

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

SUPPLEMENTAL COMPLIANCE REPORT
OF
PORTER TOWNSHIP SCHOOL CORPORATION
PORTER COUNTY, INDIANA
July 1, 2013 to June 30, 2015



FILED
07/08/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Aline Busse	07-01-13 to 06-30-16
Superintendent of Schools	Stacey Schmidt	07-01-13 to 06-30-16
President of the School Board	John Spangenberg Johanna Williams	01-01-13 to 12-31-14 01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE PORTER TOWNSHIP SCHOOL
CORPORATION, PORTER COUNTY, INDIANA

This report is supplemental to our audit report of the Porter Township School Corporation (School Corporation), for the period from July 1, 2013 to June 30, 2015. 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 Result and Comment 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 Result and Comment contained herein describes 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 Result and Comment, incorporated within this report, were not verified for accuracy.

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

May 5, 2015

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. These deficiencies constitute material weaknesses.

1. Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to the reporting of food service program receipts.

The transactions of the food service program were accounted for in an Extra-Curricular Account outside of the financial accounting system of the School Corporation. The receipts reported for these funds were submitted by the individual School Cafeteria Managers to the Food Service Director and entered into the School Corporation's financial accounting system as totals by the School Corporation Treasurer. At the end of each day, the cashiers at the respective schools remitted their collections to their Cafeteria Manager. The Cafeteria Manager counted the collections and compared them to a point-of-sale system generated report. The comparison control identified by the School Corporation was not being properly documented. 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 as it relates to the preparation of a reliable financial statement had not been conducted. The failure to monitor the internal control system placed 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 did not have a process to identify or communicate corrective actions to improve controls.

The failure to establish these controls could have enabled material misstatements or irregularities to remain undetected.

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)

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-002 - 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 Treasurer prepared the SEFA; however, there was no review of the SEFA prior to its submission. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

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 2015-003 - EQUIPMENT AND REAL PROPERTY MANAGEMENT, SPECIAL TESTS AND PROVISIONS - VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 13-14, FY 14-15
Pass-Through Entity: Indiana Department of Education

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment and Real Property Management and Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirements. 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.

Equipment and Real Property Management

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with the Equipment and Real Property Management requirements of the programs. The School Corporation utilized a third-party vendor for compilation of the capital assets report; however, there was no review completed by the School Corporation for accuracy of the capital assets report.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

Special Tests and Provisions - Verification of Free and Reduced Price Applications

The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with Special Tests and Provisions - Verification of Free and Reduced Price Applications requirements. The Food Service Director was solely responsible for the verification process during the 2013-2014 school year. There was no segregation of duties, such as an oversight, review, 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 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 have enabled 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 Equipment and Real Property Management and Special Tests and Provisions - Verification of Free and Reduced Price Applications compliance requirements.

FINDING 2015-004 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 13-14, FY 14-15
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement. 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.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation had not designed or implemented adequate policies or procedures to ensure compliance with Allowable Costs/Cost Principles requirements. There are no controls to ensure that payroll disbursements had adequate supporting documentation. There was an insufficient oversight, review, 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 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."

Compliance

The School Corporation did not comply with Allowable Costs/Cost Principles requirements regarding payment of certified and administrative salaries from the School Lunch fund, which receives federal funding from the School Breakfast and National School Lunch Programs. All transactions related to the food service program were recorded in the School Lunch fund. This included, but was not limited to, salaries and benefits, food purchases, supplies, and all revenue generated by the food service program.

Wages for food service employees were paid from the School Lunch fund. In the 2013-2014 and 2014-2015 school years, a percentage of the salaries of certified and administrative corporation employees were also paid from the School Lunch fund without proper documentation. These certified and administrative employees did not maintain personnel activity reports to support the distribution of their salaries to the School Lunch fund. The amount of the salaries charged to the federal programs without proper supporting documentation was \$38,806 for the audit period and is considered questioned costs.

Hourly employees maintained time cards for each pay period. When the time cards were completed, they were sent to the Food Service Director for review. The time cards were calculated by the minute and the minutes were converted to the appropriate time for the payroll software system. Out of 166 tested, there were 3 errors in the conversion and 14 errors in the hours worked calculated from the time cards.

