

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

ELKHART COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2013 to June 30, 2015



**FILED**  
07/13/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Douglas A. Hasler Kevin Scott	07-01-13 to 11-23-16 11-24-16 to 06-30-17
Superintendent of Schools	Robert E. Haworth	07-01-13 to 06-30-17
President of the School Board	Jeri E. Stahr Dorisanne Nelsen Carolyn Morris Glen Duncan Susan C. Diaber	01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the Elkhart Community Schools (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/](http://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

May 15, 2017

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS

**FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

*Condition*

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

Lack of Segregation of Duties: The School Corporation had not separated incompatible activities related to payroll transactions and the cash reconciliation process.

*Payroll*

For salaried employees hired at the beginning of the school year, payroll rates were generated by Human Resource, uploaded by the IT department into the payroll system, and then verified by the Payroll department. For any salaried employee hired after that time, the rates were provided by Human Resource to the Payroll department and then entered into the payroll system without any oversight or review.

*Cash Reconciliation Process*

For two of the three bank reconciliations, there was no evidence to indicate that the bank reconciliations were being reviewed by anyone. There was no evidence of a follow up or review on variances identified in the June 30, 2015 reconciliation.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

*Cause*

Management of the School Corporation had not established a proper system of internal control.

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

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

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-002 - PREPARATION OF THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

*Condition*

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 federal expenditures reported on the SEFA contained the following materially errors:

1. Adult Education - Basic Grants to States program expenditures were overstated for the fiscal years ended June 30, 2014 and 2015, by \$480,340 and \$593,146, respectively.
2. Child and Adult Care Food Program expenditures were overstated for the fiscal years ended June 30, 2014 and 2015, by \$618,248 and \$756,586, respectively, and National School Lunch Program expenditures were understated by the same amounts. The error on the SEFA was due to the misclassification of expenditures for the School Corporation's snack program, which is part of the National School Lunch Program and not part of the Child and Adult Care Food Program.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

*Criteria*

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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.
- (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."

*Cause*

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

*Effect*

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2015-003 - SUSPENSION AND DEBARMENT***

Federal Agencies: U.S. Department of Agriculture, U.S. Department of Education  
Federal Programs: School Breakfast Program, National School Lunch Program,  
Summer Food Service Program for Children, Title I Grants to Local Educational  
Agencies, Career and Technical Education -- Basic Grants to States  
CFDA Numbers: 10.553, 10.555, 10.559, 84.010, 84.048  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15, 13-2305,  
14-2305, 15-2305, 13-4700-2305,  
2013-14 13-4700-2305,  
2014-15 14-4700-2305  
Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the Suspension and Debarment requirements related to the grant agreements.

The School Corporation failed to comply with the Suspension and Debarment requirements. The School Corporation had made purchases from various vendors that were paid with grant funds and no procedures were performed to ensure that these vendors were neither suspended nor debarred from conducting business with the federal government.

*Context*

This applied throughout the audit period and for several different grants.

*Criteria*

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. . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish effective internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance and to comply with the Suspension and Debarment requirements of the programs.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-004 - PERIOD OF AVAILABILITY**

Federal Agency: U.S. Department of Education

Federal Program: Career and Technical Education -- Basic Grants to States

CFDA Number: 84.048

Federal Award Numbers and Years (or Other Identifying Numbers): 13-4700-2305,  
2013-14 13-4700-2305,  
2014-15 14-4700-2305

Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with the Period of Availability requirements related to the grant agreement. Payments were approved for services that were not obligated during the Period of Availability.

*Context*

This was systemic and applied throughout the audit period.

*Criteria*

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. . . ."

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

2 CFR 200.309 states:

"A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish effective internal control enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the School Corporation.

*Questioned Costs*

There were questioned costs totaling \$14,380 which consisted of known questioned costs totaling \$10,565 and projected likely questioned cost of \$3,815 related to the Period of Availability compliance requirement.

