

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WHITLEY COUNTY CONSOLIDATED SCHOOLS

WHITLEY COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
03/27/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kirk Doehrmann Dr. Laura McDermott (interim) Todd Fleetwood	07-01-16 to 02-17-17 02-18-17 to 04-16-17 04-17-17 to 06-30-19
Superintendent of Schools	Dr. Patricia O'Connor	07-01-16 to 06-30-20
President of the School Board	Donald Armstrong	01-01-16 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE WHITLEY COUNTY CONSOLIDATED
SCHOOLS, WHITLEY COUNTY, INDIANA

This report is supplemental to our audit report of the Whitley County Consolidated 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

March 12, 2019

WHITLEY COUNTY CONSOLIDATED SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

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 School Corporation had not established effective internal controls over the federal award information entered into the Indiana Gateway for Government Units financial reporting system, which was the source of the School Corporation's SEFA. The School Corporation did create an approval process involving the Superintendent of Schools' review of the SEFA to ensure the SEFA was accurate. However, the approval process did not detect the errors in the SEFA.

Context

The SEFA presented for audit contained the following errors:

1. The Special Education Cluster (IDEA) was understated by \$571,235 in fiscal year 2016-2017.
2. The Commodities for the Child Nutrition Cluster were understated by \$19,596 and \$7,434 in fiscal years 2016-2017 and 2017-2018, respectively.
3. There were various errors in identifying correct program titles.

Audit adjustments were proposed, accepted 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. . . .

WHITLEY COUNTY CONSOLIDATED 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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

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.
- (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."

WHITLEY COUNTY CONSOLIDATED SCHOOLS
FEDERAL FINDINGS
(Continued)

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 controls related to the preparation of 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 2018-002

Subject: School Breakfast Program, National School Lunch Program - Internal Controls
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 2016/2017; FY 2017/2018
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

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 School Corporation had not designed or implemented adequate policies and procedures to ensure the yearly School Food Authority (SFA) Verification Collection Report was correct. The report was completed by one employee and there was no evidence that this report was reviewed by another employee.

Context

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

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

WHITLEY COUNTY CONSOLIDATED SCHOOLS
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). . . ."

Cause

Management had not developed an effective internal control system that segregated key functions related to Reporting.

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. A lack of segregation of duties within an internal control system could have also enabled noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, review, and approval over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish an effective internal control system related to the grant agreement and the 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.



Whitley County Consolidated Schools

Todd Fleetwood
Director of Business and Operations

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Todd Fleetwood, Director of Business and Operations
Contact Phone Number: 260-244-5771

Views of Responsible Official:

The School Corporation concurs with the finding

Description of Corrective Action Plan:

Special Education Cluster – This data is compiled and verified by the Deputy Treasurer, submitted to the Treasurer for second review and then entered into the SEFA report on gateway.

Commodities for Child Nutrition - The Food Service Director provides the recipient agency summary to the Deputy Treasurer, the Deputy Treasurer then verifies the column totals for commodities and provides the report to the treasurer to enter into the SEFA report on gateway.

Program titles – Program titles will be kept up to date in the financial system, and verified by the Deputy Treasurer and Treasurer before submission.

Anticipated Completion Date: Starting with the 17-18 SY, action has been corrected

FINDING 2018-002

Contact Person Responsible for Corrective Action: Todd Fleetwood, Director of Business and Operations
Contact Phone Number: 260-244-5771

Views of Responsible Official:

The School Corporation concurs with the finding.

Description of Corrective Action Plan:

School Food Authority (SFA) Verification Collection Report – This report will be generated and signed off by the Food Service Assistant, verified and signed off by the Food Service Director and initialed by the Treasurer.

POS/Skyward Food Service Software Reports – All reports generated from the food service software will be verified and signed by the Food Service Assistant and the Food Service Director.

Anticipated Completion Date: Immediately



(Signature)

DBO

(Title)

3-12-19

(Date)

WHITLEY COUNTY CONSOLIDATED SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2019, with Dr. Patricia O'Connor, Superintendent of Schools; Todd Fleetwood, Treasurer; and Donald Armstrong, President of the School Board.