

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
NORTHERN WELLS COMMUNITY SCHOOLS
WELLS COUNTY, INDIANA
July 1, 2016 to June 30, 2018



FILED
03/22/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Deborah L. Adams	07-01-16 to 06-30-19
Superintendent of Schools	Dr. Scott A. Mills	07-01-16 to 06-30-19
President of the School Board	R. Scott Elzey Angela K. Topp	01-01-16 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
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TO: THE OFFICIALS OF THE NORTHERN WELLS COMMUNITY
SCHOOLS, WELLS COUNTY, INDIANA

This report is supplemental to our audit report of the Northern Wells Community Schools (School Corporation), for the period from July 1, 2016 to June 30, 2018. 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

February 6, 2019

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Special Education Cluster (IDEA) - 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): 14216-001-PN01, 14217-001-PN01,
45716-001-PN01, 45717-001-PN01
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 report. The prior audit finding number was 2016-002.

Condition

The School Corporation was a member of the Adams-Wells Special Services 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. Since the grant agreements are between the Indiana Department of Education (IDOE) and each member school corporation of the Cooperative, each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement for the fiscal year 2016-2017.

Context

The Cooperative's internal control was that the reports were to be reviewed by the Cooperative Director prior to submission to the IDOE. The Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for audit were not the original reviewed and signed reports. Also, some reports presented were incomplete. Per inquiry of School Corporation's officials, there was no oversight at the School Corporation over the filing of required reports submitted to the IDOE.

The reported proportionate share expenditures could not be verified on the Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for the audit. Per inquiry of the Cooperative Director, the reported expenditures were calculated by multiplying the applicable monthly reimbursed expenditures by the nonpublic school usage percentage, which was calculated based on a time study conducted annually by the Cooperative Director. We requested a copy of the time study; however, it was not available for audit for the fiscal year 2016-2017.

The lack of controls was isolated to fiscal year 2016-2017.

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 designed or implemented a system of internal control for the Reporting compliance requirement.

Effect

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

FINDING 2018-002

Subject: Child Nutrition Cluster - 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 2016-17, FY 2017-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Program Income compliance requirement.

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation established a single fund, the School Lunch fund, to account for all activity of the food service program. The School Corporation also maintained prepaid accounts for students. When prepaid funds were received, they were receipted with the program income into the School Lunch fund as revenue. Therefore, prepaid amounts were reported as program income before meals were charged to the accounts.

Context

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

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; . . ."

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). (The School Bulletin and Uniform Compliance Guidelines, September 2008)

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2 CFR 200.302(b)(3) states:

"Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest, and be supported by documentation."

Cause

Management had not developed a system of internal controls that would have ensured that prepaid receipts and program income receipts were segregated.

Effect

The failure to establish a system of internal controls that would have ensured that prepaid receipts and program income receipts were segregated enabled noncompliance to remain undetected. The failure to comply with the Program Income 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 with the grant agreement the Program Income 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 2018-003

Subject: Child Nutrition Cluster - Special Tests and Provisions - Verification
of Free and Reduced Price Applications (NSLP)

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016-17, FY 2017-18

Pass-Through Entity: Indiana Department of Education

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

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

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Corporation selected and verified the required applications of approved free and reduced price applications; however, two of the four verified applications selected for testing during the 2016-2017 and 2017-2018 school years were not appropriately changed from reduced to denied eligibility. The income information entered was not correctly entered into the system, so the applicants remained eligible for reduced price lunches in error.

Context

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

7 CFR 245.6a states in part:

". . . (f) *Verification procedures and assistance for households* . . .

(7) *Eligibility changes*. Based on the verification activities, the local educational agency shall make appropriate modifications to the eligibility determinations made initially. The local educational agency must notify the household of any change. Households must be notified of any reduction in benefits in accordance with paragraph (j) of this section. Households with reduced benefits or that are longer eligible for free or reduced price meals must be notified of their right to reapply at any time with documentation of income or participation in one of the eligible programs in paragraph (a)(1) of this section. . . ."

Cause

Management had not developed a system of internal controls that ensured compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Effect

The failure to establish internal controls enabled noncompliance to remain undetected. The failure to comply with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

NORTHERN WELLS COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Views of Responsible Officials

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

Northern Wells Community Schools

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Dr. Scott Mills, Superintendent

CORRECTIVE ACTION PLAN **AUDIT PERIOD: JULY 1, 2016 – JUNE 30, 2018**

Contact Person Responsible for Corrective Action: Deborah Adams (Treasurer)
Contact Information: (260)-622.4125, deb.adams@nwcs.k12.in.us
Views of Responsible Official: We concur with the findings

FINDING 2018-001

Northern Wells Community Schools will continue to review (initial and date) the Quarterly Proportionate Share Monitoring Reports for Non-Public Schools prepared by Adams Wells Cooperative, along with the supporting documentation. After review, we will continue to advise Adams Wells of any relative comments and approve Northern Wells Community Schools' portion of the report for submittal to the State. This finding was addressed previously as a result of the audit completed in the Fall of 2017, and the corrective action already put in place.

Anticipated Completion Date: December 31, 2017

FINDING 2018-002

Northern Wells Community Schools has implemented a procedure in which prepaid lunches are placed in a clearing account until such time the student purchases a lunch with those funds. This will separate the prepaid funds from the School Lunch program income. We implemented this procedure effective with the 2018-19 school year. We also will disburse the funds that were prepaid funds at the end of the 2017-18 school year into the prepaid clearing account to properly show the separation. This will be done as of the January 31, 2019 fund statement and will be disbursed in February 2019 into the proper account. The correct prepaid parent/student clearing account will be firmly established as of January 31, 2019.

Anticipated Completion Date: February 28, 2019

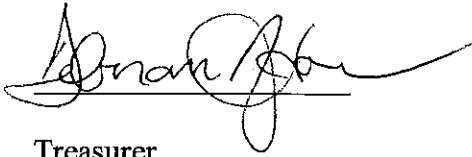
FINDING 2018-003

Northern Wells Community Schools will establish and maintain effective internal controls over eligibility determinations for free and reduced applications.

- Phase 1: Northern Wells Community Schools will implement a procedure in which each Free and Reduced Application will be in compliance with Federal guidelines, signed and dated accordingly by the preparer and the reviewer.

- Phase 2: Northern Wells Community Schools will send employees to a Verification Training Workshop and Food Service Directors Certification Program Workshop to ensure all applications are in compliance with the Federal requirements.

Anticipated Completion Date: Phase 1 - January 31, 2019
Phase 2 – August 31, 2019



Treasurer

2/5/2019

Date



Superintendent

2-5-19

Date

NORTHERN WELLS COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 6, 2019, with Deborah L. Adams, Treasurer; Dr. Scott A. Mills, Superintendent of Schools; Angela K. Topp, President of the School Board; and R. Scott Elzey, School Board member.