

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

FEDERAL COMPLIANCE AUDIT REPORT
OF
NORTHWESTERN SCHOOL CORPORATION
HOWARD COUNTY, INDIANA
July 1, 2019 to June 30, 2021



FILED
06/21/2022

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jamie Bolser	07-01-19 to 06-30-22
Superintendent of Schools	Kristen Bilkey	07-01-19 to 06-30-22
President of the School Board	Jonathan Underwood Ted Merrell	07-01-19 to 12-31-20 01-01-21 to 06-30-22



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL
CORPORATION, HOWARD COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Northwestern School Corporation (School Corporation), for the period of July 1, 2019 to June 30, 2021, and the related notes to the financial statement, which collectively comprise the School Corporation's financial statement and have issued our report thereon dated June 2, 2022, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School Corporation's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth Kelley, CPA, CFE
Deputy State Examiner

June 2, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

TO: THE OFFICIALS OF THE NORTHWESTERN SCHOOL CORPORATION, HOWARD COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Northwestern School Corporation's (School Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2019 to June 30, 2021. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in item 2021-001 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Allowable Costs/Cost Principles, Program Income, and Special Tests and Provisions - School Food Service Accounts that are applicable to the Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with the requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the period of July 1, 2019 to June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the period of July 1, 2019 to June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003. Our opinion on each major federal program is not modified with respect to these matters.

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-003, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002, to be a significant deficiency.

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the School Corporation, as of and for the period of July 1, 2019 to June 30, 2021, and the related notes to the financial statement. We issued our report thereon dated June 2, 2022, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.



Beth Kelley, CPA, CFE
Deputy State Examiner

June 2, 2022

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

NORTHWESTERN SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2020 and 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-20	Total Federal Awards Expended 06-30-20	Passed Through to Subrecipient 06-30-21	Total Federal Awards Expended 06-30-21
<u>Department of Agriculture</u>							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553					
FY 2019-20 National School Breakfast Program			FY19-20	\$ -	\$ 25,680	\$ -	\$ -
COVID-19 - School Breakfast Program	Indiana Department of Education	10.553					
FY 2019-20 National School Breakfast Program			FY19-20	-	6,885	-	-
FY 2020-21 National School Breakfast Program			FY20-21	-	-	-	17,695
Total - School Breakfast Program				-	32,565	-	17,695
National School Lunch Program	Indiana Department of Education	10.555					
FY 2019-20 National School Lunch Program			FY19-20	-	170,341	-	-
School Lunch - Commodities			FY19-21	-	40,916	-	84,739
Subtotal - National School Lunch Program				-	211,257	-	84,739
COVID-19 - National School Lunch Program	Indiana Department of Education	10.555					
FY 2019-20 National School Lunch Program			FY19-20	-	24,505	-	-
FY 2020-21 National School Lunch Program			FY20-21	-	-	-	103,372
Total - National School Lunch Program				-	235,762	-	188,111
Summer Food Service Program for Children	Indiana Department of Education	10.559					
FY 2020-21 Summer Food School Program			FY20-21	-	-	-	787,510
Total - Child Nutrition Cluster				-	268,327	-	993,316
Child and Adult Care Food Program	Indiana Department of Education	10.558					
FY 2020-21 Child & Adult Care Food Program			FY20-21	-	-	-	5,144
Total - Department of Agriculture				-	268,327	-	998,460
<u>Department of Education</u>							
Special Education Cluster (IDEA)							
Special Education Grants to States	Indiana Department of Education	84.027					
FY 2018 Part B 611 Special Education Grant			18611-033-PN01	-	5,008	-	-
FY 2019 Part B 611 Special Education Grant			19611-033-PN01	-	193,866	-	-
FY 2019 Part B 611 Special Education Grant			19611-033-PN01	-	-	-	31,829
FY 2020 Part B 611 Special Education Grant			20611-033-PN01	-	157,634	-	-
FY 2020 Part B 611 Special Education Grant			20611-033-PN01	-	-	-	226,446
FY 2021 Part B 611 Special Education Grant			21611-033-PN01	-	-	-	156,884
Total - Special Education Grants to States				-	356,508	-	415,159