Disbursements totaling \$3,247 from Federal Award Number 13-4700-2305 ending June 30, 2013, were obligated after the period of availability. Known disbursements totaling \$7,318 and projected likely known disbursements of \$3,815 from Federal Award Number 2013-14 13-4700-2305 ending June 30, 2014, were obligated after the period of availability.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance and to comply with the applicable Period of Availability requirements of the programs.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-005 - SPECIAL TESTS AND PROVISIONS**

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers and Years (or Other Identifying Numbers): 13-2305, 14-2305, 15-2305  
Pass-Through Entity: Indiana Department of Education

*Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with Special Tests and Provisions - Annual Report Card, High School Graduation Rate requirements related to the grant agreements.

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The School Corporation was unable to provide sufficient supporting documentation for 12 of the 25 students tested. Of the students tested, 2 did not have documentation of the oversight or approval for removing the student from the Graduation Cohort Status Reports.

*Context*

This was systemic throughout the audit period.

*Criteria*

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. . . ."

34 CFR 200.19(b) states in part:

"*High schools*—(1) *Graduation rate*. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a 'four-year adjusted cohort graduation rate,' defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class . . .

(ii) The term 'adjusted cohort' means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term 'students who transfer into the cohort' means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

(2) A student who is retained in grade, enrolls in a General Educational Development (GED) program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

ELKHART COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish effective internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the School Corporation.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance and to comply with the Special Tests and Provisions requirements of the program.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



## CORRECTIVE ACTION PLAN 2013-15 AUDIT RESPONSE

### FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action Plan: Kevin Scott and Cheryl  
Waggoner

Contact Phone Number: 574-262-5563

#### Lack of Segregation of Duties - Payroll

Elkhart Schools will establish an oversight process to review the rates implemented for salaried employees hired after the beginning of the school year. The new process will have the Human Resources Executive Assistant input salaries into the Low Associates personnel software system which in turn allows the system to edit check the amount entered by the Business Department Certified Payroll Secretary. A green checkmark should appear to confirm agreement on the contract amount to be paid.

Anticipated Completion Date: June 2017

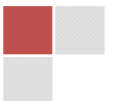
Contact Person Responsible for Corrective Action Plan: Kevin Scott

Contact Phone Number: 574-262-5563

#### Cash Reconciliation Process

Elkhart Schools will ensure a process is in place for the preparation of reconciliations in each respective area by a staff member followed by review and approval by the appropriate related administrator. As noted for School Lunch the reconciliation will be prepared by the Bookkeeper and approved by the Director. Textbook rental will be reconciled by the Business Office Purchasing Clerk and approved by the Director of Business Operations. The Corporation bank reconciliation is prepared by the Corporation Controller and approved by the Chief Financial Officer.

Anticipated Completion Date: August 2017





FINDING 2015-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

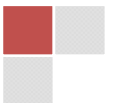
Contact Person Responsible for Corrective Action Plan: Deb Shoup

Contact Phone Number: 574-262-5537

In regard to the overstatement of CFDA #84.002, Elkhart Schools was ill informed by the state as to when federal grant monies funding this CFDA were eliminated and state monies took their place. We would look for an improvement in communication from the state in the grant approval paperwork to identify transitions from federal funding to state funding. At the local level, a review process has been put in place to ensure that money received and expended is shown under the correct CFDA number. This will be done by the Food and Nutrition Services bookkeeper and verified by the Supervisor of Accounting, Audits and Investments.

The overstatement of CFDA #10.558 which included money that should have been recorded under CFDA #10.555 has already been corrected by the school. A review process has been put in place to make sure that money received is shown under the correct CFDA number. This is done by the Supervisor of Accounting, Audits and Investments and reviewed by the Corporation Controller.

Anticipated Completion Date: April 2017





**FINDING 2015-003 - SUSPENSION AND DEBARMENT**

Contact Person Responsible for Corrective Action Plan: Pam Melcher

Contact Phone Number: 574-262-5523

The auditors finding that we did not comply with rules regarding suspension and debarment has been corrected. Elkhart Schools will now include language in its contracts that specifies that vendors being used affirm they are not subject to a suspension or debarment by the federal government. Food and Nutrition office staff members have been trained on accessing and use of the website that is used to verify companies for suspension and debarment from federal contracts. The office secretary and Director are looking up companies who are new vendors or part of the bid process on the website and the Bid and Commodity Coordinator is signing off on the results. The log will be kept for future proof and reference.

