

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BREMEN PUBLIC SCHOOLS

MARSHALL COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
03/20/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stephanie K. Pittman	07-01-12 to 06-30-15
Superintendent of Schools	Russ Mikel (Vacant) Dr. James A. White	07-01-12 to 06-30-14 07-01-14 to 07-14-14 07-15-14 to 07-15-15
President of the School Board	Jack Jordan	01-01-12 to 12-31-15



STATE OF INDIANA
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TO: THE OFFICIALS OF THE BREMEN PUBLIC SCHOOLS, MARSHALL COUNTY, INDIANA

This report is supplemental to our audit report of the Bremen Public Schools (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 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

January 20, 2015

BREMEN PUBLIC SCHOOLS
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:** Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, payroll transactions, and preparation of the financial statement. One person is solely responsible for all aspects of the receipt process, all payroll transactions, and the preparation of the financial statement. There is no segregation of duties, including no oversight, review, or approval process. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
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 require the School Corporation to monitor and assess the quality of the system of internal control.
3. **Bank Reconciliation Process:** Internal controls over the bank reconciliation process were insufficient. Monthly bank reconciliations were prepared by one employee; there was no evidence of an oversight, review, or approval process.

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 CONTROL OVER REPORTING

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Number and Years: FY13 and FY14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, related to the grant agreement and the Reporting requirements that have a direct and material effect on the programs. The failure to establish an effective internal control system places the School Corporation at risk of

BREMEN PUBLIC SCHOOLS
FEDERAL FINDINGS
(Continued)

noncompliance with the grant agreement and the compliance requirements. A lack of 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 program.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that required reports were accurately or timely prepared. The Cafeteria Manager was solely responsible for preparing and submitting the monthly claims for reimbursements. Segregation of duties, such as an oversight, review, or approval process has not been established.

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 type of 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 program. 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. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the programs 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 the compliance requirements that have a direct and material effect on the programs.

FINDING 2014-003 - CASH MANAGEMENT

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 Number and Years: FY13 and FY14

Pass-Through Entity: Indiana Department of Education

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 Cash Management compliance requirements that have a direct and material effect on the programs. There were no procedures established to ensure that the School Lunch fund cash balances were maintained in compliance with the Cash Management requirements. The failure to establish an effective internal control system allowed non-compliance with the requirements.

BREMEN PUBLIC SCHOOLS
FEDERAL FINDINGS
(Continued)

The School Lunch fund cash balances were maintained at an amount in excess of three months average expenditures throughout the audit period of July 1, 2012 to June 30, 2014. At June 30, 2013, the School Lunch fund balance, net of prepaid student account balances, was \$267,349; 6.5 months of average expenditures for that fiscal year. At June 30, 2014, the School Lunch fund balance, net of prepaid student account balances, was \$313,253; 7.2 months of average expenditures for that fiscal year.

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 § 210.19(a)."

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 over the Cash Management requirements enabled material noncompliance to go undetected. Failure to comply with these requirements could cause the School Corporation to be ineligible to receive future federal funds.

We recommended that School Corporation officials establish controls, including segregation of duties, related to the grant agreement and the Cash Management compliance requirements that have a direct and material effect on the programs. In addition, we recommended that School Corporation officials comply with the applicable Cash Management requirements of the programs.

***FINDING 2014-004 - INTERNAL CONTROLS OVER TITLE I
GRANTS TO LOCAL EDUCATIONAL AGENCIES***

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers: 11-5480, 12-5480, 13-5480
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Cash Management and Reporting compliance requirements that have a direct and material effect on the program. 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 program.

The School Corporation has not designed or implemented adequate policies or procedures to ensure that required reports were accurately prepared or that reimbursement was requested after expenditures were made. The Indiana Department of Education allows recipients of Title I Grants to Local Educational Agencies to request reimbursement of program expenditures twice each month, by the 1st and 15th. One person is solely responsible for preparing and submitting the reimbursement requests. Adequate segregation of duties, which would include an oversight, review, or approval process, has not been established.

BREMEN PUBLIC SCHOOLS
FEDERAL FINDINGS
(Continued)

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of 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 and timely supervision 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 program.

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. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the compliance requirements that have a direct and material effect on the program.

