

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKE STATION COMMUNITY SCHOOLS

LAKE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED

03/26/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Financial Officer/Treasurer	(Vacant) Eric Kurtz	07-01-16 to 07-14-16 07-15-16 to 06-30-19
Superintendent of Schools	Thomas Cripliver	07-15-16 to 06-30-19
President of the School Board	James Vanderlin Larry Biggs Karen Curtis Greg Tenorio	07-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18 01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE LAKE STATION COMMUNITY SCHOOLS, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Lake Station 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 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

February 14, 2019

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-001.

Condition

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts and financial reporting.

Receipts

The School Corporation had not properly designed or implemented an internal control system to ensure that receipts were properly recorded. One employee issued and recorded receipts without evidence of an oversight or approval process to ensure the completeness, accuracy, and classification of the receipt to the proper fund and account.

Financial Reporting

The School Corporation had not properly designed or implemented an internal control system to ensure that the financial statement was accurate, complete, and agreed with the accounting records. One employee prepared the financial reports without evidence of an adequate oversight or review process to detect and correct errors prior to submission.

Context

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

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. . . .

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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. . . ."

Cause

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

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation's management establish a system of internal controls, including segregation of duties, related to financial transactions and reporting.

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: 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 report. The prior audit finding number was 2016-001.

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 federal grant information entered and submitted in the Indiana Gateway for Government Units financial reporting system was the source of the SEFA. An oversight or review process had not been established by the School Corporation to ensure that the information entered was accurate.

Context

Due to the lack of internal controls, the following errors occurred and resulted in the understatement of the total federal awards expended on the SEFA by \$91,192 and \$242,010 as of June 30, 2017, and June 30, 2018, respectively, as follows:

1. The 2016-2017 School Breakfast Program grant expenditures were overstated by \$18,709.
2. The 2016-2017 National School Lunch Program grant expenditures were overstated by \$54,581.

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

3. The Special Education Grants to States expenditures were understated by \$162,514 and \$242,010 for the 2016-2017 and 2017-2018 school years, respectively.
4. The Special Education Preschool Grants expenditures were understated by \$1,968 for the 2016-2017 school year.

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. . . .

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (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's management 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.

FINDING 2018-003

Subject: Child Nutrition Cluster - Procurement

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 16-17, FY 17-18

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Modified Opinion

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Repeat Finding

This is repeat finding from the immediately prior audit report. The prior audit finding number was 2016-004.

Condition

The School Corporation had not designed an effective internal control system related to the grant agreement and the procurement requirements. There were no control procedures in place to ensure proper procurement methods were selected prior to purchasing goods.

The School Corporation did not ensure that procurements within the small purchase threshold were made in compliance with applicable local, state, and federal laws. Additionally, the School Corporation did not 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 small purchases procedures applied to 14 vendors, totaling \$247,759 in disbursements or 18 percent of the total School Lunch fund disbursements.

Context

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

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 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. . . ."

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

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

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the grant agreement and the procurement 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 with the grant agreement and procurement requirements.

Views of Responsible Officials

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

FINDING 2018-004

Subject: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 16-17, FY 17-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2016-005.

Condition

The School Corporation had not established an effective system of internal controls related to the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

The School Corporation did not have adequate controls in place for paid lunch equity. The Food Service Director completed the weighted average price calculation; however, an oversight or review process to ensure the accuracy of the calculation was not in place.

LAKE STATION COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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

The School Corporation's management had not developed a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity 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 Special Tests and Provisions - Paid Lunch Equity compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with 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 program.

Questioned Costs

There were no questioned costs identified.

Recommendation

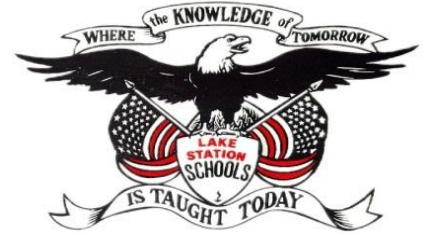
We recommended that the School Corporation's management establish a system of internal controls to ensure compliance with the grant agreement and the Special Tests and Provisions - Paid Lunch Equity compliance requirement.

