

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

SCHOOL CITY OF MISHAWAKA

ST. JOSEPH COUNTY, INDIANA

July 1, 2014 to June 30, 2016



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Randy J. Squadroni Patricia J. Meehan Dr. Bruce N. Stahly	07-01-14 to 09-07-15 09-08-15 to 11-30-15 12-01-15 to 12-31-17
Superintendent of Schools	Dr. Terry E. Barker Dr. Daniel Towner (interim) Dr. A Dean Speicher	07-01-14 to 06-10-15 06-11-15 to 07-31-15 08-01-15 to 06-30-18
President of the School Board	Dennis R. Wood Jeffery E. Emmons	01-01-14 to 12-31-14 01-01-15 to 12-31-17



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TO: THE OFFICIALS OF THE SCHOOL CITY OF MISHAWAKA, ST. JOSEPH COUNTY, INDIANA

This report is supplemental to our audit report of the School City of Mishawaka (School Corporation), for the period from July 1, 2014 to June 30, 2016. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

December 5, 2017

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation related to financial transactions and reporting of receipts. Two employees processed receipts. While some of the receipts collected at the administration building were reviewed by someone other than the preparer, the majority of the receipts were processed without any review or oversight. Additionally, one of the two employees who processed receipts also prepared the bank reconciliations. A proper system of oversight or review was not established.

Context

The lack of internal controls was a systemic issue throughout the audit period.

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 that would have ensured proper reporting of receipts.

Effect

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

Recommendation

We recommended that the School Corporation establish a system of internal controls related to financial transactions and reporting of receipts.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

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

FINDING 2016-002

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Number and Year (or Other Identifying Number): SY14-15
Pass-Through Entity: Indiana Dept of Education
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements. Effective controls were not in place to ensure that only applicable employees were paid from program funds.

The School Corporation paid \$24,839 of the former Treasurer's administrative salary from the School Lunch fund.

Context

This was an isolated issue applicable to the SY 14-15 federal award number and only to the administrative salary of the former Treasurer.

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. . . ."

OMB Circular A-87, Attachment A, Part C. states in part:

- "1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of this Circular.
 - j. Be adequately documented. . . ."

SCHOOL CITY OF MISHAWAKA
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, . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

The \$24,839 portion of the administrative salary of the former Treasurer charged directly to the School Lunch fund was considered questioned costs.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Views of Responsible Officials

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

FINDING 2016-003

Subject: Child Nutrition Cluster - Program Income

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): SY14-15, SY15-16

Pass-Through Entity: Indiana Dept of Education

Compliance Requirement: Program Income

Audit Findings: Material Weakness, Other Matters

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

Condition

There was no effective control in place at the School Corporation that would have ensured that correct amounts for program income were entered into the School Corporation's financial accounting system from the cafeteria financial reporting system. Amounts were entered into the School Corporation's financial accounting system without a system of oversight, review, or approval.

Additionally, the School Corporation had a policy which allowed students and adults without cash or sufficient balances in their prepaid food accounts to charge meals. For the 2015-2016 school year, \$38,422 of credit was extended for meals served. The income from these meals was not included in program income at the time the meal was served. Subsequent payments made on these credit balances were never recognized as program income.

Context

This was a systemic issue, which occurred 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

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."

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. . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have ensured compliance with the Program Income compliance requirement.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement 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 comply with the Program Income 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 2016-004

Subject: Child Nutrition Cluster - Reporting
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): SY14-15, SY15-16
Pass-Through Entity: Indiana Dept of Education
Compliance Requirement: Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior audit. The prior year finding was 2014-003.

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. The Annual Financial Reports and School Food Authority (SFA) Verification Collection Reports were prepared by one individual without an oversight, review, or approval process.

Context

The lack of controls was a systemic problem, which occurred throughout the audit period.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation's management had not developed a system of internal controls that would have segregated key functions.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, to ensure compliance with the Reporting compliance requirement.

Views of Responsible Officials

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

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

FINDING 2016-005

Subject: Title I Grants to Local Educational Agencies - Activities Allowed or Unallowed, Allowable Cost/
Cost Principles, Earmarking, Reporting, and Special Tests and Provisions - Comparability

Federal Agency: 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): 13-7200, 14-7200, 15-7200,
16-7200, SY 2015-2016

Pass-Through Entity: Indiana Dept of Education

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles;
Matching, Level of Effort, Earmarking; Reporting; and Special Tests
and Provisions - Comparability

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting, Special Tests and Provisions - Comparability, and the Earmarking requirements of the Matching, Level of Effort, Earmarking compliance requirements.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Earmarking

The Accounting/Payroll Specialist updated the employee file of employees to be paid from the grant funds. There was no oversight, review, or approval process following the update to ensure that only appropriate employees were paid from the grants.

