

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BAUGO COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
04/21/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Barbara B. Cloud Bruce Perry	07-01-12 to 05-31-13 06-01-13 to 06-30-16
Superintendent of Schools	James H. Dubois	07-01-12 to 06-30-17
President of the School Board	Dwaine Crocker Edward Fisher David Polston Edward Collins	07-01-12 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-16



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

This report is supplemental to our audit report of the Baugo 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 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 21, 2016

BAUGO 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.

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, posting of receipts, and the preparation of the bank reconciliations. One person is solely responsible for all aspects of the receipt process and the preparation of the bank reconciliations. 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.

The failure to establish these controls could enable misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

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 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

The School Corporation incorrectly identified federal programs and incorrectly reported federal expenditures for FY13 and FY14 as follows:

1. The SEFA presented for audit did not include \$983,242 in expenditures for the Child Nutrition Cluster. The following grant expenditures were also not included in the SEFA presented for audit; CFDA #84.048 and CFDA #84.323. The expenditures were \$4,000 and \$9,764, respectively.

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

2. Three program titles for the programs were incorrect.

The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - ALLOWABLE ACTIVITIES, CASH MANAGEMENT, ELIGIBILITY, REPORTING

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Number and Year: 2012-2013, 2013-2014
Pass-Through Entity: Indiana Department of Education

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: Allowable Activities, Cash Management, Eligibility, and Reporting. 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.

Allowable Activities

During the audit period, the claims paid for the national school lunch program was not being reviewed/approved before being processed for payment.

Cash Management

There is no evidence of any calculations being made to ensure that the monthly cash balances do not exceed the average of three months of expenses as required.

Eligibility

The School Corporation uses two individuals to process the Free and Reduce Lunch applications. One person is responsible for processing applications on the Mealtime Software System (Mealtime) and one person is responsible for comparing the information processed on Mealtime to the original applications submitted. Once this process has been completed, the eligibility status is calculated by Mealtime and the final determination was not verified. There were also no internal controls to ensure that the federal eligibility income guidelines in Mealtime were the same as to the ones approved by the Indiana Department of Education.

Reporting

There is no documentation to indicate that there were any controls over the reporting 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

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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. Noncompliance 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 2014-004 - SPECIAL TEST AND PROVISIONS

Federal Agency: Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): 2012-2013, 2013-2014

Pass-Through Entity: Indiana Department of Education

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: Special Tests and Provisions - Verification of Free and Reduce Lunch Applications.

The School Corporation has not designed or implemented internal control procedures to ensure compliance with the requirements for Special Tests and Provisions. The School Corporation did not have controls in place to ensure that only the required sample size selected for the verification of free and reduce lunch applications was not effective. As a result of this weakness in the internal control, more applications were verified than what was required.

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.

BAUGO COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 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 to comply and comply with the compliance requirements related to Special Tests and Provisions.



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CORRECTIVE ACTION PLAN

FINDING 2014-001 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING


Contact Person Responsible for Corrective Action: Bruce Perry
Contact Phone Number: 574-293-8583

Description of Corrective Action Plan:


The Deputy Treasurer currently prepares the receipts and prepares the bank reconciliations. The Treasurer reviews the bank reconciliation and serves as the reviewer/auditor of all financial transactions.

The Treasurer will continue to review and develop more formalized internal controls. As new staff are trained and become more proficient in their duties, opportunities to further segregate duties will occur.


Anticipated Completion Date: Effective immediately as of January 21, 2016.



(Signature)



(Title)



(Date)



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CORRECTIVE ACTION PLAN

FINDING 2014-002 PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS


Contact Person Responsible for Corrective Action: Bruce Perry

Contact Phone Number: 574-293-8583

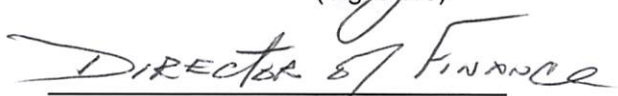
Description of Corrective Action Plan:

The Schedule of Federal Awards will be prepared by the Deputy Treasurer and reviewed by the Treasurer prior to it being submitted.

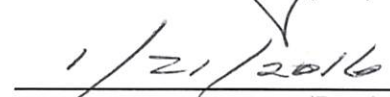
Anticipated Completion Date: Effective immediately as of January 21, 2016.