Views of Responsible Officials

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

LAKE STATION COMMUNITY SCHOOLS

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Corrective Action Plan

FINDING 2018-001

Subject: Financial Transactions and Reporting

Person Responsible for Corrective Action:
Eric Kurtz – 219-962-1159

Views of Responsible Official:

Due to the timing of the prior audit (through 06/30/2016) corrective actions on Financial Transactions and Reporting were not implemented during this audit period. Personnel responsible for these areas assumed responsibilities just prior to or after this audit period commenced.

Description of Corrective Action Plan:

The corrective action will include:

- 1) A review of current assignments and segregating duties to reduce risks and improve controls.
- 2) Improved training, education and professional development of personnel responsible for financial transactions and reporting.
- 3) Improved Financial Transactions and Reporting.
- 4) Actions to enhance retention of personnel responsible for financial transactions and reporting to reduce turnover.
- 5) Improved use of technology-based systems to ensure effectiveness and accuracy financial transactions and reporting.
- 6) Implementation of routine multiple level Receipt and Financial Reporting reviews and verifications.

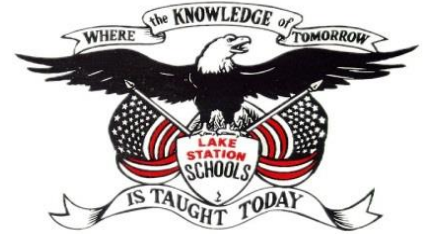
Anticipated Completion Date:

An assessment of actions, needs and a plan will be completed by June 30, 2019; with an implementation to occurring by August 1, 2019.

Eric D. Kurtz, Chief Financial Officer
Lake Station Community Schools
February 14, 2019

LAKE STATION COMMUNITY SCHOOLS

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Corrective Action Plan

FINDING 2018-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Person Responsible for Corrective Action:
Eric Kurtz – 219-962-1159

Views of Responsible Official:

Due to the timing of the prior audit (through 06/30/2016) corrective actions on Preparation of the Schedule of Expenditures of Federal Awards were not fully implemented during this audit period. Personnel responsible for these areas assumed responsibilities just prior to or after this audit period commenced.

Description of Corrective Action Plan:

The corrective action will include:

- 1) Improved training, education and professional development of personnel responsible for financial transactions and reporting.
- 2) A review of current assignments and identify opportunities to implement multiple level of review and verification.
- 3) Actions to enhance retention of personnel responsible for financial transactions and reporting to reduce turnover.
- 4) Improved use and/or consolidation of technology-based systems to ensure effectiveness and accuracy financial transactions and reporting for the SEFA; including timing issues of recognition of receipt/expenditure transactions.
- 5) Implementation of multiple level of SEFA review and verification.

Anticipated Completion Date:

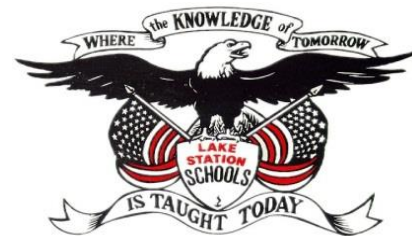
An assessment of actions, needs and a plan will be completed by June 30, 2019; with an implementation occurring prior to submission of the 2018-2019 SEFA.

A handwritten signature in black ink that reads 'Eric D. Kurtz'. The signature is written in a cursive style and is positioned above a horizontal line.

Eric D. Kurtz, Chief Financial Officer
Lake Station Community Schools
February 14, 2019

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Corrective Action Plan

FINDING 2018-003

Subject: Child Nutrition Cluster – Procurement

Persons Responsible for Corrective Action:

Theresa Kietzman – 219-962-1190

Eric Kurtz – 219-962-1159

Views of Responsible Official:

Due to the timing of the prior audit (through 06/30/2016) corrective actions on Child Nutrition Cluster – Procurement were not fully implemented during this audit period. We have implemented cooperative purchasing with other area School Food Service Departments through the Northwest Indiana Education Service Center (NWIESC). Improvements will be made for “small purchase” procurement procedures.