NORTHWESTERN SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2020 and 2021

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listings Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient 06-30-20	Total Federal Awards Expended 06-30-20	Passed Through to Subrecipient 06-30-21	Total Federal Awards Expended 06-30-21
Special Education Preschool Grants	Indiana Department of Education	84.173					
FY 2019 Part B Preschool 619			19619-033-PN01	-	6,182	-	-
FY 2020 Part B Preschool 619			20619-033-PN01	-	9,518	-	-
FY 2020 Part B Preschool 619			20619-033-PN01	-	-	-	554
FY 2021 Part B Preschool 619			21619-033-PN01	-	-	-	9,744
				<u>-</u>	<u>15,700</u>	<u>-</u>	<u>10,298</u>
Total - Special Education Preschool Grants				-	15,700	-	10,298
Total - Special Education Cluster (IDEA)				-	372,208	-	425,457
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010					
Title I 2018 - 2019			19-3470	-	76,717	-	-
Title I 2019 - 2020			20-3470	-	151,012	-	43,103
Title I 2020 - 2021			21-3470	-	-	-	115,982
				<u>-</u>	<u>227,729</u>	<u>-</u>	<u>159,085</u>
Total - Title I Grants to Local Educational Agencies				-	227,729	-	159,085
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
FFY 2018 Title II			S367A180013	-	37,954	-	-
FFY 2019 Title II			S367A190013	-	40,372	-	360
FFY 2020 Title II			S367A200013	-	-	-	43,505
				<u>-</u>	<u>78,326</u>	<u>-</u>	<u>43,865</u>
Total - Supporting Effective Instruction State Grants				-	78,326	-	43,865
Student Support and Academic Enrichment Program	Indiana Department of Education	84.424					
FFY 2018 Title IV			S424A180015	-	-	-	8,800
FFY 2019 Title IV			S424A190015	-	-	-	15,928
FFY 2020 Title IV			S424A200015	-	-	-	5,793
				<u>-</u>	<u>-</u>	<u>-</u>	<u>30,521</u>
Total - Student Support and Academic Enrichment Program				-	-	-	30,521
COVID-19 - Education Stabilization Fund ESSER I	Indiana Department of Education	84.425	S425D200013	-	-	-	115,117
Total - Department of Education				-	678,263	-	774,045
Total federal awards expended				<u>\$ -</u>	<u>\$ 946,590</u>	<u>\$ -</u>	<u>\$ 1,772,505</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

NORTHWESTERN SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2020 and 2021. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the School Corporation, it is not intended to and does not present the financial position of the School Corporation.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1-25), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The School Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Kokomo Area Special Education Cooperative

The School Corporation is a member of the Kokomo Area Special Education Cooperative (KASEC). The KASEC operates the special education program for the School Corporation. As a result, the activity for the Special Education Cluster (IDEA) that is presented on the SEFA is not presented as receipts and disbursements in the financial statement for the School Corporation. This activity is reported on the financial statement of the fiscal agent for the KASEC, the Western School Corporation.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
Child Nutrition Cluster	Qualified
Special Education Cluster (IDEA)	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

No matters are reportable.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

FINDING 2021-001

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles, Program Income, Special Tests and Provisions - School Food Service Accounts
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program, National School Lunch Program, COVID-19 - National School Lunch Program, Summer Food Service Program for Children
Assistance Listings Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY19-20, FY20-21
Pass-Through Entity: Indiana Department of Education
Compliance Requirements: Allowable Costs/Cost Principles, Program Income, Special Tests and Provisions - School Food Service Accounts
Audit Findings: Material Weakness, Modified Opinion

Condition and Context

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles, the Program Income, and the Special Tests and Provisions - School Food Service Accounts compliance requirements.

The School Corporation did not have effective internal controls in place to ensure that wages paid to employees were allowable and only for the operation of the food service program. A portion of the wages for the CFO/Treasurer, the Director of Operations, and two School Secretaries was paid from the School Lunch fund. The wages charged to the School Lunch fund were based on fixed percentages and did not provide adequate information to determine if the percentage charged was appropriate. The amount of questioned costs identified was \$92,965, which was the total wages charged to the program for these employees during the audit period.

The lack of internal 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 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 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . .

(g) Be adequately documented. . . . "

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); . . .

(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. . . . "

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

(a) The amount of funds under the grant or subgrant;

(b) How the State or subgrantee uses the funds; . . .

(e) Other records to facilitate an effective audit."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

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:

(1) . . .

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

(ii) In accordance with the financial management system established under § 220.13(i) of this part, use all revenues received by such food service only for the operation or improvement of that food service *Except that*, facilities, equipment, and personnel support with funds provided to a school food authority under this part may be used to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 *et seq.*); . . ."

7 CFR 210.14(a) states:

"Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under § 210.19(a) of this part. School food authorities may use facilities, equipment, and personnel supported with nonprofit school food revenues to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (42 U.S.C. 3001 *et seq.*)"

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Allowable Costs/Cost Principles, the Program Income, and the Special Tests and Provisions - School Food Service Accounts compliance requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Allowable Costs/Cost Principles, the Program Income, and the Special Tests and Provisions - School Food Service Accounts compliance requirements.

Questioned Costs

Known questioned costs of \$92,965 were identified as described above in the *Condition and Context*.