OMB Circular A-87, Attachment A, Paragraph C,1,j, Basic Guidelines, states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

j. . . . Be adequately documented. . . ."

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-87, Attachment B, Section 8(h)(4) states in part:

"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) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. . . ."

The failure to establish internal controls enabled 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 Allowable Costs/Cost Principles compliance requirement.

FINDING 2015-005 - CASH MANAGEMENT

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 13-14, FY 14-15
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management compliance requirement. 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.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the School Lunch fund monthly cash balances were limited to average expenditures for three months. There was no oversight, review, or monitoring of the cash balances.

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.

PORTER TOWNSHIP SCHOOL CORPORATION
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."

Compliance

The School Corporation maintained cash balances that exceeded the average expenditures for three months during each month of the audit period. The cash balances exceeded the average expenditures for three months in amounts ranging from \$131,343 to \$216,698 for the 2013-2014 school year, and from \$131,613 to \$172,012 for the 2014-2015 school year.

7 CFR 220.7(e)(iv) states: "Limit its net cash resources to an amount that does not exceed three months average expenditure for its nonprofit school food service or such other amount as may be approved by the State agency."

7 CFR 210.14(b) states in part: "*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 . . ."

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 Cash Management compliance requirement. In addition, we recommended that the School Corporation comply with the Cash Management requirement of the programs.

FINDING 2015-006 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Years: FY 13-14, FY 14-15

Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Procurement and Suspension and Debarment compliance requirements. 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.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

The School Corporation had not designed or implemented adequate policies and procedures to ensure compliance with the Procurement and Suspension and Debarment requirement. The School Corporation utilized a third-party for food service bids. The third-party administered the bidding process, verified that the vendors were not suspended or debarred, and made recommendations to the School Corporation for the winning bid. However, there was no local School Corporation approval of the bids and no oversight of the verification that vendors were not suspended or debarred from participating in federal 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."

Compliance

There were three bids submitted for bread purchases during the 2014-2015 school year. The Food Service Director rejected the lowest bidder without sufficient explanation. The Food Service Director awarded the bid to the vendor that submitted the highest bid instead of awarding it to the next lowest bidder.

7 CFR 3016.36, states in part:

"(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

The failure to establish internal controls enabled 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 Procurement and Suspension and Debarment compliance requirement.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-007 - PROGRAM INCOME

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 13-14, FY 14-15
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Program Income compliance requirement. 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.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded in the financial records. There was no segregation of duties, such as an oversight, review, 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 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."

Compliance

The School Corporation had two software systems for the food service program during the audit period. The first software system covered the first 18 months of the audit period. The new software system began in January 2015. The first software system generated a daily report indicating the "dollars collected." During the first 18 months, the "dollars collected" from the daily reports were not in agreement with the receipts written for the individual schools. When combined, the differences between the daily reports and the receipts for the individual schools zeroed out.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

In addition, we could not determine if approved meal prices were accurate with the information available in the new software system for two of the schools. This particular school serves both elementary and middle school students and the reports provided for audit did not separate the collections for each school. Since there are different meal prices for the elementary and middle school students and they were not reported separately, we were unable to determine if the approved rates were being charged.

7 CFR 220.13(i) states in part: "Each State Agency . . . shall establish a financial management system under which School Food Authorities shall account for all revenues and expenditures of their nonprofit school food service. . . ."

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

The failure to establish internal controls enabled 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 Program Income compliance requirement.

FINDING 2015-008 - REPORTING

Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Years: FY 13-14, FY 14-15
Pass-Through Entity: Indiana Department of Education

Internal Controls

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement. 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.

The School Corporation had not designed or implemented adequate policies and procedures to ensure that the Annual Financial Reports, Verification Summary Reports, and the Monthly Sponsor Claims were accurate. One employee was solely responsible for preparing and submitting all required reports. There was no segregation of duties, such as an oversight, review, or approval process.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

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."