Allowable Costs/Cost Principles

There were no controls in place to ensure that time and effort logs for the private school Title I employees that were paid through the School Corporation were being monitored by someone knowledgeable about the requirements.

Reporting

The Annual Expenditure Reports were prepared by one employee with no oversight, review, or approval process to ensure accuracy. The Grant Director was notified via email when the Annual Expenditure Reports were submitted, but was not provided the details necessary to adequately review the reports.

Special Tests and Provisions - Comparability

One person prepared and submitted the Comparability report without an oversight, review, or approval process to ensure that the report was accurate.

Context

The lack of controls was a systemic issue. There were no documented controls over the compliance requirements noted in the *Condition* throughout the audit period.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

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

Effect

The failure to establish an effective internal control system placed 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 have also allowed noncompliance with the compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Reporting; and Special Tests and Provisions - Comparability compliance requirements.

Views of Responsible Officials

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

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

FINDING 2016-006

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions -
Annual Report Card, High School Graduation Rate
Federal Agency: Department of Education
Federal Program: Title I Grant to Local Education Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 14-7200, 15-7200, 16-7200,
SY 2015-2016
Pass-Through Entity: Indiana Dept of Education
Compliance Requirement: Special Tests and Provisions - Annual Report Card,
High School Graduation Rate
Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

The School Corporation reported students as missing without the documentation required for classifying a student as missing.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period. Of the 17 students tested, 3 did not have the required supporting documentation to substantiate removing them from the cohort for mobility reasons.

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

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. . . ."

Cause

The School Corporation had not established a system of internal controls that would have ensured compliance with the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement 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 - Annual Report Card, High School Graduation Rate compliance requirement

Views of Responsible Officials

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

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

FINDING 2016-007

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions -
Highly Qualified Teachers and Paraprofessionals
Federal Agency: 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): 13-7200, 14-7200, 15-7200,
16-7200, SY2015-2016
Pass-Through Entity: Indiana Dept of Education
Compliance Requirement: Special Tests and Provisions - Highly Qualified
Teachers and Paraprofessionals
Audit Findings: Material Weakness, Other Matters

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals compliance requirement.

We were unable to determine if the School Corporation complied with the Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals compliance requirement. Adequate documentation that would have verified whether paraprofessionals were highly qualified was not available for 11 of the 18 paraprofessionals selected for testing.

Context

This is a systemic issue regarding paraprofessionals, which occurred 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

34 CFR 74.53(b) states in part:

"Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary. . . ."

34 CFR 200.58 states:

"(a) *Applicability.*

- (1) An LEA must ensure that each paraprofessional who is hired by the LEA and who works in a program supported with funds under subpart A of this part meets the requirements in paragraph (b) of this section and, except as provided in paragraph (e) of this section, the requirements in either paragraph (c) or (d) of this section.
- (2) For the purpose of this section, the term 'paraprofessional' -
 - (i) Means an individual who provides instructional support consistent with § 200.59; and
 - (ii) Does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties).
- (3) For the purpose of paragraph (a) of this section, a paraprofessional working in 'a program supported with funds under subpart A of this part' is -
 - (i) A paraprofessional in a targeted assisted school who is paid with funds under subpart A of this part;
 - (ii) A paraprofessional in a schoolwide program school; or
 - (iii) A paraprofessional employed by an LEA with funds under subpart A of this part to provide instructional support to a public school teacher covered under § 200.55 who provides equitable services to eligible private school students under § 200.62.

(b) *All paraprofessionals.* A paraprofessional covered under paragraph (a) of this section, regardless of the paraprofessional's hiring date, must have earned a secondary school diploma or its recognized equivalent.

(c) *New paraprofessionals.* A paraprofessional covered under paragraph (a) of this section who is hired after January 8, 2002 must have -

- (1) Completed at least two years of study at an institution of higher education;
- (2) Obtained an associate's or higher degree; or
- (3)

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

(i) Met a rigorous standard of quality, and can demonstrate - through a formal State or local academic assessment - knowledge of, and the ability to assist in instructing, as appropriate -

(A) Reading/language arts, writing, and mathematics; or

(B) Reading readiness, writing readiness, and mathematics readiness.

(ii) A secondary school diploma or its recognized equivalent is necessary, but not sufficient, to meet the requirement in paragraph (c)(3)(i) of this section.

(d) *Existing paraprofessionals.* Each paraprofessional who was hired on or before January 8, 2002 must meet the requirements in paragraph (c) of this section no later than January 8, 2006.