Description of Corrective Action Plan:

Procedures will be developed and implemented to ensure compliance with federal procurement requirements applicable to the purchases made in the “small purchase” threshold as well as applicable local polices and state laws. Price or rate quotes will be solicited from an adequate number of qualified sources for purchases of goods or services under the “small purchase” threshold and documented.

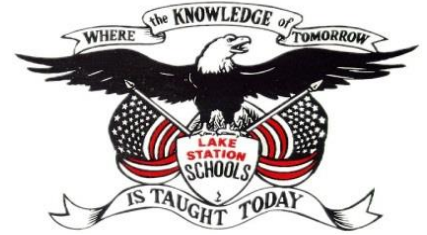
Anticipated Completion Date:

We will review current federal “small purchase” procurement guidance in conjunction with local policy and state laws and develop draft guidance by May 1, 2019; which will be implemented for purchases occurring after June 30, 2019.

Eric D. Kurtz, Chief Financial Officer
Lake Station Community Schools
February 14, 2019

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Corrective Action Plan

FINDING 2018-004

Subject: Special Tests and Provisions – Paid Lunch Equity (PLE)

Persons Responsible for Corrective Action:

Theresa Kietzman – 219-962-1190

Eric Kurtz – 219-962-1159

Views of Responsible Official:

Due to the timing of the prior audit (through 06/30/2016) corrective actions on Special Tests and Provisions – Paid Lunch Equity (PLE) were not implemented during this audit period. The compliance review for Paid Lunch Equity (PLE) occurs only once per year. We will ensure future PLE compliance reviews are completed in accordance with US Department of Agriculture (USDA), Indiana Department of Education (IN DoE), and grant agreement guidance.

Description of Corrective Action Plan:

The corrective action will include:

- 1) A review PLE compliance requirements and guidance will be conducted.
- 2) Improved training, education and professional development of personnel responsible for financial and food service cluster.
- 3) Improved understanding of PLE compliance review guidance as established by the US Department of Agriculture (USDA), Indiana Department of Education (IN DoE) and grant agreement.
- 4) A review of current assignments and duties to enhance monitoring, oversight and review of the PLE will be completed.

Anticipated Completion Date:

An assessment of PLE guidance, actions, and needs be completed by May 15, 2019; and implemented for the next PLE review.

A handwritten signature in black ink that reads 'Eric D. Kurtz'. The signature is written in a cursive style and is positioned above a horizontal line.

Eric D. Kurtz, Chief Financial Officer
Lake Station Community Schools
February 14, 2019

LAKE STATION COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

The reconciled bank balance was less than the record balance (cash fund ledger) by \$109,255 as of June 30, 2018. However, it was determined that the record balance included a \$131,962 overstatement of the Textbook Rental fund due to the duplicate posting of the extracurricular collections remitted to the School Corporation. This resulted in the reconciled bank balance that was greater than the adjusted record balance (cash fund ledger) by \$22,706.

The reconciliation reports provided for audit indicated that the bank and record balances reconciled. The School Corporation did not compare the reconciled bank balances to the cash fund reports; thus, the School Corporation had not been aware that differences between the reconciled bank balances and the cash fund balances had occurred.

Furthermore, bank reconciliations were not completed on a timely basis. Nineteen of the twenty-four months bank reconciliations were not completed timely. The time taken to complete reconciliations for the period of July 2016 to September 2017 and December 2017 to March 2018 ranged from 73 days to 326 days. Subsequent to the audit period, the rest of 2018 was timely except for September which took 72 days to complete.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

LATE SUBMISSION OF ANNUAL FINANCIAL REPORT

The School Corporation's Annual Financial Report for fiscal year 2017 and fiscal year 2018 was not filed electronically until November 30, 2017, and January 14, 2019, respectively, which was 93 and 138 days past the due date.

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](#)."

LAKE STATION COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on February 14, 2019, with Eric Kurtz, Chief Financial Officer/Treasurer; Thomas Cipliver, Superintendent of Schools; Greg Tenorio, President of the School Board; and Larry Biggs, School Board member.