Compliance

The School Corporation was required to complete and submit an Annual Financial Report (AFR) at the end of each fiscal year. The information reported in the AFR should have reflected the financial transactions and position of the School Lunch fund as well as be supported by the accounting records. Amounts reported in the AFR could not be traced to the records. Additionally, the School Corporation was required to complete and submit a Verification Summary Report each school year. This report should have reflected the amount of verifications completed on applications submitted during the school year. This report was not supported by the records for the 2013-2014 school year.

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. . . ."

The failure to establish internal controls enabled 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 Reporting compliance requirements.

PORTER TOWNSHIP SCHOOL CORPORATION
FEDERAL FINDINGS
(Continued)

FINDING 2015-009 - ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES, MAINTENANCE OF EFFORT, AND PERIOD OF AVAILABILITY

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years: 14213-050-PN01, 14214-050-PN01, 14215-050-PN01,
99914-050-TA01, 45714-050-PN01, 45715-050-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation had not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Maintenance of Effort, and Period of Availability. 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 grant.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Over 95 percent of the grant expenditures were for payroll and related benefit costs for special education personnel. One employee was responsible for the preparation, recording, and payment of the biweekly payroll and related benefit costs. There was no evidence of an oversight or review process. Policies or procedures had also not been designed or implemented to ensure that required periodic certifications are prepared for all personnel paid solely from federal funds or that timesheets for hourly employees indicate the program or fund from which the employee would be paid.

Maintenance of Effort

The School Corporation had not designed or implemented policies and procedures to ensure that the Maintenance of Effort (MOE) calculation was accurate or that supporting documentation was maintained. One individual calculated and reported the MOE. An oversight, review, or approval process has not been established.

Period of Availability

The School Corporation expended the available funds in advance of the end of the period of availability. However, evidence of a review process was not noted to ensure that grant funds were disbursed within the period of availability and that expenditures were not made from expired grant funds.

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, 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.

PORTER TOWNSHIP SCHOOL CORPORATION
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 have enabled 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 listed above.



Porter Township School Corporation

248 South 500 West, Valparaiso, IN 46385 • 219.477.4933, ext. 1000 • Fax 219.477.4834

Office of the Superintendent
STACEY M. SCHMIDT, Ph.D.
Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Jessica Holmquest, Food Service Director
Aline Busse, Business Manager/Treasurer

Contact Phone Number: J. Holmquest 219-477-4933 x2141

Views of Responsible Official: Aline Busse

All records audited were done by our previous Food Service Director. She left June 30, 2015. Our new Food Service Director, Jessica Holmquest, started July 1, 2015. Food Service started using the current POS program, Meal Magic in January 2015. Reports & records changed after January 2015.

Description of Corrective Action Plan:

We now use a new Point of Sale program called Meal Magic. Cafeteria managers have assured us that the daily report will/does match the end of day deposits. This daily report is attached to the deposit slip that is given to the building manager. Each cashier counts and balances their register with their daily report and then gives the paperwork and cash to the manager to verify. The manager is to recount the cash and verify that it balances with the daily cashier report. The cashier and the manager have been directed to initial each report verifying each daily deposit. The manager is to lock the deposit bag.

The corporation Deputy Treasurer receives and takes each locked deposit bag to the bank. A copy of each daily register report will be given to her at the time the deposit bag is dropped off. She will verify and initial the daily report with the bank generated deposit slip before she sends it to the Food Service Director for receipt posting.

Anticipated Completion Date:
This will begin start May 16, 2016.
The Food Service Director will be back from maternity leave & meet with all managers.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)



Porter Township School Corporation

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Office of the Superintendent
STACEY M. SCHMIDT, Ph.D.
Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-002

Contact Person Responsible for Corrective Action: Aline Busse
Contact Phone Number: 219-477-4933

Views of Responsible Official: Aline Busse

The Business Manager did not realize that she should have had a second person verify the SEFA report before entering the information in Gateway.