Recommendation

We recommended that the School Corporation's management establish internal controls to ensure compliance and comply with the grant agreement and the Allowable Costs/Cost Principles, the Program Income, and the Special Tests and Provisions - School Food Service Accounts compliance requirements.

Views of Responsible Officials

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

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2021-002

Subject: Child Nutrition Cluster - Eligibility
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program,
National School Lunch Program, COVID-19 - National School
Lunch Program, Summer Food Service Program for Children
Assistance Listings Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY19-20, FY20-21
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Eligibility
Audit Finding: Significant Deficiency

Condition and Context

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

The School Corporation Secretary processed all free/reduced applications and performed a direct certification lookup. There was no one else involved in the process to ensure that applications were processed correctly. In addition, the School Corporation Secretary could not provide documentation showing that the former Food Service Director reviewed the direct certification lookup process to ensure it was completed correctly.

The lack of internal controls was a systemic issue 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 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 control that would have ensured compliance with the grant agreement and the Eligibility 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 also allow noncompliance with the compliance requirement and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish a system of internal control, including segregation of duties, related to the grant agreement and the Eligibility 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 2021-003

Subject: Child Nutrition Cluster - Cash Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program,
National School Lunch Program, COVID-19 - National School
Lunch Program, Summer Food Service Program for Children
Assistance Listings Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY19-20, FY20-21
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Findings: Material Weakness, Other Matters

Condition and Context

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement.

Effective internal controls were not in place to ensure that meals claimed on the monthly Claim for Reimbursement (claims) were supported by adequate documentation. For August 2019, November 2020, and April 2021, the supporting documentation provided for audit did not agree to the claims for those months.

Based on the supporting documentation provided, the following issues were identified:

1. August 2019 - The School Corporation claimed 17 less breakfast meals than were served.
2. November 2020 - The School Corporation over reported virtual meals for lunch by 847 and breakfast by 847.
3. April 2021 - The School Corporation was unable to provide supporting documentation for virtual meals served at Northwestern Elementary. Therefore, they were not able to support the 785 lunch and 785 breakfast meals reported.

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

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(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 220.9(a) states in part: ". . . In no event shall the School Food Authority claim reimbursement for free and reduced priced breakfasts in excess of the number of children approved for free and reduced price meals."

7 CFR 220.11(d) states in part:

"The school food authority shall establish internal controls which ensure the accuracy of breakfast counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the breakfast counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced price and paid breakfast counts against data which will assist in the identification of breakfast counts in excess of the number of free, reduced price and paid breakfasts served each day to children eligible for such breakfasts; and a system for following up on those breakfast counts which suggest the likelihood of breakfast counting problems. . . ."

7 CFR 210.7(c) states in part:

"Reimbursement limitations. To be entitled to reimbursement under this part, each school food authority shall ensure that Claims for Reimbursement are limited to the number of free, reduced price and paid lunches and meal supplements that are served to children eligible for free, reduced price and paid lunches and meal supplements, respectively, for each day of operation. . . ."

7 CFR 210.8(a) states in part:

"Internal controls. The school food authority shall establish internal controls which ensure the accuracy of meal counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the meal counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced price and paid meal counts against data which will assist in the identification of meal counts in excess of the number of free, reduced price and paid meals served each day to children eligible for such meals; and a system for following up on those meal counts which suggest the likelihood of meal counting problems. . . ."

Cause

Management had not developed an effective system of internal control that would have ensured compliance with the Cash Management compliance requirement.

NORTHWESTERN SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance with the grant agreement and the Cash Management compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

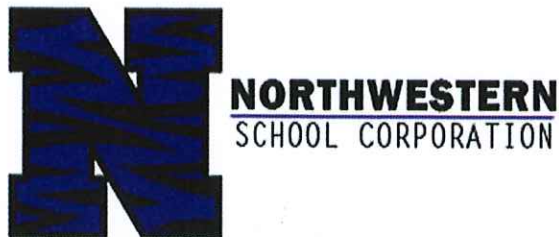
We recommended that the School Corporation's management establish effective internal controls to ensure compliance and comply with the grant agreement and the Cash Management compliance requirement.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the School Corporation. The documents are presented as intended by the School Corporation.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2019-001– SPECIAL EDUCATION GRANTS TO STATES – LEVEL OF EFFORT – MAINTENANCE OF EFFORT

Contact Person Responsible for Corrective Action: Kristen Bilkey, Superintendent
Geana Moore, Director of Special Services
Jamie Bolser, Chief Financial Officer

Contact Phone Number: (765) 452-3060 ext. 1102

Status of Audit Finding:

Although proper internal controls were in place to ensure the maintenance of effort (MOE) was met, additional internal controls were implemented by the School Corporation to establish additional oversight related to the calculation of the MOE.

