

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

WARSAW COMMUNITY SCHOOLS

KOSCIUSKO COUNTY, INDIANA

July 1, 2016 to June 30, 2018



FILED
06/07/2019

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2018-001	
Child Nutrition Cluster - Program Income, Reporting	4-6
Finding 2018-002	
Title I Grants to Local Educational Agencies - Allowable Costs/Cost Principles	6-8
Finding 2018-003	
Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate.....	9-10
Corrective Action Plan.....	11-13
Audit Result and Comment:	
Prepaid Lunch Fund	14
Exit Conference.....	15

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Erica M. Purvis April Fitterling	01-01-16 to 08-14-16 08-15-16 to 06-30-19
Superintendent of Schools	Dr. David A. Hoffert	07-01-16 to 06-30-19
President of the School Board	Jennifer K. Tandy Heather Reichenbach	01-01-16 to 12-31-16 01-01-17 to 12-31-19



STATE OF INDIANA
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TO: THE OFFICIALS OF THE WARSAW COMMUNITY SCHOOLS, KOSCIUSKO COUNTY, INDIANA

This report is supplemental to our audit report of the Warsaw 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 Result and Comment 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 Result and Comment contained herein describes the identified reportable instance 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 Result and Comment, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

May 8, 2019

WARSAW COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2018-001

Subject: Child Nutrition Cluster - Program Income, Reporting
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 2017, FY 2018
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Program Income, Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit regarding Reporting compliance requirement. 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 Program Income and Reporting compliance requirements.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records.

The School Corporation did not transfer the correct amount of sales from the Prepaid Lunches fund to the School Lunch fund. The transfer from the Prepaid Lunches fund (8400) to the School Lunch fund (800) was only the prepaid meals sold from the sales activity reports. The actual program income generated from food service operations, which included cash sales, was not transferred or recorded into the School Lunch fund.

Reporting

The School Corporation had not effectively designed or implemented adequate policies and procedures to ensure that the Annual Financial Report (AFR) was in compliance with applicable laws and regulations.

The AFR was prepared by the Food Service Director and reviewed by the Assistant Food Service Director. The total receipts on the AFR did not agree with the receipt total at the School Corporation level. The AFR included all program income from meals sold, which did not agree with the amount recorded into the School Lunch fund.

Context

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

WARSAW 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). . . ."

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; . . ."

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 225.6(e) states in part:

"*State-Sponsor Agreement.* A sponsor approved for participation in the Program must enter into a permanent written agreement with the State agency. All sponsors must agree in writing to: . . ."

(12) Maintain a financial management system as prescribed by the State agency; . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following:

...

(1) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

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

WARSAW COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Indiana Department of Education's *General Instructions*:

Annual Financial Report states:

"All data reported is on a School Food Authority basis. It should include all financial transactions from July 1 through June 30, thereby accurately reflecting the financial position of the School Food Service Fund as of June 30. Accurate supporting documentation must be maintained by appropriate accounting officials whether consolidated Corporation-level accounting is used, or one or more Extra-Curricular accounts at separate schools are used.

The income total and expense total boxes should agree exactly with total revenues and total expenditures recorded in the SFA's accounting records. All expenses need to be allocated appropriately to all existing programs."

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the Program Income and Reporting compliance 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 and comply with the grant agreement and the Program Income and Reporting compliance requirements.

Views of Responsible Officials

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

FINDING 2018-002

Subject: Title I Grants to Local Educational Agencies - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 16-4415, 17-4415, 18-4415

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

WARSAW COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Repeat Finding

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

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 Allowable Costs/Cost Principles compliance requirement.

Controls were not in place to ensure that employees were paid properly from the grant funds. The number of hours or percentage allocated on their timesheets did not match the hours or percentage they were paid from the grant funds.

Context

The lack of controls was a systemic issues throughout the audit period. Noncompliance occurred for 4 out of 40 employees 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 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.

These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .

WARSAW COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

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

Title I Fiscal Handbook 2015-2016, Basic Title I, Part A and D states:

- TAS Programs:

"Title I funded staff paid solely from Title I funds complete a Semi-Annual Certification twice a year. Employees who work on multiple activities must maintain a time and effort log at least once a month."

- School wide programs:

"If a school-wide program consolidates funds in a single account, an employee paid with funds from the single account is not required to file a semi-annual certification. If a schoolwide program does not consolidate funds, employees working solely on a single Federal program must complete semi-annual certifications.

If a school-wide program does not consolidate funds, employees working on multiple programs must maintain a time and effort log at least once a month."