(e) *Exceptions.* A paraprofessional does not need to meet the requirements in paragraph (c) or (d) of this section if the paraprofessional -

(1)

(i) Is proficient in English and a language other than English; and

(ii) Acts as a translator to enhance the participation of limited English proficient children under subpart A of this part; or

(2) Has instructional-support duties that consist solely of conducting parental involvement activities."

Cause

The School Corporation had not established a proper system of internal controls that would have ensured that adequate supporting documentation was complete and maintained for audit to ensure compliance with the grant agreement and the Special Tests and Provisions - Highly Qualified Teacher and Paraprofessionals compliance requirement.

Effect

The failure to maintain and provide adequate supporting documentation prevented the determination of the School Corporation's compliance with the Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure that adequate documentation was maintained relating to the Special Tests and Provisions - Highly Qualified Teacher and Paraprofessionals compliance requirement.

Views of Responsible Officials

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

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

FINDING 2016-008

Subject: Special Education_Grants to States - Activities Allowed or Unallowed,
Allowable Costs/Cost Principles, Period of Performance
Federal Agency: Department of Education
Federal Program: Special Education_Grants to States
CFDA Number: 84.027
Federal Award Numbers and Years (or Other Identifying Numbers): 14215-041-PN01, 14216-039-PN01
Pass-Through Entity: Indiana Dept of Education
Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/
Cost Principles, Period of Performance
Audit Finding: Material Weakness, Modified Opinion

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance compliance requirements. There were no controls in place to ensure that all expenditures charged to the grant fund were for allowable activities, were allowable costs, and were obligated within the period of performance.

The following disbursements charged to the Special Education_Grants to States were paid without adequate documentation to ensure compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and the Period of Performance compliance requirements, and are, therefore, considered questioned costs:

1. The School Corporation paid retirement benefits, including severance of \$200 and health insurance of \$4,600 which were not necessary and reasonable for the performance and administration of the grant related to Federal Award Number 14215-041-PN01.
2. Three speech pathologists were paid 100 percent from the Special Education grant. Documentation of personnel activity showed that the employees worked only 21 to 42 percent of their time on Special Education activities; the remainder should have been paid from the General fund.

Based upon the documentation of personnel expenses for the 2014-2015 and 2015-2016 contract years, \$135,704 of the speech pathologists' salaries were over-allocated to the Special Education grant: \$22,977 from Federal Award Number 14215-041-PN01 and \$112,727 from Federal Award Number 14216-039-PN01.

3. Expenditures originally paid from non-grant funds were transferred to the Special Education grant without adequate documentation. The only documentation was a sheet of paper from the former Director which indicated the funds and the amounts (\$94,676) involved. The supporting documentation was not adequate to determine if the original transactions were for allowable activities, were allowable costs, and were obligated within the period of performance. Of the total expenditures transferred, \$62,192 was to Federal Award Number 14215-041-PN01 and \$32,484 to Federal Award Number 14216-039-PN01.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

Context

The lack of controls and the noncompliance were systemic issues which occurred throughout the audit period. Additionally documentation was not provided to support the transfers identified in the *Condition*.

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-87, Attachment A, Part C. states in part:

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

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- j. Be adequately documented. . . ."

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, . . .

(5) Personnel activity reports or equivalent documentation must meet the following standards:

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

- (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 . . ."

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (j) Be adequately documented. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (iv) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

34 CFR 80.23 states:

"(a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;
- (c) The share of that cost provided from other sources; and
- (d) Other records to facilitate an effective audit."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

Cause

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance compliance requirements. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to the transfers identified in the *Condition*.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirements could have resulted in the loss of federal funds to the School Corporation. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to the transfers identified in the *Condition*.

Questioned Costs

There were known questioned of \$235,180 as detailed in the *Condition*. Of these questioned costs \$89,969 were from Federal Award Number 14215-041-PN01 and \$145,211 were from Federal Award Number 14216-039-PN01.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance compliance requirements. Additionally, we recommended that the School Corporation's management establish controls to ensure supporting documentation is maintained.

Views of Responsible Officials

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

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

FINDING 2016-009

Subject: Special Education_Grants to States - Suspension and Debarment
Federal Agency: Department of Education
Federal Program: Special Education_Grants to States
CFDA Number: 84.027
Federal Award Number and Year (or Other Identifying Number): 14215-041-PN01
Pass-Through Entity: Indiana Dept of Education
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Modified Opinion

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

The School Corporation did not perform any procedures to ensure compliance with requirements regarding verification that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

Context

The lack of controls and the noncompliance applied to the only contract awarded during 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. . . ."

