

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION

NOBLE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
04/24/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Federal Findings:	
Finding 2014-001 - Internal Controls Over Financial Transactions and Reporting	4
Finding 2014-002 - Internal Controls Over Compliance Requirements That Have a Direct and Material Effect on the Child Nutrition Cluster Programs.....	4-5
Finding 2014-003 - Child Nutrition Cluster Reporting Requirements	5-6
Finding 2014-004 - Child Nutrition Cluster Eligibility Requirements.....	6-7
Finding 2014-005 - Child Nutrition Cluster Cash Management Requirements	7-8
Corrective Action Plan.....	9-10
Audit Results and Comments:	
Annual Report Filed After Due Date	11
Appropriations.....	11
Receipt Issuance	11
Overdrawn Cash Balances.....	12
Reconcilement of Detail to Control.....	12
Exit Conference	13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kimberly A. Schlotterback	07-01-12 to 06-30-15
Superintendent of Schools	Dr. Christopher E. Daughtry	07-01-12 to 06-30-15
President of the School Board	Rodney P. Stayner	07-01-12 to 06-30-15



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CENTRAL NOBLE COMMUNITY SCHOOL
CORPORATION, NOBLE COUNTY, INDIANA

This report is supplemental to our audit report of the Central Noble Community School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

March 4, 2015

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to receipts and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.
 - a. One individual is responsible for preparing the bank reconciliation. The same individual issues receipts and prepares the bank deposit.
 - b. Bank reconciliations were not being reviewed and approved by someone other than the person performing the depository reconciliations.
2. Monitoring of Controls: An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting requires the School Corporation to monitor and assess the quality of the system of internal control.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FINDING 2014-002 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE CHILD NUTRITION CLUSTER PROGRAMS

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 2012/13, FY 2013/14
Pass-Through Entity: Indiana Department of Education

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements that have a direct and material effect to the programs. This includes the following compliance requirements: Cash Management, Eligibility, Program Income, Reporting, Special Tests and Provisions for Verification of Free and Reduced Price Applications (NSLP), and Special Test and Provisions for School Food Accounts.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with 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 programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2014-003 - CHILD NUTRITION CLUSTER REPORTING REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 2012/13, FY 2013/14
Pass-Through Entity: Indiana Department of Education

The School Corporation has a consulting agreement with a private vendor to oversee the School Corporation's food service operations. The Food Service Director, an employee of the private vendor, filed the required monthly claims for reimbursement and the Annual Financial Reports with the Indiana Department of Education for the Child Nutrition Cluster programs.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The Annual Financial Report filed by the School Corporation for the fiscal years ending June 30, 2013 and 2014, did not agree with the School Corporation's financial records. The Food Service Director reported financial records that are maintained by the private vendor.

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

Noncompliance of the Reporting requirement to the programs could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation officials ensure that all required reports are prepared on an accurate basis, in accordance with the Reporting requirements, and that all records are retained in accordance with retention requirements.

FINDING 2014-004 - CHILD NUTRITION CLUSTER ELIGIBILITY REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Year: FY 2012/13 and FY 2013/14
Pass-Through Entity: Indiana Department of Education

The School Corporation had deficiencies within its documentation for the determination of the eligibility status of their approved free and reduced price applications for the School Breakfast and National School Lunch programs. The following deficiencies were noted in the eligibility determination process:

1. There was no signature of the official who performed the eligibility determination on 8 percent of the applications tested.
2. An application was not presented for one of the students on the eligible list.
3. One application had the incorrect determination. The student qualified for reduced but was approved as free.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR 245.6 states in part:

"(c) *Determination of eligibility - (1) Duration of eligibility.* Except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year. . . .

(e) *Recordkeeping.* The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain, except that if audit findings have not been resolved, the documentation must be maintained as long as required for resolution of the issues raised by the audit."

School Form No. 521 is the Application for Free and Reduced Price Meals and Other Benefits prescribed for use by the Indiana Department of Education. These applications contain sections for the determining official to document the results of the determination and sign the form. It also contains a section for documenting the verification of a sample of applications. This requires a confirming official to sign that a person other than the determining official confirmed the eligibility determination. It also requires documentation of the verification process and the results in addition to the signature of the verifying official.

Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal awards.

We recommended that School Corporation officials properly complete and document the eligibility determination and verification of student eligibility status and maintain adequate, auditable files.

FINDING 2014-005 - CHILD NUTRITION CLUSTER CASH MANAGEMENT REQUIREMENTS

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Year: FY 2012/13, FY 2013/14
Pass-Through Entity: Indiana Department of Education

The School Corporation Food Service department maintains a cash balance in excess of federal regulations. The three month average of expenditures for the fiscal year ending June 30, 2013, was \$162,923, the cash balances at June 30, 2013, was \$173,280 resulting in cash balances in excess of \$10,357. The three month average of expenditures for the fiscal year ending June 30, 2014, was \$139,553, the cash balances at June 30, 2014, was \$188,346 resulting in cash balances in excess of \$48,793.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

7 CFR section 210.14(a) states in part: "School Food Authorities shall maintain a nonprofit school food service."

7 CFR section 210.14(b) states:

"Net cash resources. The School Food Authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with section 210.19(a)."

