

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

NETTLE CREEK SCHOOL CORPORATION

WAYNE COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
06/20/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Judy Cole	07-01-15 to 06-30-19
Superintendent of Schools	Dr. William Doering	07-01-15 to 06-30-19
President of the School Board	Cary Rhoades	01-01-15 to 12-31-19



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TO: THE OFFICIALS OF THE NETTLE CREEK SCHOOL CORPORATION, WAYNE COUNTY, INDIANA

This report is supplemental to our audit report of the Nettle Creek School Corporation (School Corporation), for the period from July 1, 2015 to June 30, 2017. 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 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

May 15, 2019

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2017-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Finding: Material Weakness, Noncompliance

Repeat Finding

This is a repeat of Finding 2015-001 from the immediately prior audit report.

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 (Gateway) financial reporting system, which was the source of the School Corporation's SEFA. The Treasurer prepared the federal award information into Gateway without a control in place to prevent, or detect and correct, errors prior to submission.

Context

Due to the lack of effective internal controls, the total federal expenditures reported on the SEFA for fiscal years 2015-2016 and 2016-2017 were understated by \$334,510 and \$296,065, respectively. The understatements were primarily due to the exclusion of the Special Education Cluster (IDEA) expenditures, which totaled \$282,967 and \$284,903 for 2015-2016 and 2016-2017, respectively.

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. . . .

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. . . ."

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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."

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*.

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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 2017-002

Subject: Special Education Cluster (IDEA) - Activities Allowed
or Unallowed, Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education Grants to States, Special Education Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-044-PN01, 14216-042-PN01,
14217-042-PN01, 45715-044-PN01,
45716-042-PN01, 45717-042-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2015-007 from the immediately prior audit report.

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles. The School Corporation was a member of the New Castle Area Special Services Cooperative (Cooperative), and it provided oversight of the Cooperative through the School Corporation's Superintendent of Schools who served as a member of the Cooperative Board. However, the Cooperative had not established an effective internal control system in relation to Activities Allowed or Unallowed and Allowable Costs/Cost Principles.

There was no control procedure in place to ensure that payroll expenditures made from the Special Education Cluster (IDEA) were for allowable activities and allowable costs.

Context

The lack of controls was isolated to the first year of the audit period.

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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 Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with the compliance requirements and allow 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 controls, including segregation of duties, related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles 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 2017-003

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment

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 2015/2016, FY 2016/2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirement: Procurement and Suspension and Debarment.

The School Corporation did not verify that vendors used during the audit period were not suspended or debarred.

Context

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

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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 180.300 states:

"When you enter into a covered transaction with another person at the next lower level 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."

Cause

Management had not developed a system of internal controls to ensure 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 requirements could have resulted in the loss of federal funds to the School Corporation.

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Child Nutrition Cluster - Reporting, Special Tests and Provisions - Paid Lunch Equity
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 2015/2016, FY 2016/2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Reporting, 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 numbers were 2015-002 and 2015-005.

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Reporting and Special Test and Provisions - Paid Lunch Equity.

Reporting

The School Corporation had not established controls to verify the accuracy of reports submitted to the state. One employee prepared and submitted the Annual Financial Report without an oversight, review, or approval process.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)

The School Corporation had not established controls related to the calculation of paid lunch equity. One employee performed all procedures related to the paid lunch equity calculations without an oversight, review, or approval process.

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and noncompliance were systemic issues, which occurred 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 Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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 Reporting and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

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 and Special Tests and Provisions - Paid Lunch Equity compliance requirements. A lack of segregation of duties within an internal control system could have allowed noncompliance with the compliance requirements and could allow 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, including segregation of duties, related to the grant agreement and the Reporting and Special Tests and Provisions - Paid Lunch Equity compliance requirements.

Views of Responsible Officials

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

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2017-005

Subject: Child Nutrition Cluster - Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)
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 2015/2016, FY 2016/2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat of Finding 2015-004 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 the grant agreement and the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Verification Summary Reports were completed, but the School Corporation was unable to provide the verified free and reduced price applications selected for testing.

Context

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

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards 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 200.333 states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. . . ."

NETTLE CREEK SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Cause

Management had not developed a system of internal controls to ensure compliance with the Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement noted above 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 Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

Views of Responsible Officials

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

CORRECTIVE ACTION PLAN

Finding 2017-001

Contact Person Responsible for Corrective Action: Judy Cole, Treas.