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 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

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

Effect

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement 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 Procurement and Suspension and Debarment 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 2016-010

Subject: Special Education Cluster (IDEA) - Level of Effort

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 (or Other Identifying Numbers): 14216-039-PN01, 14215-041-PN01
45716-039-PN01, 45715-041-PN01

Pass-Through Entity: Indiana Dept of Education

Compliance Requirement: Matching, Level of Effort, Earmarking

Audit Findings: Material Weakness, Modified Opinion

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Level of Effort - Maintenance of Effort (MOE) requirements of the Matching, Level of Effort, Earmarking compliance requirement.

The School Corporation did not comply with the Level of Effort - MOE requirements. The School Corporation did not meet either of the two tests provided by the Indiana Department of Education used to determine compliance with the MOE requirements. The financial information and the child count included in the fiscal year 16 MOE calculation portion of the grant application did not agree to the supporting documentation. After recalculating the MOE using the information from the supporting documentation, the School Corporation did not comply with the MOE requirements.

Context

This was a systemic issue throughout the audit period. Controls were not properly designed to ensure compliance with the Level of Effort - MOE requirements of the Matching, Level of Effort, Earmarking compliance requirement. In addition, the amounts reported for MOE were not supported by the School Corporation's records.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 80.20 states in part:

"(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) 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 . . ."

34 CFR 76.702 states: "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

34 CFR 299.5(a) states:

"*General.* An LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the SEA finds that either the combined fiscal effort per student or the aggregate expenditures of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year."

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation had not established a proper internal control structure that would have ensured compliance with the grant agreement, and the Level of Effort - MOE requirements of the Matching, Level of Effort, Earmarking compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement 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 comply with the Matching, Level of Effort, Earmarking 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 2016-011

Subject: Special Education Cluster (IDEA) - Reporting

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 (or Other Identifying Numbers): 14216-039-PN01, 14215-041-PN01,
45716-039-PN01, 45715-041-PN01

Pass-Through Entity: Indiana Dept of Education

Compliance Requirement: Reporting

Audit Finding: Material Weakness

Condition

The School Corporation had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement.

There was no oversight in completing the December 1 child count. One person prepared the report without an oversight, review, or approval process to ensure it was accurate before the application was submitted.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

SCHOOL CITY OF MISHAWAKA
FEDERAL FINDINGS
(Continued)

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 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation had not established a proper internal control structure that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Reporting compliance requirement.

Views of Responsible Officials

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



School City of Mishawaka

Creating a Culture of Excellence

Introduction of Corrective Action Plans:

As noted in the audit findings report, School City of Mishawaka had many personnel changes during the audit period from July 1, 2014 to June 30, 2016. Some of these changes undoubtedly have influenced these audit findings. Below I have indicated all of these personnel changes within the School City of Mishawaka Business Department and the Special Education Department during this audit period:

- Business Manager and Treasurer change: Randy Squadroni was the SCM Business Manager from the beginning of this audit period through October, 2015 when he retired.
- Assistant Superintendent change: Bruce Stahly was appointed as the Assistant Superintendent of Business Services on December 1, 2015.
- Assistant Business Manager and Deputy Treasurer change: Patty Meehan was the SCM Assistant Business Manager from the beginning of this audit until December 4, 2015.
- Director of Special Education – Pam VonRahl was the Special Education Director from the beginning of this audit period until July 24, 2015 after which Barbara Michalos was appointed to this position. During this period the Special Education Cooperative with Penn Harris Madison was also dissolved.
- Accounts Receivable changes: Christine Christman from beginning of audit period until December, 2014; Yvonne Miller from December, 2014 until April, 2015; Kevin Crane from April, 2015 until July 2015, Judy Meidel from July, 2015 through July, 2016
- Accounts Payable changes: Judy Meidel from beginning of audit period until July, 2015; Kevin Crane from July, 2015 through July, 2016.
- In July, 2016, SCM hired a controller, Tracey Bolin, and Judy Meidel resumed her duties as Accounts Payable.

As Assistant Superintendent of Business Services, I am not indicating that all of these findings related to internal controls are a result of these personnel changes as any personnel changes should be accompanied by adequate training and oversight. However, when I did assume this position I did become aware almost immediately of the lack of training of key personnel and so I did request that personnel from Low Associates, our financial software vendor, provide additional training. We also contracted with a consultant to assist in training Judy Meidel, the accounts receivable employee at that time. With our present structure I do feel that the lack of internal controls cited in these findings has been greatly improved but as an organization we strive for continuous improvement so that no federal, state, or local funds have not been adequately safeguarded from theft or mishandling, and there has put in place an adequate internal controls system.