7 CFR section 210.2 defines net cash resources as:

"Net cash resources means all monies, as determined in accordance with the State agency's established accounting system, that are available to or have accrued to a school food authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities."

The cash balance maintained by the School Corporation results in noncompliance with program requirements that they must operate a nonprofit school food service and limit net cash resource. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal reimbursements.

We recommended that School Corporation officials implement procedures that would limit net cash resources to three months' average expenditures and to ensure that its school food service program is operated as a nonprofit service.

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION

Chris Daughtry
Superintendent

CORRECTIVE ACTION PLAN

Audit Period: JULY 1, 2012 – JUNE 30, 2014

Finding 2014 -001, Internal Controls over Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Kim Schlotterback
Contact Information: 200 East Main Street
Albion, IN 46701
(260) 636-2175

The Central Noble Schools will correct the internal controls related to financial transactions and reporting by creating review procedures and documentation for receipts and cash investments and bank reconciliation. The role of the reviewer will be assigned to the appropriate personnel in the Central Noble Administrative Office. The reviewer will have a monthly checklist to insure that internal review and checks and balances are in place. Central Noble will plan to start utilization of this plan by July 1, 2015.

Finding 2014-002, Internal Controls over Compliance Requirements that have a Direct and Material Effect on the Child Nutrition Cluster Programs

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number Years: FY2012/2013, FY2013/14
Pass Through Entity: Indiana Department of Education

The Central Noble Schools in cooperation with the approved food service vendor will implement internal controls over the Child Nutrition Cluster Programs. The appropriate personnel at the Central Office will be assigned and trained to review applications and accounts to ensure compliance. Training and implementation will be in place by July 1, 2015.

Finding 2014-003, Child Nutrition Cluster Reporting Requirements

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number Years: FY2012/2013, FY2013/2014
Pass Through Entity: Indiana Department of Education

The Central Noble Schools in cooperation with the approved food service vendor will implement a new procedure for reporting. The school district treasurer or treasurer designee will prepare the NSLP Annual Financial Report in collaboration with the Food Service Management Company to ensure the report accurately represents school accounting records. Compliance with this finding will be in place by July 1, 2015.

Finding 2014-004, Child Nutrition Cluster Eligibility Requirements

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number Years: FY2012/2013, FY 2013/2014
Pass Through Entity: Indiana Department of Education

The Central Noble Schools in cooperation with the approved food service vendor will implement a new procedure for reporting. The Food Service Management Company will assign an additional individual (other than the Food Service Director) to be trained to perform random period reviews during the school year beginning during the 2015/2016 school year. The changes will be implemented by August 1, 2015 to ensure compliance going into the new school year. The fall verification process will be reviewed annually and signed off by that same secondary staff member.

Finding 2014-005, Child Nutrition Cluster Cash Management Requirements

Federal Agency: U.S. Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number Years: FY2012/2013, FY 2013/2014
Pass Through Entity: Indiana Department of Education

The Central Noble School in accordance with the checks and balances placed on the annual review will implement a new procedure for ensuring that balances of the three-month average do not exceed the maximum allowable for a non-profit entity. Excess balances will be used to update and maintain food service equipment to ensure operational efficiency. Compliance with this management requirement will be in place by July 1, 2015.

Sincerely,



Chris Daughtry, Ed.D
Superintendent
Central Noble Schools

Date: 3-4-2015

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT FILED AFTER DUE DATE

The School Corporation did not timely file an Annual Report with the Indiana State Board of Accounts for June 30, 2014. The report was filed on October 30, 2014, which was 62 days past the due date.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

APPROPRIATIONS

Expenditures exceeded budgeted appropriations for the following funds:

<u>Funds</u>	<u>Years</u>	<u>Excess Amount Expended</u>
Capital Projects	2012	\$ 18,162
General	2013	16,646
Debt Service	2013	38,895

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

RECEIPT ISSUANCE

We conducted a test designed to verify that receipts were issued at the time the transactions occurred. Our results of this procedure found that 10 percent of the receipts tested were not issued at the time of the transactions.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

OVERDRAWN CASH BALANCES

The financial statement presented in the associated financial statement report included the following non-reimbursable grant funds with overdrawn cash balances at June 30, 2013 and 2014:

Funds	June 30, 2013	June 30, 2014
Textbook Rental	\$ (127,049)	\$ (85,584)
Self-Insurance	(35,851)	-

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RECONCILEMENT OF DETAIL TO CONTROL

The Supplemental Nutrition Assistance Program (SNAP) Historical Balances Report is a detailed listing of all student and adult school lunch account balances. The SNAP report cash balance did not agree with the School Corporation's financial ledger Food Service Trust fund cash balance. At June 30, 2014, the SNAP report totaled (\$1,143) and the Food Service Trust fund cash balance was \$102,019. The differences appear to be the result of computer posting and encoding errors.

A similar comment appeared in prior Report B41999.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CENTRAL NOBLE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 4, 2015, with Dr. Christopher E. Daughtry, Superintendent of Schools; Kimberly A. Schlotterback, Treasurer; Rodney P. Stayner, President of the School Board; and Jacqueline Knafel, School Board member.