Anticipated Completion Date: June 2017

**FINDING 2015-004 - PERIOD OF AVAILABILITY**

Contact Person Responsible for Corrective Action Plan: David Benak

Contact Phone Number: 574-262-5670

The audit finding regarding costs being paid outside of the period of availability for Carl Perkins grants has been resolved through discussions between the Director of Accounting, Audit and Investment and the Grant Administrator. The Grant Administrator fully understands and supports that items purchased for Perkins grants shall be obligated no later than the final day of the grant period as outlined in the grant documents. This procedure was implemented prior to the end of the audit work.

Anticipated Completion Date: April 2017





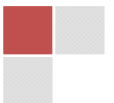
FINDING 2015-005 - SPECIAL TESTS AND PROVISIONS

Contact Person Responsible for Corrective Action Plan: Tony England

Contact Phone Number: 574-262-5540

The audit finding that withdrawal forms for students were unavailable for audit has been remedied by adding the withdrawal or transfer to home school form to the list of permanent documents to be kept by Student Services. The document will have the signature of the administrator or his administrator designee. This procedure will start immediately with 2016-17 school year.

Anticipated Completion Date: July 2017



ELKHART COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The financial statements presented in this report included the following funds with overdrawn cash balances at June 30, 2014, and June 30, 2015:

Fund	June 30, 2014 Amount Overdrawn	June 30, 2015 Amount Overdrawn
General	\$ 3,532,934	\$ 2,821,987
Debt Service	1,323,163	-
Retirement/Severance Bond Debt Service	343,936	-
School Transportation	1,001,596	-
Construction 2014	1,080	-
Joint Service and Supply - Other	4,394	4,394.00

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

**SUPPORTING DOCUMENTATION**

Documentation was not available to verify that deposits were made completely for two of the ten receipts tested.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 5-13-6-1(c) states in part: ". . . Public funds deposited . . . shall be deposited in the same form in which they were received."

**PREPAID ACCOUNTS**

The School Corporation did not comply with state requirements for accounting for program income generated from the operation of the food service program. All receipts from sales, as well as prepayments, were recorded directly into the School Lunch fund. Prepayments were not recorded in a Prepaid Food fund and regularly allocated to the appropriate School Lunch fund during the audit period.

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 Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items. (The School Administrator, Vol. 183)



## CORRECTIVE ACTION PLAN 2013-15 AUDIT RESPONSE

Contact Person Responsible for Corrective Action: Erica Purvis

Contact Phone Number: 574-262-5562

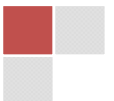
### AUDIT RESULTS AND COMMENTS

#### OVERDRAWN CASH BALANCES

The audit report cited negative cash balances for the General Fund, Debt Service, Retirement/Severance Bond Debt Service, School Transportation, Construction 2014 and Joint Service and Supply (Other) as of June 30, 2014 and for the General Fund and Joint Service and Supply (Other) as of June 30, 2015. The circumstances of each of these funds are addressed separately, as follows:

**General Fund** - A negative cash balance of \$3,532,934 as of June 30, 2014 and of \$2,821,987 as of June 30, 2015 was cited in the audit report. Negative cash balances of this magnitude occur on an annual basis in the General Fund. This results from issuing checks for final contract payments to teaching staff who have completed their school year employment contracts at the end of May, or early June, with the balance of such payments occurring on the second payroll date in June. As a result, the second June payroll constitutes payment for the equivalent of 4 or 5 payrolls (out of 26 annual payroll payments). The total cash balance for all other funds is well in excess of the negative cash balance that occurs in June for the General Fund. By the end of the established budget year (January-December), the General Fund cash balance returns to a positive. As we approached the end of the 2015 budget year, I anticipate a General Fund cash balance greater than \$4 million.