Administrative Center

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School City of Mishawaka

Creating a Culture of Excellence

FINDING 2016-001

Contact Person Responsible for Corrective Action: Tracy Bolin, Judy Meidel
Contact Phone Number: 574-254-4542

We concur with the finding.

Description of Corrective Action Plan: School City of Mishawaka now has an effective internal control plan in place that started in October 2016. The Account Payable (AP) person records the deposits and the Controller then checks for accuracy and verifies the deposit records and initials the deposit slip. The Controller also prints the receipt audit and verifies the account numbers for each receipt. This process will ensure that the receipt ledger is entered by one person and another person will review this ledger and check that the receipt is posted to the appropriate account and initial the ledger for verification. This process will prevent any unfavorable event.

Anticipated Completion Date: Additional control of having the AP person initialing the receipt audit, December 5, 2017, other controls October of 2016.

FINDING 2016-002

Contact Person Responsible for Corrective Action: Peggy Baer, Food Service Coordinator; Bruce Stahly, Assistant Superintendent; Alex Newman, CFO; Tracey Bolin, Controller; Stefanie Bell, Payroll Specialist
Contact Phone Number: 574-254-4503

We concur with these findings for the one time isolated case where SCM was not in compliance.

Description of Corrective Action Plan: The administration understands the School Corporation Treasurer's salary was not an allowable cost as part of this Federal Program during the 2014-2015 school year. Moving forward, the administration will develop a system of control procedures to ensure only allowable costs are charged to the Food Service program. This will include training of appropriate central office staff, in addition to periodic expenditure reviews between the Business and Food Service departments. In the future any contracted or hourly person who is paid a portion of his/her salary from Federal Funds must document either the proportion of salary paid or hours of time spent on those duties. This can be done either by timecards in the case of an hourly person or on a weekly form kept by the employee and the payroll specialist in the case of an administrator. This will ensure that only applicable employees are paid from any federal funds.

Anticipated Completion Date: Discontinued by November of 2015; Action plan to avoid in future – December 5, 2017

FINDING 2016-003

Contact Person Responsible for Corrective Action: Peggy Baer, Food Service Coordinator; Lisa Hab, Administrative Assistant; Tracey Bolin, Controller
Contact Phone Number: 574-254-4508

Views of Responsible Official: We concur with the finding.

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Description of Corrective Action Plan: The administration understands proper control procedures were not in place to ensure correct amounts of program income were entered in the financial accounting system. Moving forward, the Controller will print, sign, and share a copy of the monthly receipt with the Food Service department to ensure it was done accurately. The Food Service department will sign the receipt and file it for future documentation.

Additionally, the administration realizes amounts charged on account to both students and adults was not recognized as program income when monthly totals were communicated to the Controller. This has been reviewed with the Food Service department and these totals will be included as program income moving forward.

Anticipated Completion Date: January 31st, 2018

FINDING 2016-004

Contact Person Responsible for Corrective Action: Peggy Baer, Food Service Coordinator; Lisa Hab, Administrative Assistant; Alex Newman, CFO

Contact Phone Number: 574-254-4508

Views of Responsible Official: We concur with the finding, but as noted on the audit findings, there were no questionable costs identified.

Description of Corrective Action Plan: The administration understands there was a lack of internal control pertaining to the submission of the Annual Financial Report and Verification Summary Reports. Moving forward, both the Food Service Coordinator the department's Administrative Assistant will review and sign the Verification Summary Report. The Annual Financial Report will be prepared in the Food Service department with review and signature completed by the corporation's CFO & Director of Business Services.

Anticipated Completion Date: January 31st, 2018

FINDING 2016-005

Contact Person Responsible for Corrective Action: Grant Directors, Tracey Bolin, Controller; Stefanie Bell, Payroll Specialist

Contact Phone Number: 574-254-4503

We concur with the findings of inadequate procedures to ensure that only appropriate employees are paid from grant funds.

Description of Corrective Action Plan: The Grant Director will submit to the payroll specialist the list of employees who are to be paid from a given grant fund, after the payroll specialist enters these employees into the payroll system, the payroll specialist will then print a copy of these personnel and have the Grant Director review the document and sign the document and then return it to the payroll specialist. Any time an employee is either added to or removed from payment of a given grant the payroll specialist will repeat this process. This will ensure that the payroll specialist is only paying individuals from a given grant that the Grant Director has approved and authorized. This will also ensure that the controller is only requesting reimbursement for the appropriate personnel being paid from any grant fund.