Description of Corrective Action Plan:

The Business Manager will now work with the Deputy Treasurer to verify all SEFA information. The Deputy Treasurer will sign off on documentation verifying the information is correct. A hard copy of the report and all supporting documents/reports from the financial software system will be provided to the Assistant Superintendent for review and signature. The Business Manager will put all information in Gateway after report is approved by the Assistant Superintendent.

Anticipated Completion Date:
This will begin with the 2016 AFR.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)



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ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Jessica Holmquest
Aline Busse

Contact Phone Number: 219-477-4933 x2141
219-477-4933 x1103

Views of Responsible Official: Jessica Holmquest

All records audited were done by our previous Food Service Director. She left June 30, 2015. Our new Food Service Director, Jessica Holmquest, started July 1, 2015. Food Service started using the current POS program, Meal Magic in January 2015. Reports & records changed after January 2015.

- 1) All capital assets are updated bi-annually and it was thought that we were compliant with all the items being reported.
- 2) Free and Reduced applications are verified by the Food Service Director after the POS software pulls a random 3% of applications from their files.

Description of Corrective Action Plan:

- 1) The Food Service Department inventory shall be updated and maintained in accordance with all statutory, regulatory and local Board of School Trustees' policies regarding equipment inventories. The corporation has asset software that is maintained by our facility administrative assistant. It has been brought to her attention that all food service equipment is to be recorded as being purchased with federal funds.

The Food Service Director will have each building manager do a written listing of all equipment in the kitchen at the end of the school year to begin an updated running inventory.

- 2) The current POS Meal Magic software program actually generates letters for a random 3% of free/reduced application verification. The Food Service Director mails each letter out and maintains a copy for her files. A second letter is sent out after the required response time has lapsed. A copy of this letter is maintained in the files as well. If no verification is received for a student, the parent is notified with another POS generated letter, advising that the student will go to full price breakfast and lunch.

When verification is received, the HS manager will verify that the information is correct and then give it to the Food Service Director. The Food Service Director then pulls up the Meal Magic application and enters the required verification information received. The POS system generates a letter for mailing of the verification. A copy of each letter generated and mailed is kept in the office files.

Anticipated Completion Date:

- 1) This will be updated at the end of the 2015-2016 school year.
- 2) The POS currently does the letter/verification service.

The HS manager will sign-off on verification beginning with the 2016-2017 school year.

Aline Busse

(Signature)

Business Manager

(Title)

5/5/2016

(Date)



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Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Jessica Holmquest, Food Service Director
Aline Busse, Business Manager/Treasurer

Contact Phone Number: J. Holmquest: 219-477-4933 x 2141
A Busse: 219-477-4933 x 1103

Views of Responsible Official:

1. We concur that during the audit period a portion of various non-Food Service employees' salaries were charged to the Food Service Fund as a cost-sharing measure for corporation wide operating costs. No time and effort logs were maintained since 2010 when this practice began.
2. Time cards were calculated by employee and verified by supervisor, but errors were present.

Description of Corrective Action Plan:

1. The cost-sharing measure will be updated each school year with the principals of each building advising who will be doing lunch duties and the times of services. This list will be approved by the Food Service Director after calculations have been done by the Business Manager. The Food Service payroll is processed in the central office and reimbursed on a monthly basis. The non-service employees' charges are listed on payroll distribution and deduction reports and a monthly report will be sent with each month's payroll reimbursement request. The distribution and deduction reports will verify the annual breakout approved at the beginning of each school year.
2. As of April 2016, we have moved to OnTheClock.com for all hourly employees. The system automatically calculates each employee's time so no future math errors should occur.

Anticipated Completion Date:

1. New calculations were done in March 2015.
1. This will be updated annually beginning with the 2016-2017 school year.
2. This started with the April 22, 2016 payroll.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)



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Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-005

Contact Person Responsible for Corrective Action: Jessica Holmquest, Food Service Director
Aline Busse, Business Manager/Treasurer

Contact Phone Number: Jessica Holmquest: 219-477-4933 x 2141
Aline Busse: 219-477-4933 x 1103

Views of Responsible Official: Aline Busse

All records audited were done by our previous Food Service Director. She left June 30, 2015. Our new Food Service Director, Jessica Holmquest, started July 1, 2015.