(Signature)



(Title)



(Date)



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CORRECTIVE ACTION PLAN

FINDING 2014-003 Allowable Activities, Cash Management, Eligibility, Reporting


Contact Person Responsible for Corrective Action: Bruce Perry

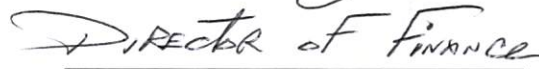
Contact Phone Number: 574-293-8583


Description of Corrective Action Plan:

Establishment of an effective internal control system regarding segregation of duties related to the grant agreement and the compliance requirements: Allowable Activities, Cash Management, Eligibility, and Reporting will be resolved with additional procedures and involvement of additional staff. All national school lunch claims will be reviewed/approved by the Food Service Director and additional review/verification will be performed by the Business Office Specialist prior to a claim being paid. The Business Office Specialist will provide via email a monthly report of the Food Service Fund balance, Revenue and Expenditure Summary to the Food Service Director. The monthly Food Service Fund report has been modified to include a calculation of the average of 3 months expenses versus the current cash balance. The Food Service Director will affirm a review of the monthly performance report via email back to the Business Office Specialist and the Treasurer. Regarding Eligibility, a first review of applications will be performed by the Food Service Administrative Assistant. A second review will be performed by the Administrative Assistant to the Treasurer and a final review will be performed by the Director of Food Service. All reviewing individuals will initial and date the application. The Treasurer will annually review the federal eligibility income guidelines in the purchased software system (Mealtime) have been properly updated to coincide with the values approved by the Department of Education. Reporting with respect to preparation of the monthly reimbursement claim to the Indiana Department of Education will be prepared by the Food Service Administrative Assistant, including supplemental reports from Mealtime. The Business Office Specialist will then review/confirm the amount of the reimbursement. The Food Service Director will perform a final review prior to submission of the request.

Anticipated Completion Date: Effective immediately as of January 21, 2016.


(Signature)


(Title)


(Date)



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CORRECTIVE ACTION PLAN

FINDING 2014-004 SPECIAL TEST AND PROVISIONS

Contact Person Responsible for Corrective Action: Bruce Perry


Contact Phone Number: 574-293-8583

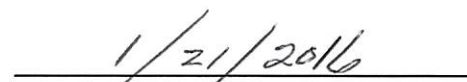
Description of Corrective Action Plan:

Establishment of an effective internal control system regarding segregation of duties, related to the grant agreement and the compliance requirements of Special Tests and Provisions- Verification of Free and Reduced Lunch Applications will be resolved by utilizing the standard sample size as required by the Indiana Department of Education. A first review of applications will be performed by the Food Service Administrative Assistant. A second review will be performed by the Administrative Assistant to the Treasurer and a final review will be performed by the Director of Food Service. All reviewing individuals will initial and date the application.

Anticipated Completion Date: Effective immediately as of January 21, 2016.


(Signature)


(Title)


(Date)

BAUGO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

PREPAID SCHOOL LUNCH ACCOUNT

The School Corporation does not use a clearing account to account for prepaid food. Receipts from students who prepay for food are receipted directly into the School Lunch fund.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines Vol.183)

APPROVAL OF CHANGE ORDERS

Change orders executed prior to June 30, 2014, totaling \$8,221 for the Sewer Extension Project were not approved by the School Board. On January 11, 2016, the School Board retroactively approved these change orders.

Indiana Code 36-1-12-18(a) states:

"If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor."



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Official Response

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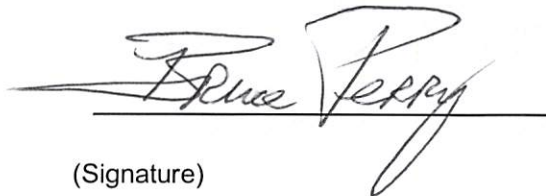
AUDIT RESULTS AND COMMENTS

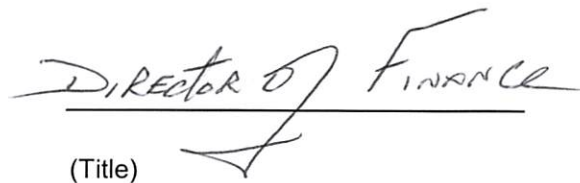
PREPAID LUNCH ACCOUNT

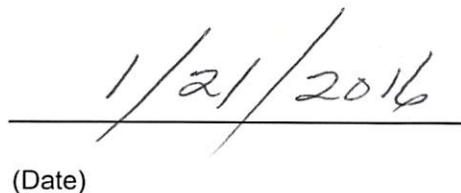
Clearing Account Number 8400 will be established as of January 1, 2016 and reviewed at least monthly to reconcile student account balances to the amount in the Prepaid Lunch Account Fund.

APPROVAL OF CHANGE ORDERS

Two change orders totaling \$8,221 for the Sewer Extension Project were approved by the school board on January 11, 2016.


(Signature)


(Title)


(Date)

BAUGO COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 21, 2016, with Bruce Perry, Treasurer; Nancy Winnicki, Deputy Treasurer; James H. Dubois, Superintendent of Schools; Carol Deak, Director of Food Service; and Edward Collins, President of the School Board.