Anticipated Completion Date: December 5, 2017

FINDING 2016-006

Contact Person Responsible for Corrective Action: John Ross, Pam Driscoll

Contact Phone Number: 574-254-7305

We concur with some of these findings but not others. Due to lateness of this audit, transfer mobility records have typically been kept for five (5) years and then shredded. The requested records were shredded during the summer of 2011. Other findings about inadequate documentation of follow-up are accurate.

Description of Corrective Action Plan: First, transfer mobility records will be kept for a period of ten (10) years. Secondly, the withdrawal form signed by both the student and parent will be modified so that the parent further verifies the reason for the student withdrawing from school. In addition to this, the school will send a certified letter to a parent's given address on the withdrawal form if no request for records has been received by the Mishawaka High School officials within six (6) months. The intent of this follow-up is to verify again that the reason given for withdrawal is accurate. If this certified letter is returned to the school by the postal service as being undeliverable, the letter will be kept with the transfer mobility record for this student.

Anticipated Completion Date: December 5, 2017

FINDING 2016-007

Contact Person Responsible for Corrective Action: Darlene Cochran, Personnel Administrative Assistant

Contact Phone Number: 574-254-4522

We concur with the findings.

Description of Corrective Action Plan: As per the No Child Left Behind Act, School City of Mishawaka has followed necessary guidelines to ensure paraprofessionals are appropriately qualified upon hire. Paraprofessionals hired prior to December 5, 2017, required completion of at least 2 years of study at an institution of higher education; obtained an associate's (or higher) degree; or met a rigorous standard of quality through a formal State or local academic assessment via the Praxis Parapro Assessment exam. School City of Mishawaka will now also require any newly hired paraprofessional who cannot provide documentation of completion of at least 2 years of study at an institution of higher education or obtained an associate's (or higher) degree to provide documentation of a secondary school (high school) diploma or its recognized equivalent (GED). Paraprofessionals providing secondary documentation will also be required to successfully complete the Praxis Parapro Assessment exam.

Anticipated Completion Date: December 5, 2017

FINDING 2016-008

Contact Person Responsible for Corrective Action: Barbara Michalos; Tracey Bolin

Contact Phone Number: 574-254-4530

We concur with the finding that these expenditures were not adequately documented. We know this questionable expenditure was due to the dissolution of the Special Education Cooperative and was appropriate, but we do not possess the necessary documentation.

Exceptional Learners will develop an effective internal control system to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of performance compliance requirements to ensure that expenditures charged to the grant fund were for allowable activities.

Description of Corrective Action Plan:

1. No retirement or severance benefits will be paid from grant funds.
2. Personal Activity Reports (PAR) will be prepared by the Director of Exceptional Learners on an annual basis or any time a grant revision is made that effects staff required to account for their grant funded work hours. The PAR will be electronically sent to each staff member included in the

grant who is required to complete monthly PARs. The Director will review each PAR and sign off on each monthly sheet.

- a. The SLP salaries and benefits (100%) were included in the approved grants. The PARs were not sent out on an annual basis, and had not been updated to reflect 100% of their salaries were paid for from federal grant funds, not the general fund. The expenditures were accurate, but the individual PARs listing general fund expenditures were incorrect. What the actual grant indicated was correct, the grant listed the Speech and Language Pathologists (SLP) being divided between public (SCM Special Education) and Non-Public but the PAR indicated this as General and Federal rather than public and non-public.
3. The Director and Controller will verify any request for transfer of funds. Backup documentation will be printed and may include: payroll, claim adjustments, etc. to verify that the transfer request is for allowable activities, allowable costs, and is obligated within the period of performance.

Anticipated Completion Date: December 5, 2017

FINDING 2016-009

Contact Person Responsible for Corrective Action: Barbara Michalos, Alex Newman

Contact Phone Number: 574-254-4530

We concur with the finding on additional internal controls but as indicated in the audit findings, there were no questioned costs identified.

Exceptional Learners will develop an effective internal control system related to the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment requirement.

Description of Corrective Action Plan:

1. Exceptional Learners will follow the SCM Board Policy 6325
2. Exceptional Learners shall not subcontract with or award sub grants to any person or company who is debarred or suspended.
3. For contracts over \$25,000, the Corporation shall confirm that the vendor is not debarred or suspended by either checking the Federal government's System for Award Management, which maintains a list of such debarred or suspended vendors at www.sam.gov ; collecting a certification from the vendor; or adding a clause or condition to the covered transaction with that vendor. (2 C.F.R. Part 180 Subpart C)
4. It should be documented which one was chosen to ensure the vendor is not suspended or disbarred.
5. The Director of Exceptional Learners and the Chief Financial Officer will each check to verify that a vendor is not debarred or suspended by checking www.sam.gov and SCM will include debarment or suspended status to the vendor contract.