During the audit period there were no adequate records maintained regarding the Food Service Fund cash balance being limited to three month's average expenditures. Mrs. Holmquest was hired as our Food Service Director July 1, 2015, therefore none of the audited records were prepared under her supervision.

Description of Corrective Action Plan:

A spreadsheet that will compute a 3-month expenditure rolling average amount will be created and used to compare with the month-end cash balance of the Food Service fund. These amounts and balances will be taken from the monthly financial software expenditure and fund reports, copies of which will be retained with the monthly Food Service Department and Business Manager Office fund reports and bank reconciliation records. The Food Service Director will prepare the monthly bank reconciliation and balance calculation and then send records to the Business Manager for review and approval. The Business Manager will work with the Deputy Treasurer with all monthly documentation to complete a 3-month expenditure average and bank reconciliation review and approval. The spreadsheet and supporting documentation shall be retained with the monthly bank reconciliation report in accordance with state and federal record guidelines.

Anticipated Completion Date:
This plan will begin with the May 2016-month end.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)



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Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-006

Contact Person Responsible for Corrective Action: Jessica Holmquest, Food Service Director
Aline Busse, Business Manager/Treasurer

Contact Phone Number: Jessica Holmquest: 219-477-4933 x 2141
Aline Busse: 219-477-4933 x 1103

Views of Responsible Official: Aline Busse

The Board did not approve bids or verify that vendors were not suspended or debarred from participation in federal programs.

The previous Food Service Director rejected the lowest bread bid for the 2014/2015 school year and stated the reason for the rejection to NWIESC and then in turn awarded the bid to the highest bidder instead of to the next lowest bidder. It is unknown why she did this.

Description of Corrective Action Plan:

As a member of the Northwest Indiana Education Service Center (NWIESC) the school corporation annually participates in a cooperative bid for bread and milk to be used in the School Lunch Program. The bid documents from the Service Center will include the certification for the Suspension/Debarment requirement for any bidding process. Acceptance of the most responsive and responsible vendors from the NWIESC cooperative bids for bread and milk shall be recommended by the Food Service Director to the Superintendent for presentation to the Board of School Trustees for approval. The minutes of the Board meeting at which the recommendation is acted upon shall serve as documentation of the acceptance of these vendors' bids.

The Food Service Director will now follow Indiana Code 5-22-7-8 maintaining all documentation for bids as well as presenting them to the Superintendent for Board of School Trustee approval.

A copy of all bids and Board minutes will be kept in the office files.

Anticipated Completion Date:

This plan will begin with the 2016-2017 school year.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)



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Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-007

Contact Person Responsible for Corrective Action: Jessica Holmquest, Food Service Director
Aline Busse, Business Manager/Treasurer

Contact Phone Number: Jessica Holmquest: 219-477-4933 x 2141
Aline Busse: 219-477-4933 x 1103

Views of Responsible Official: Aline Busse

The previous Food Service Director did not set-up Fund 8400 for Pre-Paid Food collections.

Description of Corrective Action Plan:

The Food Service Director has been preparing to establish the Pre-Paid Food clearing account. The department needs to update their software program. After the updated software program is purchased and all records set-up, the clearing account 8400 will be established. All lunch and breakfast program income will be deposited into the 8400 clearing account as it is received. Monthly income will be transferred and recorded to the appropriate accounts in the Food Service Fund 0800. All income recognition will be documented through the Food Service Meal Magic software program Daily Cash received reports and any other supporting documentation as the program can produce. This will be done by the Food Service Director on no less than a monthly basis. The balance of pre-paid food funds that remain in the clearing account at the end of each month shall be balanced with the roster of student account balances as maintained by the Meal Magic student account system records. A month-end summary report of the roster will be provided to the Business Manager and be reviewed and included with the month end bank reconciliation documentation. The Deputy Treasurer shall verify and initial all reports balance. All documentation will be maintained with the month-end bank reconciliation records.