**Debt Service** - A negative cash balance of \$1,323,163 as of June 30, 2014 was cited in the audit report. The Elkhart County Treasurer distributed our property tax, license excise and property tax replacement on July 1, 2014. These tax distributions are usually received in the month of June, prior to the end of the six





month reporting period. Elkhart Schools decided not to seek funding through a temporary loan to cover the negative balance as this would incur additional (and in our view, unnecessary) interest cost. The County distribution eliminated the negative balance in the fund.

**Retirement/Severance Bond Debt Service** - A negative cash balance of \$343,936 as of June 30, 2014 was cited in the audit report. The Elkhart County Treasurer distributed our property tax, license excise and property tax replacement on July 1, 2014. These tax distributions are usually received in the month of June, prior to the end of the six month reporting period. Elkhart Schools decided not to seek funding through a temporary loan to cover the negative balance as this would incur additional (and in our view, unnecessary) interest cost. The County distribution eliminated the negative balance in the fund.

**School Transportation** - A negative cash balance of \$1,001,596 as of June 30, 2014 was cited in the audit report. The Elkhart County Treasurer distributed our property tax, license excise and property tax replacement on July 1, 2014. These tax distributions are usually received in the month of June, prior to the end of the six month reporting period. Elkhart Schools decided not to seek funding through a temporary loan to cover the negative balance as this would incur additional (and in our view, unnecessary) interest cost. The County distribution eliminated the negative balance in the fund.

**Construction 2014** - A small negative cash balance of \$1,080 as of June 30, 2014 was cited in the audit report.

**Joint Service and Supply (Other)** - A small negative cash balance of \$4,394 has existed in this fund, which was maintained in order for Elkhart Schools to fulfill its duties as administrative agent for the North Central Energy Cooperative (a consortium of Indiana school corporations). These costs reflect fees incurred by Elkhart Schools, primarily for legal services, on behalf of the Cooperative. Elkhart Schools will be billing the other participating school corporations for their share of these costs in order to eliminate this negative cash balance.





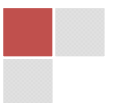
The School Corporation respectfully rejects the notion that the negative cash balances cited in this audit reflect serious financial problems. In the case of the General Fund, the negative cash balance occurring at the end of June is not indicative of the cash position of the fund throughout the budget year, and especially at the end of the budget year. In addition, the School Corporation has made a prudent decision to minimize its interest cost payments by not entering into temporary loans for a fund that experiences a short-term negative cash balance since cash balances from other funds are available to offset the negative cash balance that has prevailed in the General Fund at the end of June.

#### DEPOSITS INTACT

The audit report cited that they were unable to verify that two of the ten deposits selected for auditing were made intact during the receipt test. State law requires that every receipt be deposited intact, in the same form in which it is received. This means that all receipts being deposited must show the same cash and check amounts being deposited as were shown as being receipted into the financial records.

Elkhart Schools usually keeps all supporting documentation in their business office until after an audit of its records has been completed by the State Board of Accounts. A number of factors caused the audit of our July 1, 2013 - June 30, 2015 to take place almost two years later than usual. The business department of the school also went through multiple personnel changes. These factors led to one box of supporting documentation for the **July 1 - December 31, 2013** period under audit to be removed from the business office. The box could not be located for the audit. The school will correct this going forward by continuing with its practice of keeping unaudited records in the business office until after the auditors have performed their audit.

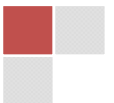
#### PREPAID ACCOUNTS





**ELKHART**  
COMMUNITY SCHOOLS

The audit report cited the school had not properly set up a separate prepaid meal fund. This will be rectified by the school Controller and Food Service Director working together to get a separate Prepaid Student Account fund set up to include posting of prepayments and appropriate accounting transactions to be made.



ELKHART COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on May 15, 2017, with Kevin Scott, Treasurer; Robert E. Haworth, Superintendent of Schools; Susan C. Diaber, President of the School Board; and Karen S. Carter, Vice President of the School Board.