

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

HANOVER COMMUNITY SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
03/26/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Financial Transactions and Reporting	4-5
Finding 2018-002	
Child Nutrition Cluster - Procurement and Suspension and Debarment	5-7
Finding 2018-003	
Child Nutrition Cluster - Reporting	8-9
Finding 2018-004	
National School Lunch Program - Paid Lunch Equity	9-10
Corrective Action Plan.....	11-14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Eric D. Kurtz	07-01-14 to 07-31-16
	Adam C. Minth	08-01-16 to 06-11-18
	Denise Sempf	06-12-18 to 06-30-19
Superintendent of Schools	Thomas L. Taylor	07-01-14 to 06-30-18
	Mary Tracy-MacAulay	07-01-18 to 06-30-21
President of the School Board	Mary Joan Dickson	01-01-16 to 12-31-16
	James Sakelaris	01-01-17 to 12-31-17
	Kelly York	01-01-18 to 12-31-18
	Connie Sterkowitz	01-01-19 to 12-31-19



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TO: THE OFFICIALS OF THE HANOVER COMMUNITY SCHOOL
CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Hanover Community School Corporation (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 13, 2019

HANOVER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

The School Corporation had not designed or implemented an effective internal control system, including a segregation of duties, for financial transactions and reporting. A documented internal control system had not been implemented that would compare source documentation to receipt and disbursement entries in the financial accounting system.

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. . . .

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 establish and document a system of internal controls related to financial transactions and reporting.

HANOVER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 - Procurement and Suspension and Debarment
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): 2016-17, 2017-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of Finding 2016-002 from the immediately prior audit report.

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.

Procurement

The School Corporation had not designed or implemented adequate internal controls to ensure that proper procurement methods were selected prior to purchasing goods that were not procured through a purchasing cooperative.

The School Corporation's procurement policy did not address the methods of procurement, nor did they obtain an adequate number of price or rate quotes for small purchases exceeding \$3,500. The School Corporation did not obtain price or rate quotes for two of three vendors tested for which the small purchase requirement applied.

Suspension and Debarment

The School Corporation did not implement policies or procedures to ensure that vendors not contracted through a third-party purchasing service were not suspended or debarred from participation in federal award programs. The School Corporation only performed procedures to verify that one of two contractors had not been suspended or debarred.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

HANOVER COMMUNITY 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 states in part:

"(a) 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. . . .

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. . . ."

2 CFR 200.319 states in part:

"(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. . . .

(c) The non-Federal entity must have written procedures for procurement transactions. These procedures must ensure that all solicitations:

- (1) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. . . .
- (2) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluation bids or proposals. . . ."

2 CFR 200.320 states in part:

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

(a) Procurements by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(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.

(c) Procurement by sealed bids (formal advertising). . . ."

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

2 CFR 180.220 states in part:

"(a) Covered transactions under this part—

- (1) Do not include any procurement contracts awarded directly by a Federal agency; but
- (2) Do include some procurement contracts awarded by non-Federal participants in non-procurement covered transactions.

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

- (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under § 180.210, and the amount of the contract is expected to equal or exceed \$25,000. . . ."

Cause

The School Corporation 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 noncompliance to go undetected. Noncompliance with the grant agreement and the Procurement and Suspension and Debarment 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 compliance requirement.

Views of Responsible Officials

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

HANOVER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2018-003

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): 2016-17, 2017-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of Finding 2016-002 from the immediately prior audit report.

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement. There were no documented control procedures in place to ensure that the required reports were complete and accurate prior to submission. One employee prepared and submitted the Annual Financial Reports and School Food Authority (SFA) Verification Collection Reports without evidence of oversight, review, or approval.

The School Corporation did not comply with reporting requirements for the SFA Verification Collection Reports. During both school years, the testing results, which included the results of applications verified for cause, did not agree with the actual results. There were 21 errors in the results reported for both school years.

Context

The lack of an effective internal control system was a systemic issue throughout the audit period. The noncompliance was limited to the SFA Verification Collection Reports.

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 210.15 states in part:

"(a) *Reporting summary.* Participating school food authorities are required to submit forms and reports to the State agency or the distributing agency, as appropriate, to demonstrate compliance with Program requirements. . . ."

HANOVER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(b) *Recordkeeping summary.* In order to participate in the Program, a school food authority or a school, as applicable, must maintain records to demonstrate compliance with Program requirements. These records include but are not limited to: . . .

- (4) Currently approved and denied certification documentation for free and reduced price lunches and a description of the verification activities, including verified applications, and any accompanying source documentation in accordance with 7 CFR 245.6a of this Title; . . ."

