

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MARION COMMUNITY SCHOOLS

GRANT COUNTY, INDIANA

July 1, 2013 to June 30, 2015



**FILED**  
09/08/2017



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	James E. McWhirt	07-01-13 to 12-31-13
	Patricia Nauman (interim)	01-01-14 to 01-13-14
	Christopher Hoke	01-14-14 to 06-21-15
	Dr. Robert W. Schultz	06-22-15 to 06-30-18
Superintendent of Schools	Brad Lindsay	07-01-13 to 06-30-18
President of the School Board	Katie Morgan	01-01-13 to 12-31-13
	Gregg Kitts	01-01-14 to 12-31-14
	Scott Murphy	01-01-15 to 12-31-15
	Dr. Harry Hall	01-01-16 to 07-31-16
	Aaron Vermilion	08-01-16 to 12-31-17



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE MARION COMMUNITY SCHOOLS, GRANT COUNTY, INDIANA

This report is supplemental to our audit report of the Marion 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 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.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

July 20, 2017

MARION COMMUNITY SCHOOLS  
FEDERAL FINDINGS

**FINDING 2015-001**

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Other Matter

*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). One person prepared and submitted the SEFA without oversight, review, or approval process or other control to ensure its accuracy.

During the audit of the SEFA, there were the following errors:

1. The SEFA was underreported by \$4,225,812 for the 2013-2014 school year. The Department of Agriculture grants and the School Improvement Grants were properly accounted for in the School Corporation records, but were not reported properly on the SEFA.
2. The SEFA was underreported by \$2,520,998 for the 2014-2015 school year.

These errors were due to some grants being omitted from the School Corporation's original SEFA and others were incorrectly reported. The omitted grants were properly accounted for in the School Corporation records.

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:

"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. . . ."

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 § \_\_\_\_\_.310. . . ."

MARION COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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.

MARION COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2015-002***

Subject: School Breakfast Program and National School Lunch Program - Cash Management  
Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013/2014, FY 2014/2015  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Cash Management  
Audit Findings: Material Weakness, Other Matter

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Cash Management compliance requirement.

The School Corporation failed to comply with the Cash Management requirement that they limit their net cash resources in the School Lunch fund to an amount that did not exceed three months average expenditures for its nonprofit school food service.

*Context*

The balance in the School Lunch fund exceeded the three months average expenditures throughout the audit period; therefore, this was a systemic issue.

*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. . . ."

7 CFR 210.14(b) states: "*Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7(e) states in part:

"Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction: . . .

(iv) Limit its net cash resource 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; . . ."

*Cause*

The School Corporation had not developed a system of internal controls to ensure compliance with Cash Management requirements.

MARION COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirement could have resulted in the loss of federal fund 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 comply with the Cash Management compliance requirement.

*Views of Responsible Officials*

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

**FINDING 2015-003**

Subject: School Improvement Grants - Allowable Costs/Cost Principles  
Federal Agency: Department of Education  
Federal Program: School Improvement Grants  
CFDA Number: 84.377  
Federal Award Number and Year (or Other Identifying Number): FY2014/2015  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Allowable Costs/Cost Principles  
Audit Findings: Material Weakness, Other Matter

*Condition*

Management of the School Corporation had not established an effective internal control system related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

The School Corporation had not implemented adequate controls to ensure that Personnel Activity Reports were prepared.

*Context*

The School Corporation was unable to present Personnel Activity Reports for audit.

*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. . . ."

MARION COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

OMB Circular A-87, Attachment B, section 8h states in part:

"(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after the fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.
  - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
    - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
    - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
    - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

*Cause*

The School Corporation did not retrieve these forms from the school buildings where they were prepared.

MARION COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Effect*

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance of the grant agreement or the Allowable Costs/Cost Principles requirements that have a direct and material effect to the program could have resulted in the loss of federal fund 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 comply with the Allowable Costs/Cost Principles compliance requirement.

*Views of Responsible Officials*

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



**ROBERT W. SCHULTZ, Ph.D.**

Assistant Superintendent

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District Offices, Marion High School, 750 W. 26th St., Marion, IN 46953

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July 17, 2017

### **FINDING 2015-001**

Contact Person Responsible for Corrective Action: Robert Schultz

Contact Phone Number: 765-662-2546, ext. 143

The Marion Community Schools acknowledges inaccuracies in reporting expenditures of federal awards as submitted through gateway during the period of the audit.

#### Description of Correction Action Plan:

The primary cause of underreporting federal awards was misunderstanding on the part of MCS personnel regarding the School Lunch Fund and funds channeled through the University of Indianapolis (a program called TAP). MCS personnel inappropriately did not consider either of those sources of revenue to be federal grants and therefore neglected to report them.