FINDING 2014-005 - ALLOWABLE COSTS

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers: 11-5480, 12-5480, 13-5480
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Allowable Costs compliance requirements that have a direct and material effect on the program. 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.

Approximately 93 percent of the budget and the funds disbursed from the Title I Grants to Local Educational Agencies was for compensation or personal services. When employees work on multiple activities or costs objectives, the grantee is required to support the salaries paid with personnel activity reports for the grant personnel. Inquiry of the Grant Director, along with a review of grant files, determined that the personnel activity reports required to support compensation under OMB Circular A-87 were not available for audit.

The School Corporation had not established controls to ensure that personnel activity reports were prepared monthly and retained for audit.

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."

BREMEN PUBLIC SCHOOLS
FEDERAL FINDINGS
(Continued)

Circular A-87 Attachment B, Part 8 Compensation for personal services states in part:

"h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . .

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) . . .
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after the fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee."

The failure to establish internal controls allowed material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the grant agreement and the compliance requirements that have a direct and material effect on the program.



Administration Office

512 W. Grant St. ♦ Bremen, IN 46506 ♦ 574-546-3929 ♦ 574-546-6303 ♦ www.bps.k12.in.us

Dr. Jim White
Superintendent

Mrs. Stephanie Pittman
Treasurer

Ms. Terri Biddle
Supt Sec/Deputy Treas

Mrs. Samantha Hinds
Administrative Asst.

CORRECTIVE ACTION PLAN

FINDING 2014-001 Internal Controls Over Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Stephanie Pittman
Contact Phone Number: 574-546-3929

Description of Corrective Action Plan:

1. Lack of segregation of duties: An administrative assistant has been hired full time to assist with the business processes. The administrative assistant will be responsible for payroll transactions and issuance of receipts. This will provide the required separation. The treasurer will continue to deposit monies and prepare the financial statements. The deputy treasurer will continue to be responsible for payment of claims.
2. Monitoring of Controls: The treasurer will develop a formal system of controls. There are informal processes in place. The informal processes will be developed into a formal system with periodic checks for accuracy and effectiveness.
3. Bank Reconciliation Process: The back reconciliation process will now be reviewed by the Superintendent.

Anticipated Completion Date:

1. Administrative Assistant has been hired and training is in process.
2. The formal system of controls will be developed over the year as operating procedures are completed.
3. The review process is now in place.

FINDING 2014-002 Internal Control Over Reporting

Contact Person Responsible for Corrective Action: Stephanie Pittman and Hope Andrews
Contact Phone Number: 574-546-3929

Description of Corrective Action Plan:

The food service director and the treasurer will develop a system of internal controls to monitor the food service program's reporting.

Anticipated Completion Date:

The formal system of controls will be developed this summer.

FINDING 2014-003 Cash Management

Contact Person Responsible for Corrective Action: Stephanie Pittman and Hope Andrews
Contact Phone Number: 574-546-3929

Description of Corrective Action Plan:

The food service director and the treasurer are currently reviewing cash balances and expenditure needs for the food service program. Equipment has been ordered and the food service staff has received a pay adjustment. Other allowable expenses will be researched including indirect costs.

Anticipated Completion Date:

The monitoring of the cash balance will be ongoing. Researching other allowable expenses will be completed within the year.

FINDING 2014-004 Internal Controls Over Title I Grants to Local Educational Agencies

Contact Person Responsible for Corrective Action: Stephanie Pittman and Larry Yelaska
Contact Phone Number: 574-546-3929

Description of Corrective Action Plan:

Title I reimbursement request will now be approved by the Superintendent.

Anticipated Completion Date:

The approval process is currently in place.

FINDING 2014-005 Allowable Costs

Contact Person Responsible for Corrective Action: Stephanie Pittman and Larry Yelaska
Contact Phone Number: 574-546-3929

Description of Corrective Action Plan:

Time and efforts logs will be completed by Title I personnel. The Elementary/Middle School Principal and the Principal's secretary will be responsible for these controls.

Anticipated Completion Date:

Completion of time and efforts logs will begin immediately.