Cause

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

Effect

The failure to establish an effective internal control system enabled material noncompliance to remain undetected. Noncompliance with the grant agreement and the Reporting 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 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 2018-004

Subject: National School Lunch Program - 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): 2016-17, 2017-18
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Finding: Material Weakness

Condition

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

HANOVER COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The Paid Lunch Equity calculator, which was the basis for determining school lunch prices, was used to compute lunch prices without evidence of review or oversight by someone other than the preparer.

Context

The lack of an effective internal control system 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 or implemented 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 programs.

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 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.



Board of School Trustees

Scott Burdan
James Sakelaris
Connie Sterkowitz
Dennis Wilkening
Kelly York

Central Office

Mary Tracy-MacAulay, Ed.S.
Superintendent of Schools

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Adam C. Minth
Contact Phone Number: 219-374-3504

Views of Responsible Official: The School Corporation is aware of its needs to enhance its internal controls and oversight and will be implementing corrective procedures by the end of this school year.

Description of Corrective Action Plan: Currently, the Director of Business Services reviews receipts and disbursements and verifies the budget account code that is entered is correct and also monitors all receipts and disbursements with a cash flow analysis. Going forward, the Business Office will implement procedures to signify that the review is being conducted.

Anticipated Completion Date: 5/30/2019

Adam C. Minth
(Signature)

Director of Business Services
(Title)

2/13/19
(Date)

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Board of School Trustees

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James Sakelaris
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Dennis Wilkening
Kelly York

Central Office

Mary Tracy-MacAulay, Ed.S.
Superintendent of Schools

CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Adam C. Minth

Contact Phone Number: 219-374-3504

Views of Responsible Official: The School Corporation is aware of its needs to enhance its internal controls and oversight and will be implementing corrective procedures by the end of this school year.

Description of Corrective Action Plan: Suspension and Debarment for contracted vendors for Food, Dairy and Bakery that are conducted by a third party purchaser. The Nutrition Office will conduct a check through Sam.gov to ensure compliance at the beginning of the year and mid year for each contract used.

Procurement:

All micro purchases will have documentation of 3 quotes on file.

For the 2019-2020 SY the corporation will implement NEOLA Federal Food Procurement Policy 6325.

Anticipated Completion Date: End of the 5/30/2019



(Signature)

Director of Business Services

(Title)

2/12/19

(Date)

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Superintendent of Schools

CORRECTIVE ACTION PLAN

FINDING 2018-003

Contact Person Responsible for Corrective Action: Adam C. Minth

Contact Phone Number: 219-374-3504

Views of Responsible Official: The School Corporation is aware of its needs to enhance its internal controls and oversight and will be implementing corrective procedures by the end of this school year.

Description of Corrective Action Plan: The Annual Financial Report is worked on throughout the year by the Director and Office Manager in the Nutrition Services Department. At the end of each month, numbers are updated by both parties. They will check each others work to verify accuracy. At the end of the year, a hard copy of the AFR will be reviewed by both and then initialed.

In regards to verification reporting: Once the numbers are agreed upon, the information will then be entered electronically into the state site by the Director. The Manager will then review inputted data to ensure there are no errors before and after submitting. The DOE website is monitored to confirm the report has been accepted and approved.

Anticipated Completion Date: 5/30/2019

Adam C. Minth
(Signature)

Director of Business Services
(Title)

2/13/19
(Date)

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Superintendent of Schools

CORRECTIVE ACTION PLAN

FINDING 2018-004

Contact Person Responsible for Corrective Action: Adam C. Minth

Contact Phone Number: 219-374-3504

Views of Responsible Official: The School Corporation is aware of its needs to enhance its internal controls and oversight and will be implementing corrective procedures by the end of this school year.

Description of Corrective Action Plan: The Paid Lunch Equity is compiled from past and current data by the Director of Nutrition Services. Before submittal, the Office Manager will review the data. A review will also take place after submittal to the state to verify the numbers inputted were accurate. All documents are sent to the Business Office for approval. After approved, the recommendation is sent to the School Board for approval. New pricing will be published to the public and verified that the pricing matches Board Approval rates for both Breakfast and Lunch.

Anticipated Completion Date: 5/30/2019

Adam C. Minth
(Signature)

Director of Business Services
(Title)

2/8/19
(Date)

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HANOVER COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 13, 2019, with Denise Sempf, Treasurer; Adam C. Minth, Director of Business Services/former Treasurer; Mary Tracy-MacAulay, Superintendent of Schools; and James Sakelaris, School Board member.

The contents of this reported were electronically communicated on February 13, 2019, with Eric D. Kurtz, former Treasurer.