Anticipated Completion Date:

This plan will begin with the 2016-2017 school year.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)



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Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-008

Contact Person Responsible for Corrective Action: Jessica Holmquest, Food Service Director
Aline Busse, Business Manager/Treasurer

Contact Phone Number: Jessica Holmquest: 219-477-4933 x 2141
Aline Busse: 219-477-4933 x 1103

Views of Responsible Official: Aline Busse

The previous Food Service Director did not have any additional personnel verify reports and balances.

Description of Corrective Action Plan:

The current Food Service Director will prepare the monthly reimbursement reports, Annual Financial Report and any other required reports. The high school manager will review and verify all documentation for the reimbursement reports. The high school manager will review and approve all other documentation for the preparation of the Annual Financial Report and all other required reporting. All documentation shall be initialed and maintained in the file with each report.

The Food Service Director sends documentation to the central office with the monthly total reimbursement request to be recorded with the ACH deposit received. This report is filed with the monthly receipt. All documentation will be verified by the HS manager prior to filing the state reimbursement request.

Anticipated Completion Date:

The high school manager reviews will begin with the 2016-17 school year.
The monthly reimbursement reports started with the 2015-16 school year.

Aline Busse

(Signature)

Business Manager

(Title)

5/5/2016

(Date)



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Superintendent

BEN PARRISH
Assistant Superintendent

ALINE BUSSE
Business Manager/Treasurer

CORRECTIVE ACTION PLAN

FINDING 2015-009

Contact Person Responsible for Corrective Action: Ms. Quinn Van Rys, CFO (PCES)
Porter County Education Services Cooperative
Aline Busse, Business Manager/Treasurer

Contact Phone Number: Quinn Van Rys: 219-850-1911
Aline Busse: 219-477-4933 x 1103

Description of Corrective Action Plan:

- 1) Activities Allowed, Allowable Costs and Period of Availability: PCES hourly employees' time sheets will be matched with the payroll accounting code report that indicates which employees were paid from which accounts. The report and time sheets will be reviewed to insure correct payment of personnel and such review evidenced by the PCES CFO (initial & date). The certified teaching staff hired by the PCES board specifically for special education are for grant eligible positions. Certified staff members and the account codes from which they are paid are also included with the payroll code report review process.
- 2) Period of Availability: Monthly, PCES personnel review the summary of receipts and expenditures for each grant fund. A comparison of YTD receipts, expenditures, and total approved budget amounts for each grant provides on-going monitoring to determine the amount of grant funds still available for expenditure. Once the budget amount has been expended, the grant fund accounts are closed (deactivated) so that additional expenditures from a subsequent period cannot be charged to the completed grant. Such review will be evidenced by initial and date of the PCES reviewer.
- 3) Level of Effort- Maintenance of Effort (MOE): PCES personnel calculate the member corporations' MOE each fiscal year. PCES will complete the calculation, summarize the underlying data, and provide that information to each member district for review/acknowledgement and evidence of such by the member district. PCES will maintain this evidenced documentation for audit review.

Anticipated Completion Date:
This will begin with the 2016-17 school year.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)

PORTER TOWNSHIP SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS

The School Board failed to approve an annual salary ordinance for non-certified staff. Wages were maintained on a spreadsheet and updated when a raise was approved. However, the School Board failed to approve the wages paid to the non-certified staff.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)



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**PORTER TOWNSHIP SCHOOL CORPORATION
AUDIT RESULT AND COMMENT**

COMPENSATION AND BENEFITS

It was assumed that when the Board of School Trustees approved the Compensation increase for Classified Staff at the September 10, 2015, school board meeting, that all raises had been approved.

Porter Township School Corporation does not have a salary schedule or ladder for classified staff for presentation to the Board. In the future, a spreadsheet listing each classified employee's name, previous base rate and the new approved base rate will be presented for the Board's approval. Any other recommendation will be recorded on the spreadsheet as well.

Aline Busse
(Signature)

Business Manager
(Title)

5/5/2016
(Date)

PORTER TOWNSHIP SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 5, 2016, with Johanna Williams, President of the School Board; Aline Busse, Treasurer; and Linda Bult, Deputy Treasurer.