Anticipated Completion Date: December 5, 2017

FINDING 2016-010

Contact Person Responsible for Corrective Action: Barbara Michalos; Tracey Bolin

Contact Phone Number: 574-254-4530

We concur with the finding on the need for an effective internal control system but as indicated in the audit findings, there were no questioned costs identified.

Exceptional Learners will develop an effective internal control system to ensure compliance with the Level of Effort-Maintenance of Effort (MOE) requirement, Level of Effort, earmarking compliance requirement including SCM reporting records.

Description of Corrective Action Plan: Exceptional Learners staff will work with the Business Office staff to ensure backup documentation is printed and included with the MOE documents. The Director of Exceptional Learners and the Controller will both sign off on the backup documentation, and the MOE documents submitted to the IDOE. The MOE data will be consistent from year to year.

Anticipated Completion Date: December 5, 2017

FINDING 2016-011

Contact Person Responsible for Corrective Action: Barbara Michalos; Karen Filipiski; Cari Miles
Contact Phone Number: 574-254-4530

We concur with the finding regarding the lack of an effective intern system but as indicated in the audit findings, there were no questioned costs identified.

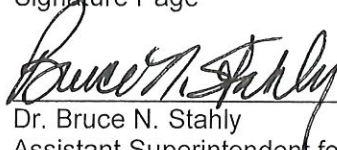
Exceptional Learners will develop an effective internal control system to ensure compliance with grant agreement and the December 1 reporting compliance requirement.

Description of Corrective Action Plan:

1. Beginning with the April 1 count, the Administrative Assistant, under the supervision of the Director will verify the accuracy of the count with the SCM Data Specialist. Any conflicts will be remedied at that time.
2. The Special Education (SE) report is sent electronically to the Data Specialist on a weekly basis.
3. The Real Time data base is updated based on the SE report.
4. The IDOE data specialist is contacted by SCM if any conflicts cannot be remedied locally.
5. A pre-count is completed in October/November in preparation for the December 1 count.
6. Any conflicts are remedied.
7. The Administrative Assistant participated in the "December 1 Error Free" webinar hosted by Curtis & Livers Consulting, LLC. (CLSI)
8. A comparison report is run from CLSI and the SE report submitted by the Data Specialist.
9. Individual class lists are sent out the week of the December 1 count and required to be returned on December 1. Teachers/Therapists sign off to verify the class lists including Least Restrictive Environment and Article 7 eligibility data's accuracy.
10. The Administrative Assistant updates all lists with any revisions and corrections.
11. The final list is downloaded and submitted to the Data Specialist. The data is manipulated by the Data Specialist and returned to the Administration Assistant as a CSV document to run the comparison report with CLSI. After the report is reviewed and conflicts are resolved, the SE report is submitted.
12. If conflict messages are received on the SE report, the Data Specialist confers with the Administrative Assistant to resolve the conflicts.
13. Once the conflicts are resolved, the SE report is resubmitted and the Data Specialist signs off on the report.
14. The report will be printed and the Director of Exceptional Learners will also sign off.
15. A copy of the SE Funding-Additional Pupil Count (APC) Report is printed by the Data Specialist.

Anticipated Completion Date: December 5, 2017

Signature Page



Dr. Bruce N. Stahly
Assistant Superintendent for Business Services



Alex M. Newman
CFO and Director of Business Services



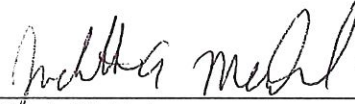
Tracey R. Bolin
Controller



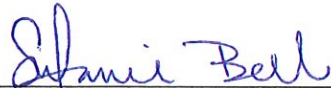
Barbara Michalos
Director for Exceptional Learners



Peggy Baer
Food Service Coordinator



Judith A. Meidel
Accounting Specialist/Accounts Payable, ECA



Stefanie Bell
Accounting Specialist/Payroll



Darlene Cochran
Administrative Assistant for Human Resources

December 5, 2017

SCHOOL CITY OF MISHAWAKA
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment appeared in the prior Report B44945.

The financial statement presented for the School Corporation in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at June 30, 2015, and June 30, 2016:

Fund	Amount Overdrawn 06-30-15	Amount Overdrawn 06-30-16
A0558 - Gift Donations	\$ -	\$ 531
Textbook Rental	771,705	693,033
Self-Insurance	-	48,397
Historical Society	-	8,404
Payroll	17,761	-

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)

DEPOSITS INTACT

The classification of collections (cash, check, or money order) on seven of ten School Lunch fund receipts tested did not match the classification on the corresponding deposit slip. We were unable to determine if the deposits were made intact.

