

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

DUNELAND SCHOOL CORPORATION

PORTER 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/Chief Financial Officer	Lynn A. Kwilasz	07-01-16 to 06-30-19
Superintendent of Schools	Dr. David L. Pruis Dr. Ginger L. Bolinger Judith Malasto (interim)	07-01-16 to 06-30-17 07-01-17 to 12-03-18 12-04-18 to 06-30-19
President of the School Board	Kristin Kroeger John Marshall Brandon Kroft	01-01-16 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 DUNELAND SCHOOL CORPORATION, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Duneland 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 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 19, 2019

DUNELAND SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2018-001

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 2016-2017, FY 2017-2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
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 procurement requirements.

The School Corporation did not have effective internal controls in place to ensure that the purchasing methods used complied with 2 CFR 200.320.

The School Corporation did not always 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 School Corporation also did not document the rationale for the method of procurement, especially when a noncompetitive proposal method was used.

Context

The lack of effective controls was a systemic issue throughout the audit period. The noncompliance was a systemic issue throughout the audit period for vendor purchases made directly by the School Corporation. The School Corporation did not obtain price or rate quotes for 57 percent of the small purchases tested.

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 200.320 states in part:

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

DUNELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(a) 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. . . ."

Cause

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

Effect

The failure to establish an effective internal control system enabled material 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.

FINDING 2018-002

Subject: Title I Grants to Local Educational Agencies - Special
Tests and Provisions - Assessment System Security

Federal Agency: Department of Education

Federal Program: Title I Grant to Local Educational Agencies

CFDA Number: 84.010

Federal Award Number and Year (or Other Identifying Number): S010A150014

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Assessment System Security

Audit Findings: Material Weakness, Modified Opinion

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-003.

DUNELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 - Assessment System Security compliance requirement.

The School Corporation had not designed or implemented proper internal controls to ensure that all individuals that came in contact with any tests that were administered under the Indiana Assessment System had signed and retained the Indiana Testing Security and Integrity Agreements (agreements).

The agreements for Jackson Elementary School were not retained for audit for the 2016-2017 school year, and for Chesterton Middle School for the 2016-2017 and 2017-2018 school years.

Context

The lack of controls was a systemic issue throughout the audit period. The failure to retain supporting documentation applied to Jackson Elementary School and Chesterton Middle School.

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 200.207(a) states in part: "The Federal awarding agency or pass-through entity may impose additional specific award conditions as needed . . ."

The Administrative Regulation 511 IAC 5-5-5 states in part: ". . . (b) Any individual who administers, handles, or has access to secure test materials at the school or school corporation shall complete assessment training and sign a testing security and integrity agreement to remain on file in the appropriate building-level office each year."

Cause

The School Corporation's management had not developed a system of internal control that would have ensured that documentation was maintained and presented for audit to support compliance with the Special Tests and Provisions - Assessment System Security compliance requirement.

Effect

The failure to retain adequate supporting documentation prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Assessment System Security compliance requirement.

DUNELAND SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

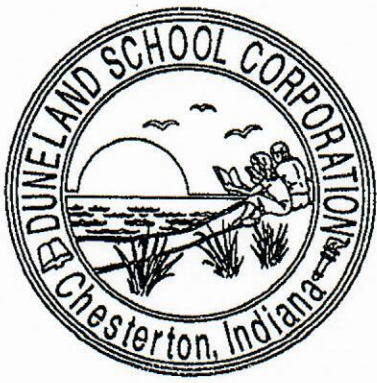
There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that adequate supporting documentation will be maintained to support compliance with the Special Tests and Provisions - Assessment System Security compliance requirement.

Views of Responsible Officials

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



Duneland School Corporation

ADMINISTRATION CENTER

601 West Morgan Avenue

Chesterton, Indiana 46304-2205

Phone: 219-983-3601 FAX: 219-983-3614

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Tammy Watkins, Wellness and Nutrition Manager
Contact Phone Number: 219-983-3729 ext. 6162

Views of Responsible Official: we concur with the finding.