Cause

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected, which 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 related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

WARSAW COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2018-003

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 16-4415, 17-4415, 18-4415
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Test and Provisions - Annual Report Card, High School Graduation Rate
Audit Finding: Material Weakness

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 Provision - Annual Report Card, High School Graduation Rate compliance requirement. One person entered mobility codes into the system without an oversight, review or approval process, or other compensating control.

Context

The lack of internal 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

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate 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 compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement 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.

WARSAW COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 - Annual Report Card, High School Graduation Rate compliance requirement.

Views of Responsible Officials

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



CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: Marci Franks, Director of FNS
Contact Phone Number: 574-371-5086 Ext. #5

Views of Responsible Official:

We concur with the finding.

Description of Corrective Action Plan:

Current internal control procedures are in revision to ensure that program income is properly recorded. Transfers from the Prepaid Lunch fund (8400) to the School Lunch fund (800) will include all income generated from food service operations, including cash sales to accurately reflect the total income generated. The receipts entered on the Annual Financial Report and the total receipts at the corporation level will agree.

Anticipated Completion Date:

Implementation of the Corrective Action Plan should take full effect in 2019.

Marci Franks
(Signature)

Director, FNS
(Title)

May 7, 2019
(Date)



CORRECTIVE ACTION PLAN

FINDING 2018-002

Contact Person Responsible for Corrective Action: Dani Barkey (Chief Accountability Officer)
Contact Phone Number: (574) 371-5093 ext. 2424

Views of Responsible Official:

Split funded positions were multiple in the title I program and due to the nature of general support paraprofessionals coming and going from positions made tracking hours and paperwork laborious. As a result, WCS has decided to fully restructure the nature of the Title I support and will no longer have split funded positions. This will allow our teachers and paras to focus more intentionally on the students they serve.


Description of Corrective Action Plan:

We will be using the platform Kronos to track hours of the Title I teachers (now known as interventionists) as well as specialized paras. These Title I funded employees will all be paid 100% out of Title I and not split funded. Utilizing Kronos to track hours allows us to perform monthly audits of the hours our employees are logging.

Anticipated Completion Date:

The new structure of support begins at the start of the 2019-20 school year, but we have taken steps to ensure that paperwork is up to date and matches the grant as we move into the end of the year.


(Signature)


(Title)


(Date)



CORRECTIVE ACTION PLAN

FINDING 2018-003

Contact Person Responsible for Corrective Action: Dani Barkey (Chief Accountability Officer)

Contact Phone Number: (574) 371-5098 ext. 2424

Views of Responsible Official:

Prior to the audit, no two-way authentication process was in place to ensure proper documentation. WCS implemented a new process the day after it was brought to our attention by auditor.

Description of Corrective Action Plan:

Upon the withdrawal of a student, a copy of the Transfer Info page showing the Exit Codes will be given to one of the Guidance/Counseling Co-Directors for their approval. They will sign the Transfer Info page and it will be kept in the permanent file of the withdrawn student.

Anticipated Completion Date:

April 30, 2019. The new process took effect at the completion of the audit.

Dani Barkey
(Signature)

Chief Accountability Officer
(Title)

5/8/19
(Date)

WARSAW COMMUNITY SCHOOLS
AUDIT RESULT AND COMMENT

PREPAID LUNCH FUND

The same comment also appeared in prior Report B49883.

The Prepaid Lunch fund was not reconciled monthly to the subsidiary records by student. At June 30, 2018, the Prepaid Lunch fund exceeded the balance of the subsidiary accounts by \$182,342.

Our opinion is that money a student puts into their individual meal account should not be considered income to the child nutrition program until that student goes through the lunch line and charges a meal to their account. Therefore, while it is in the student's individual account the balance should not be included in Fund 800 School Lunch. Our suggestion is when a student brings in a deposit the receipt would be recorded to fund 8400 using receipt account number 1630. Periodically, after the student has charged meals, you should disburse the amount charged from 8400 using expenditure account 31900 and receipt it into fund 800 using receipt accounts 1611-1623. At this point it is considered program income and should be included on any reports that are required to be completed. Also, on a monthly basis the balance of the 8400 fund should be reconciled with the total of the individual meal accounts. (The School Bulletin and Uniform Compliance Guidelines, February 2019)

WARSAW COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on May 8, 2019, with April Fitterling, Treasurer; Dr. David A. Hoffert, Superintendent of Schools; Heather Reichenbach, President of the School Board; Jay Baumgartner, School Board member; and Brad Johnson, School Board member.