Contact Phone Number: 765-489-4543

Views of Responsible Official:

We concur with the finding.

Description of corrective action plan: The superintendent is currently checking the 17-18 SEFA, after the fact, to ensure compliance requirements are followed in regards to establishing controls related to the preparation of SEFA. Each year the treasurer will prepare the annual report (SEFA) and the superintendent will review its contents for accuracy and initial before submission.

The special education cluster amount has already been added to the 17-18 SEFA report and we will continue to carry that forward on our yearly SEFA reporting.

Finding 2017-002

Contact Person Responsible for Corrective Action: William Doering, Ph.D., Superintendent

Contact Phone Number: 765-489-4543

Views of Responsible Official: We concur with the finding.

Description of corrective action plan: An internal control system will be established that includes the completion of a Semi-Annual Certification Activity Report by employees who are being paid through Special Education funds. The form will be counter-signed by the employee's supervisor and submitted to the Office of the Superintendent.

Finding 2017-003

Contact Person Responsible for Corrective Action: William Doering, Ph.D., Superintendent
Contact Phone Number: 765-489-4543

Views of Responsible Official: We concur with the finding.

Description of corrective action plan: An internal control system has been established with the FSMC that includes the segregation of duties related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement along with a monthly review of Food Service operations.

Finding 2017-004

Contact Person Responsible for Corrective Action: William Doering, Ph.D., Superintendent
Contact Phone Number: 765-489-4543

Views of Responsible Official: We concur with the finding.

Description of corrective action plan: An internal control system has been established with the FSMC that includes the segregation of duties related to the grant agreement and Reporting and Special Test and Provisions – Paid Lunch Equity along with a monthly review of Food Service operations. The Food Services Director will prepare the reports and will review them with the Superintendent. The Superintendent will initial reports after review.

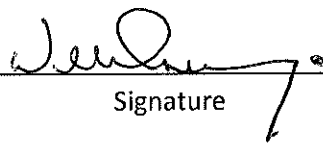
Finding 2017-005

Contact Person Responsible for Corrective Action: William Doering, Ph.D., Superintendent
Contact Phone Number: 765-489-4543

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan: An internal control system has been established with the FSMC that includes the segregation of duties related to the grant agreement and the implementation of a file system so that documents such as the verified free and reduced price applications selected for testing are retained, organized and available for audit.

Anticipated Completion Date: June, 2019



Signature

Superintendent

Title

May 14, 2019

Date

NETTLE CREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

TRAINING ON INTERNAL CONTROL STANDARDS

The School Corporation provided training on internal control standards to three individuals. There was no documentation presented for audit that other personnel, whose official duties include receiving, processing, depositing, disbursing, or otherwise have access to funds that belong to School Corporation, received the required training.

Indiana 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that:

- (1) the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

DEBT SERVICE TRANSFERS TO TEXTBOOK RENTAL FUND

The Summary Cost and Reimbursement Claim Form for School Curricular Material Costs and Eligible Student Counts (reimbursement form) submitted to the state for the fiscal year 2015-2016 overstated eligible fees by \$143,805. Corporations are permitted to budget and use Debt Service funds to pay for costs not reimbursed by the state. Due to errors in the preparation of the reimbursement form the amount budgeted and transferred from the Debt Service fund to the Textbook Rental fund on May 11, 2017, exceeded the eligible amount by \$146,925.

Indiana Code 20-40-9-7 states:

- "(a) Money in the fund may be used for payment of all unreimbursed costs of curricular materials for the school corporation's students who were eligible for free or reduced lunches in the previous school year.
- (b) Money in the fund may not be used for payment of debt service, lease payments, or similar obligations for a controlled project that is approved by the voters in a referendum under [IC 6-1.1-20](#).
- (c) The governing body may transfer the amount levied to cover unreimbursed costs of curricular materials under this section to the curricular materials rental fund, the extracurricular account, or the education fund."

NETTLE CREEK SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 15, 2019, with Judy Cole, Treasurer; Dr. William Doering, Superintendent of Schools; Cary Rhoades, President of the School Board; and Dan Davis, Vice President of the School Board.