Additional internal controls were developed to ensure compliance with the requirements related to the grant agreement and the level of effort – maintenance of effort requirement of the match, level of effort, and earmarking compliance requirement. The Treasurer prepared the level of effort – maintenance of effort calculation for the application. An additional oversight and review process related to the calculation was established. The Director of Special Services provided an oversight and review process related to the calculation. The MOE calculation continued to be reviewed by the Superintendent and then sent to the Director of Kokomo Area Special Education Cooperative for additional oversight and review.

Jamie L. Bolser
Chief Financial Officer

04/22/2022

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SCHOOL BOARD: JONATHAN UNDERWOOD | TED MERRELL | JONATHAN ELLER | JANET LOVELACE | JENNY KELLY
KRISTEN BILKEY, SUPERINTENDENT | JAMIE BOLSER, CFO | JEFF LAYDEN, DIRECTOR OF OPERATIONS | SCOTT SIMMONS, DIRECTOR OF CURRICULUM & TECH.



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CORRECTIVE ACTION PLAN

FINDING 2021-001– CHILD NUTRITION CLUSTER – ALLOWABLE COSTS/COST PRINCIPLES, PROGRAM INCOME, SPECIAL TEST AND PRIVISONS – SCHOL FOOD SERVICE ACCOUNTS

Contact Person Responsible for Corrective Action: Kristen Bilkey, Superintendent
Jeff Layden, Director of Operations
Jamie Bolser, Chief Financial Officer

Contact Phone Number: (765) 452-3060

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jeff.layden@nwsc.k12.in.us
jamie.bolser@nwsc.k12.in.us

Views of Responsible Official: The school believes proper internal controls were in place that were acceptable in prior audits. The School Corporation continued paying wages utilizing a time study that was acceptable in prior audits. No additional employees were included from the previous audit and the percentages were decreased from the prior audit based on the time study performed.

Description of Corrective Action Plan:

Any portion of the wages for the CFO/Treasurer, the Director of Operations, and two School Secretaries that were paid from the School Lunch Fund for the portion of time spent on services applicable to the Food Service Fund were removed beginning with the May 6, 2022 payroll. Additional procedures have been implemented to account for direct time on a bi-weekly basis for certain employees that provided dual split services within the School Corporation. Logs will be kept to certify direct hours worked within the Food Service Operation as compared to their other job duties as assigned. Twice a year those costs will be charged to the Food Service Program and the logs maintained. Employees will sign the log and Supervisors will sign off on the hours worked bi-weekly.

Anticipated Completion Date: Beginning of the 2022-23 School Year

FINDING 2021-002 – CHILD NUTRITION CLUSTER- ELIGIBILITY

Contact Person Responsible for Corrective Action: Kristen Bilkey, Superintendent
Jeff Layden, Director of Operations
Jamie Bolser, Chief Financial Officer

Contact Phone Number: (765) 452-3060

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Views of Responsible Official: The school had procedures in place to review the free/reduced applications and direct certifications process; however, proper documentation was not kept showing that review process occurred and thresholds maintained to adequately show proper internal controls were maintained.

Description of Corrective Action Plan:

Procedures have been implemented to include segregation of duties. A Corporation Secretary will review the free/reduced applications and direct certification process to ensure that the applications are processed correctly. Proper documentation will be kept showing that the review process occurred.

Anticipated Completion Date: Immediate

FINDING 2021-003 – CHILD NUTRITION CLUSTER- CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Kristen Bilkey, Superintendent
Jeff Layden, Director of Operations
Jamie Bolser, Chief Financial Officer

Contact Phone Number: (765) 452-3060

Contact Email Address: kristen.bilkey@nwsc.k12.in.us
jeff.layden@nwsc.k12.in.us
jamie.bolser@nwsc.k12.in.us

Views of Responsible Official: The School Corporation has had turnover within the Food Service Department at the Director position. The School Corporation also changed to a Food Service Management Company during the audit period.

Description of Corrective Action Plan:

Procedures have been implemented to include additional internal controls. A Corporation Secretary will now balance monthly with the Food Service Department all meals claimed for reimbursement and support by keeping adequate documentation. Such reports will be signed on a monthly basis by the Food Service Director, the CFO, and the Director of Operations. The Reports will be maintained at the Education Service Center.

Anticipated Completion Date: Immediate

Kristen Bilkey
Superintendent
06/02/2022

Jeff Layden
Director of Operations
06/02/2022

Jamie Bolser
Chief Financial Officer
06/02/2022

OTHER REPORTS

In addition to this report, other reports may have been issued for the School Corporation. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.