly.

When a student puts money into their individual meal account, it should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our recommendation is that you set up a clearing account with the fund number of 8400. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, September 2015)

As of July 1, 2017, the School Corporation had established a prepaid student lunch account.

OVERDRAWN CASH BALANCES

The School Lunch fund had overdrawn cash balances at June 30, 2016 and 2017, in the amount of \$308,617 and \$399,644, respectively.

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)

NORTHEAST SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2018, with Vikki Huntworth, Treasurer; Dr. Mark A. Baker, Superintendent of Schools; and Donald Ransford, School Board member.