Stephanie K Pittman
(Signature)

Treasurer
(Title)

1/20/2015
(Date)

BREMEN PUBLIC SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN FUND BALANCES

The fund balance of the Textbook Rental fund was overdrawn \$5,661 at June 30, 2013, and \$39,451 at June 30, 2014.

The fund 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)

PREPAID SCHOOL LUNCH ACCOUNT

The Prepaid School Lunch Account in the financial records is not being reconciled monthly to the subsidiary records by student. At June 30, 2013, and June 30, 2014, the Prepaid School Lunch Account exceeded the detailed student balances by \$1,595 and \$1,500, respectively.

Subsidiary records by student should be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized forms will be required to be maintained in the following manner to accurately account for prepaid items:

A column titled "Prepaid Food" is added to the Daily Record of Cash Received, Form SF-2, for recording prepaid amounts received which have not been identified as to revenue type, i.e., lunch, breakfast, etc. Amounts will be entered both in "Prepaid Food" and "Total Cash Received" for each day because cash has been received.

Another column "Prepaid Food Applied" is also added to Form SF-2, which will show periodic (and monthly) activity whenever prepaid meals are identified (charged to breakfast, lunch, etc.). Amounts in "Prepaid Food Applied" should at all times equal for each day, the amounts charged to various categories, i.e., student lunch, adult breakfast, etc. that were not paid for in cash. Amounts will not be added to "Total Cash Received" because cash has been previously entered and recognized in "Prepaid Food". You are merely transferring "Prepaid Food" to the applicable categories.

The final column added to SF-2 is "Prepaid Food Trust", which is the running balance column which shows the difference between "Prepaid Food" and "Prepaid Food Applied". The amounts in "Prepaid Food Trust" are deducted from the "Balance" column in SF-3 Form, School Food Service Cash Disbursements which then should equal the amount in the new SF-3 Column "Available Cash Balance". Amounts are not entered in "Total Cash Received" because "Prepaid Food Trust" is merely a balance column. Computerized systems should provide a list, by student, of cash balances which should sum to the "Prepaid Food Trust".

The Ledger of Receipt, Disbursement and Balances, SF-4 Form should also show appropriate columns for those transactions. (Accounting and Uniform Compliance Guidelines Manual For Extra-Curricular Accounts, Chapter 3)

BREMEN PUBLIC SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

The School Corporation paid penalties, interest, and other charges to various vendors in the amount of \$847 because the School Corporation did not remit payments on a timely basis.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPORTING DOCUMENTATION

We noted that one of the seven payments to a credit card company tested was not properly documented. There was no documentation for two items purchased totaling \$585; the only documentation for one \$300 purchase was an email from the vendor confirming receipt of the payment. Due to the lack of supporting information, we could not verify the purpose of the disbursement.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed: . . .

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)



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Administrative Asst.

BREMEN PUBLIC SCHOOLS · AUDIT RESULTS AND COMMENTS OFFICIAL RESPONSE

Overdrawn Fund Balances

Due to the nature of the Textbook Rental Fund, it is very difficult to not have an overdrawn balance. Textbooks and consumables are purchased in advance and the reimbursement from student fees is collected over the course of one year for consumables and multiple years for textbooks. The fund is monitored on a regular basis and textbook rental fees are reviewed annually.

Prepaid School Lunch Account

The prepaid school lunch account is a fund that is difficult to balance to the student accounts. Students withdraw on a regular basis. They may have a small balance (either positive or negative). Every attempt is made to refund large balances but this is not always possible.

There is a need for additional oversight of the school lunch program finances. With the hiring of additional staff in the Administration Office, there will be additional resources available to assist with the school lunch program finances.

Penalties, Interest and Other Charges

This issue will be addressed and a system implemented to reduce or eliminate penalties and interest.

Supporting Documentation

This issue will continue to be addressed with the staff members submitting the documentation.

Stephanie Pittman

Signature

Treasurer

Title

1/20/2015

Date

***Our mission is to work collaboratively to provide a safe, nurturing environment
where students are empowered academically and socially to succeed in life.***

BREMEN PUBLIC SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 20, 2015, with Stephanie K. Pittman, Treasurer; Dr. James A. White, Superintendent of Schools; Jack Jordan, President of the School Board; and Chuck Klockow, School Board member.