Description of Corrective Action Plan:

All purchases exceeding the increased Federal Micro-Purchase Threshold of \$10,000 will have three (3) quotes obtained. The Wellness & Nutrition Manager, the Operations Coordinator and the Systems Coordinator will review the quotes and the most satisfactory quote will be accepted. All three (3) reviewers will sign the quote and provide reasoning for the award.

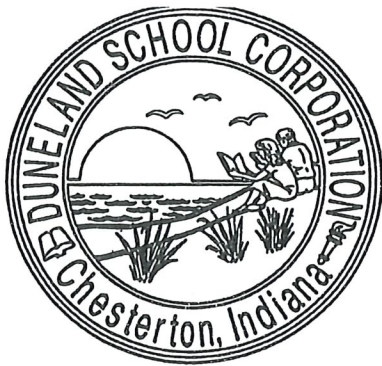
Anticipated Completion Date: March 1, 2019

Tammy Watkins
(Signature)

Wellness & Nutrition Manager
(Title)

February 11, 2019
(Date)

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CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Christina M. Jarka, Director of Elementary Learning & Performance/Title I District Coordinator

Contact Phone Number: 219-983-3600 ext. 1015

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

- Starting with Spring 2019,
 - Policy will be reviewed and updated to include current personnel
 - The CTC will train Building Administrator(s) and STCs on Policy 2623.01 including the process for ensuring that all appropriate staff has knowledge of the Indiana Ethical Testing Practices and Procedures
 - Using meeting agenda(s), sign-in sheet(s), current staff roster, and signed testing agreements, **Building Administrator or STC** will serve as the primary person to ensure that all appropriate staff has knowledge of the Indiana Ethical Testing Practices and Procedures
 - The Title I District Coordinator will serve as the secondary person to ensure that all appropriate staff has knowledge of the Indiana Ethical Testing Practices and Procedures
 - Finally, CTC will serve as final person to ensure that all appropriate staff has knowledge of the Indiana Ethical Testing Practices and Procedures
 - **Copies** of the staff roster, and all signed testing agreements will be maintained at Central Office in a secured location for a minimum of seven years
 - **Originals** of the meeting agenda(s), sign-in sheet(s), current staff roster, and signed testing agreements will be maintained at each school for a minimum of seven years

Anticipated Completion Date: March 1, 2019

Christina M. Jarka
(Signature)

Director of Elementary
(Title)

2/11/19
(Date)

DUNELAND SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in the Financial Statement and Single Audit Report of the School Corporation included the Retirement/Severance Bond Debt Service fund with an overdrawn cash balance of \$155,647 at June 30, 2018.

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)

OVERPAYMENT OF COMPENSATION

An employee was paid additional pay on 15 pay dates during 2017-2018 school year, without supporting documentation or time records, resulting in an overpayment of \$1,191. This portion of the employees' rate of pay was entered into the payroll system erroneously which resulted in the overpayment.

Arrangements for repayment have been made between the employee and the School Corporation. The School Corporation will deduct \$238.20 per pay for five payrolls beginning January 18, 2019, and ending on March 20, 2019.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

DEPOSITS - HIGH SCHOOL ECA

The textbook rental receipts collected at the high school were not deposited in a timely manner. There were instances where the time between the receipt date and the deposit date ranged from 10 to 20 days.

Indiana Code 20-41-1-9(a) states in part: ". . . receipts shall be deposited without unreasonable delay. . . ."

DUNELAND SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ECA RISK REPORT

The Financial Report (SA5-1) and the Detail of Receipts and Expenditures by Fund report (SA5-3) uploaded on the Indiana Gateway for Government Units (Gateway) financial reporting system for the Chesterton High School Extra-Curricular account (ECA) were not supported by the School's records.

