

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MIDDLEBURY COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED

06/11/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Shirley A. Meyer Mark D. Snyder	07-01-12 to 06-30-14 07-01-14 to 06-30-15
Superintendent of Schools	Jane A. Allen	07-01-12 to 06-30-15
President of the School Board	Joanna King David Black	01-01-12 to 12-31-12 01-01-13 to 12-31-15



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TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Middlebury Community 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 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.

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

April 22, 2015

MIDDLEBURY COMMUNITY 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 and preparation of the financial statement. One person is solely responsible for all aspects of the receipt process and the preparation of the financial statement. There is no segregation of duties, including 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 is 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 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: 12-2275; 13-2275; 14-2275
Pass-Through Entity: Indiana Department of Education

MIDDLEBURY COMMUNITY SCHOOLS
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 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 requests for reimbursement or required reports were accurately prepared. One person was responsible for preparing and submitting the requests and reports. There was no evidence of segregation of duties, such as an oversight or approval process.

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 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 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 noted above.



CORRECTIVE ACTION PLAN

FINDING 2014-001 – Internal Controls over Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Mark Snyder
Contact Phone Number: (574)825-9425

Description of Corrective Action Plan:

An Assistant to the Director of Business has been hired working regularly, but on a part time basis. The current plan is to continue employing a person in this position in the future. The title may change at some point. The Assistant to the Director of Business will review the monthly financial statement/bank reconciliation and receipting as described in the subsequent paragraphs.

The Director will continue preparing the monthly financial statement, including balancing all receipts and expenditures between the financial software and the bank statement. Once completed, the report including all supporting documents will be given to the Superintendent, Assistant Superintendent, and Assistant to the Director of Business. Once reviewed, two of the three will sign, along with the Director of Business. In addition, all claims lists will continue to be approved by the School Board.

The Director of Business will mostly be responsible for receipting. Once completed, a review will be completed by the Assistant to the Director of Business to ensure that the receipting is free of errors and that irregularities have not occurred. The reviewer will initial the ledger for each date a receipt is made. Receipting will again be reviewed during the preparation of the monthly financial Statement.

Anticipated Completion Date:

The review of the monthly financial report has been occurring since October 2014, and signatures were obtained beginning on the February 2015 financial statement. The review of receipting and initialing will begin immediately.

Mark Snyder
(Signature)

Director of Business
(Title)

4/22/15
(Date)



CORRECTIVE ACTION PLAN

FINDING 2014-002 – Internal Controls over Title I Grants to Local Educational Agencies

Contact Person Responsible for Corrective Action: Mark Snyder
Contact Phone Number: (574)825-9425

Description of Corrective Action Plan:

The Director of Business or the Assistant to the Director of Business will print out necessary reports in the financial software in order to determine the exact expenditures that may be requested for reimbursement. The report, along with the completed reimbursement form, will be given to the Title I Director for review. Once the Title I Director thoroughly reviews to ensure the requests are accurate and the funds were previously expended, the Title I Director will sign the reimbursement request form and return it to the Director of Business. The Director of Business will then sign if corrections are not necessary and send in the request. The requested amount is documented in a ledger, and once the payment is received and receipted in, the information is documented within the ledger to ensure the requested amount and received amount match.

Anticipated Completion Date:

The described process above began in March 2015.

Mark Snyder
(Signature)

Director of Business
(Title)

4/22/15
(Date)

MIDDLEBURY COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on April 22, 2015, with Mark D. Snyder, Treasurer; Shirley A. Meyer, former Treasurer; Jane A. Allen, Superintendent of Schools; and David Black, President of the School Board.