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."

RECORD OF HOURS WORKED

There were two instances where two administrative employees were paid from several funds without records showing the hours worked for each area or showing the determination of the percentages allocated to each fund. Fifty percent of the salary for one of the administrative employees selected was paid from the Transportation fund. No supporting documentation was presented that indicated the administrative employee performed duties associated with Transportation.

Indiana Code 5-11-9-4(b) states in part:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees: . . .

(2) employed by more than one (1) public agency or in more than one (1) position by the same public agency . . ."

SCHOOL CITY OF MISHAWAKA
AUDIT RESULTS AND COMMENTS
(Continued)

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employee's Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

Indiana Code 20-40-6-6 states in part:

"(a) The following costs are payable from the fund:

(1) The salaries paid to bus drivers, transportation supervisors, mechanics and garage employees, clerks, and other transportation related employees. . . .

(b) Percentages or parts of salaries of teaching personnel or principals are not attributable to transportation. . . ."

Many administrative positions have duties and responsibilities that are broad and overlapping and encompass everything that goes on in the school corporation or school building. Therefore, we have consistently been of the audit position that these expenses are normally considered operating expenses properly charged to the general fund in accordance with IC 20-40-2-2 for the operation of the school corporation and not to the transportation fund. Some positions have been formally established by boards of school trustees, through job description, duties assigned, title, salary schedules, etc., as transportation related (for example, Assistant Superintendent-Transportation Director). We will not take audit exception, in these situations (other than positions excluded by statute), to direct transportation related employees having direct transportation related expenses being paid from the transportation fund if a cost allocation system based upon auditable statistics is established tracking costs attributable to the transportation program and therefore payable from the transportation fund. The use of time cards, time logs, or other means of accumulating auditable statistics upon which to base costs would have to be maintained. The time spent on such programs by persons serving in more than one program area must be specific if costs are to be separated. These costs cannot be accurately maintained on a percentage basis and requires the use of one of the methods mentioned above to provide auditable statistics and should cover all program areas in which a person serves or for which the service, materials, supplies, etc., are provided. (The School Bulletin and Uniform Compliance Guidelines, March 2012)

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 1)

SCHOOL CITY OF MISHAWAKA
AUDIT RESULTS AND COMMENTS
(Continued)

PREPAID LUNCH FUND

The School Corporation had not established procedures to reconcile student's individual meal account balances as shown in the food service software, NutriKids, to the Prepaid Lunch fund in the School Corporation's financial accounting system.

Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 3)



School City of Mishawaka

Creating a Culture of Excellence

Audit July 1, 2014 – June 30, 2016 - Accounting Requirement Code (ARC) Response

OVERDRAWN CASH BALANCES in four funds, gifts and donation, textbook rental, self-insurance, and historical society. Gifts and donation is an anomaly in that an item was ordered and paid for prior to receiving the donation. In regards to the others the table below summarizes the progress being made to reduce or eliminate these overdrawn funds:

Fund	7/1/2014	6/30/2016	10/1/2017
Textbook Rental	\$ (870,195)	\$ (693,032)	\$ (500,139)
Self Insurance	\$ (1,024,066)	\$ (48,394)	\$ 225,034
Historical Society	\$ (7,946)	\$ (8,402)	\$ 1,307

The goal for the textbook rental fund is to eliminate this overdrawn cash balance by the end of calendar year 2018. Although the self-insurance fund is positive currently, it is not positive to the extent desired as the reserves should be in the neighborhood of \$1.5 M (25% of anticipated claims). In regards to the Historical Society, SCM is now borrowing tax anticipation warrants to keep that fund positive.

DEPOSITS INTACT – The school corporation has corrected this practice.

RECORD OF HOURS WORKED – The school corporation has instituted changes to address this ARC.

PREPAID LUNCH FUND – The school corporation has now established procedures to balance NutriKids software to the Prepaid Lunch Fund in SCM's financial accounting system.

Dr. Bruce N. Stahly
Assistant Superintendent for Business Services
December 6, 2017

Administrative Center

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SCHOOL CITY OF MISHAWAKA
EXIT CONFERENCE

The contents of this report were discussed on December 5, 2017, with Dr. A. Dean Speicher, Superintendent of Schools; Bruce N. Stahly, Treasurer; Jeffery E. Emmons, President of the School Board; William Pemberton, School Board member; Theodore Stevens, Assistant Superintendent for Curriculum and Instruction; and Alex M. Newman, Chief Financial Officer.