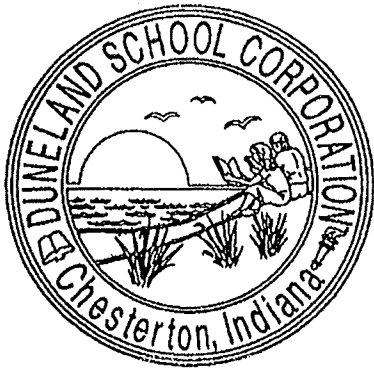
Negative receipts and disbursements were recorded in the ECA ledgers. The Gateway system did not allow negative receipts or disbursements when the ECA's detail of receipts and expenditures were submitted. This resulted in the receipts and disbursements in the Financial Report and the Detail of Receipts and Expenditures by Fund reports listed above being overstated by \$310,664 and \$49,242 for the years ended June 30, 2017 and 2018, respectively.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Per Gateway instructions for ECA risk report submission:

"Negative receipts and negative expenditures: The ECA Risk Report will not allow you to enter a negative receipt amount or a negative expenditure amount. If your accounting system allows negative amounts (e.g. refunds, voids or other types of negative entries), you need to make adjustments to your extracted data before finalizing the upload files. For example, you will need to classify negative expenditures as positive receipts and classify negative receipts as positive expenditures."



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OFFICIAL RESPONSE

February 22, 2019

State Board of Accounts
302 West Washington Street, Room E 148
Indianapolis, IN 46204-2765

Dear State Board of Accounts Officials:

The Duneland School Corporation offers the following responses to the Audit Results and Comments made in the audit for the period from July 1, 2016 through June 30, 2018.

Overdrawn Cash Balance: Fund 0250 – Retirement/Severance Debt Service Fund was overdrawn as of 6/30/2018. The final payment for this debt was made on January 5, 2018. Taxes were levied in 2018 for this payment. Because property taxes are only distributed in June and December, at 1/5/18 when the payment was made, no 2018 property taxes had been received. Because only one-half of the tax levy was distributed in June 2018, the fund had a negative balance until the final tax distribution in December 2018. Sufficient cash existed within the district bank accounts to make the 1/5/18 payment. This overdraw is only one of a fund balance and not one due to lack of available cash resources.

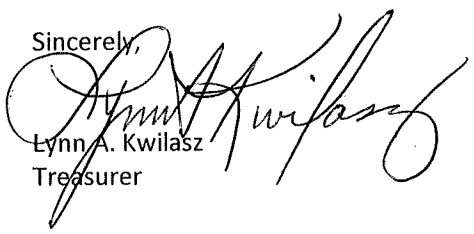
Overpayment of Compensation: A payroll error was made in a portion of an employee's pay which resulted in an overpayment. Repayment arrangements have been made and will be completed on 3/20/19. An additional internal control to check for this type of error condition had been developed, tested and implemented.

Deposits – Chesterton High School ECA: Funds collected from textbook rental receipts were not deposited in a timely manner. CHS had a personnel change which resulted in a period when funds were received but not forwarded from the CHS Student Accounts Clerk to the ECA Treasurer for timely deposit. CHS personnel with responsibility for the receipt or deposit of funds have been retrained on the importance of timely transactions.

ECA Risk Report: Indiana Gateway for Government Units (Gateway) uploaded detailed transaction data for CHS ECA did not match that of the CHS ECA financial reports. This condition results from the Gateway's data reception constraints. Certain detailed transaction records from the ECA accounting system must be reclassified in order to be uploaded to Gateway. While the final balances between the ECA financial accounting records and Gateway agree, the same may not be true for all of the underlying detail records. DSC will pursue discussion with both the Gateway and the ECA accounting software provider to determine a way to insure that the detailed transaction data uploaded to Gateway under the Gateway's data constraints can be easily reconciled to the ECA financial accounting system records and that documentation evidencing this reconciliation can be provided for audit review.

The Duneland School Corporation appreciates the opportunity to provide this official response.

Sincerely,


Lynn A. Kwilas
Treasurer

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DUNELAND SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2019, with Lynn A. Kwilasz, Treasurer/Chief Financial Officer; Judith Malasto, interim Superintendent of Schools; Brandon Kroft, President of the School Board; and Kristin Kroeger, Vice President of the School Board.