For the 2014-15 reporting period, MCS personnel inappropriately used calendar year totals rather than fiscal year totals, also contributing to the inaccuracy.

Understanding all the items above is the first step in avoiding future inaccuracies. Also, grant reporting will pass through (at a minimum) three (3) separate personnel:

- The staff member responsible for monitoring the grant will review all required reporting data prior to submission.
- A member of the business staff will prepare the data for submission after reviewing the information provided in the preceding step.
- A third MCS staff member will submit the data through Gateway. The submission process will also be monitored by a separate MCS staff member.

#### Anticipated Completion Date:

All items detailed above have already been implemented and will be utilized at the next submission.

Robert W. Schultz

Assistant Superintendent and Chief Financial Officer

July 17, 2017



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July 17, 2017

## **FINDING 2015-002**

Contact Person Responsible for Corrective Action: Robert Schultz

Contact Phone Number: 765-662-2546, ext. 143

The Marion Community Schools acknowledges the monthly cash balance in the School Lunch Fund exceeded the threshold of 3 months average expenditures throughout the period of the audit.

### Description of Correction Action Plan:

Due to the age and condition of food preparation and serving equipment in throughout Marion Community Schools, renovations are being planned for all buildings. Replacement of older equipment, as well as purchase of newer, more efficient preparation equipment, is planned for all 7 corporation buildings. New serving lines are being planned at Marion High School, McCulloch Middle School, and Justice Intermediate School.

Implementation of "Breakfast in the Classroom" at Allen Elementary, Frances Slocum Elementary, Kendall Elementary, Riverview Elementary, Justice Middle School, and McCulloch Middle School will necessitate the purchase of portable coolers and carts to facilitate implementation of that program. Additionally, renovations to the overall cafeterias at Marion High School, McCulloch and Justice Intermediate School will improve and modernize overall appearance and expand ways to serve students by adding "grab and go" lines, deli lines, salad bar stations and other improvements as space allows. These changes have already begun at Marion High School, and will continue throughout the 2017-18 school year.

In addition to these physical changes, the corporation is reviewing food service wage structures and a recommendation for salary increases will be presented to the Board of School Trustees prior to the beginning of the 2017-18 school year.

From January, 2017 through June, 2017, 3 months expenditures from the MCS School Lunch Fund averaged \$617,695. The plans detailed above will reduce the monthly cash balance to fall within that threshold.

### Anticipated Completion Date:

Some items are already in the process of being implemented. Because renovation work in school cafeterias cannot be completed when students are present, work will be planned over school breaks and in the summer of 2018. The entire plan will be in effect prior to the beginning of the 2018-19 school year.

Robert W. Schultz  
Assistant Superintendent and Chief Financial Officer  
July 17, 2017



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District Offices, Marion High School, 750 W. 26th St., Marion, IN 46953

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July 17, 2017

**FINDING 2015-003**

Contact Person Responsible for Corrective Action: Robert Schultz

Contact Phone Number: 765-662-2546, ext. 143

The Marion Community Schools acknowledges the inability to produce an appropriate Time and Effort logs for the McCulloch School Improvement Grant for FY 2015.

Description of Correction Action Plan:

Although the Time and Effort logs were properly prepared at McCulloch Middle School, they were not collected and maintained by the School Corporation Grants Office as required. The following steps have been implemented to ensure future compliance with this requirement:

- Personnel at the building level will ensure Time and Effort logs are completed and contact the Corporation Grants Office when they are ready to submit.
- After submitting Time and Effort logs building staff will contact the Corporation Grants Office to ensure they were received.
- The Corporation Grants Office will contact each building periodically throughout the year to ensure Time and Effort logs are being completed.
- When Time and Effort logs are due the Corporation Grants Office will contact each impacted building to request delivery.
- Once received, the Corporation Grants Office will maintain Time and Effort logs in accordance with federal records retention guidelines and have them available for future audits.

Anticipated Completion Date:

Procedures detailed above have already been implemented and will continue.

Robert W. Schultz  
Assistant Superintendent and Chief Financial Officer

July 17, 2017

MARION COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2017, with Dr. Robert W. Schultz, Treasurer; Christopher Hoke, former Treasurer; James E. McWhirt, former Treasurer; Patricia Nauman, Deputy Treasurer; Brad Lindsay, Superintendent of Schools; Aaron Vermilion, President of the School Board; Robert Todd Nicholson, Board member; and Cathy Moritz, Board member.