

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

MANCHESTER COMMUNITY SCHOOLS

COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
01/26/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kendra J. Miller Scott T. Bumgardner	07-01-14 to 01-12-16 01-13-16 to 06-30-18
Superintendent of Schools	Dr. William C. Reichhart (Vacant) Michael E. Pettibone (interim)	07-01-14 to 06-30-17 07-01-17 to 07-09-17 07-10-17 to 06-30-18
President of the School Board	Sally S. Krouse Stephen D. Flack	07-01-14 to 12-31-14 01-01-15 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE MANCHESTER COMMUNITY SCHOOLS, WABASH COUNTY, INDIANA

This report is supplemental to our audit report of the Manchester Community Schools (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 Result and Comment as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Result and Comment contained herein describes the identified reportable instance 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, incorporated within this report, was not verified for accuracy.

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

December 13, 2017

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS

FINDING 2016-001

Subject: Preparation of Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding number was 2014-001.

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).

Context

The SEFA presented for audit contained the following errors:

1. State grants totaling \$84,121 for fiscal year 2015 and \$110,007 for fiscal year 2016 were included in error.
2. The National School Lunch Program - commodities were not included, resulting in an understatement in the amount of \$60,138 for fiscal year 2015, and \$62,931 for fiscal year 2016.
3. The total Child Nutrition Cluster expenditures were understated (including commodities) by \$587,251 for fiscal year 2015 and by \$2,116 for fiscal year 2016.
4. The Special Education Cluster (IDEA) expenditures were not included, resulting in an understatement of expenditures by \$378,328 for fiscal year 2015 and \$341,864 for fiscal year 2016.
5. The Rural Education expenditures were not included, resulting in an understatement of expenditures by \$30,462 for fiscal year 2015 and \$4,435 for fiscal year 2016.

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.

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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. . . ."

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."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

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 *Context*.

Recommendation

We recommended that the School Corporation's management establish controls to prevent, or detect and correct, errors on the SEFA.

Views of Responsible Officials

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

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

FINDING 2016-002

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There were deficiencies in the internal control system of the School Corporation related to school lunch prepaid receipts and summer food service lunch receipts. There was a lack of segregation of duties since the School Corporation had not separated incompatible activities related to these receipts.

School Lunch Prepaid Receipts

One individual, at each grade level building, collected prepaid receipts, posted prepaid amounts to each student account, prepared the deposits, and took the deposits to the bank. The prepaid Transaction Report (posting report) and the deposit slips were remitted to the Deputy Treasurer daily. The Deputy Treasurer posted the receipts daily, based on the deposit slip. There was no reconciliation between the prepaid Transaction Report (posting report) and the deposit slip, if necessary. In some cases, there were credit card postings to the prepaid Transaction Report (posting report). The credit card postings were based on the bank statement and made one to two times per week. These posting were not verified in Meal Magic.

Summer Food Service Program Receipts

Daily collections were documented at each program site by the cashier. Periodically, the Food Service Director (FSD) visited each site to obtain the collections. The FSD took an amount from the cashier that did not agree with the documented collections. The FSD took the collections obtained to the central office and gave the collections to the Deputy Treasurer. The Deputy Treasurer prepared the deposits, took the deposits to the bank, and posted the receipts. No documentation was included that documented the amount collected.

Context

The lack of internal controls over these receipts 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. . . .

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

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

The School Corporation had not established a proper system of internal control over school lunch prepaid receipts and summer food service lunch receipts.

Effect

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

Recommendation

We recommended that the School Corporation's management establish and document effective controls, including segregation of duties, to ensure the accuracy of the school lunch prepaid receipts and summer food service lunch receipts reported in the financial statement.

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 - Internal Controls

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Program Income, Reporting,
Special Tests and Provisions - Paid Lunch Equity

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediate prior report. The prior report finding numbers were 2014-004 and 2014-006.

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Program Income, Reporting, and Special Tests and Provisions - Paid Lunch Equity.

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cash Management (School Breakfast Program and National School Lunch Program only)

Management of the School Corporation had not established adequate controls to ensure that the School Lunch fund cash balances were less than or equal to the three months average expenditures.

Program Income

Management of the School Corporation had not designed or implemented adequate controls to ensure that program income was properly determined in compliance with program requirements. The documentation supporting program income was not provided by the School Corporation officials. An oversight or review process has not been established to ensure accurate program income documentation.

Reporting

Management of the School Corporation had not designed or implemented adequate controls to ensure that the Annual Financial Reports and Monthly Sponsor Claims (claims for reimbursement) were accurate prior to submission. There was no segregation of duties, such as an oversight, review, or approval process.

Special Tests and Provisions - Paid Lunch Equity (National School Lunch Program only)

Management of the School Corporation had not established documented internal controls, such as a review or approval process, over the Special Tests and Provisions - Paid Lunch Equity calculation.

Context

The lack of properly designed and implemented controls was a systemic problem, 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). . . ."

MANCHESTER COMMUNITY SCHOOLS
FEDERAL FINDINGS
(Continued)

Cause

The School Corporation had not established and implemented an effective internal control system that 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 programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

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

CORRECTIVE ACTION PLAN

FINDING 2016-001—PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact person responsible for Corrective Action: Scott Bumgardner/Kendra Miller
Contact phone number: 260-982-7518

Views of Responsible Official: A proper system of internal control needs to be in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards.

Description of Corrective Action Plan:

1. Schedule of Expenditures of Federal Awards will include all federal awards, in the correct amount.
2. Internal controls are in place, as of December 7, 2017.

FINDING 2016-002 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS & REPORTING

Contact person responsible for Corrective Action: Scott Bumgardner/Kendra Miller
Contact phone number: 260-982-7518

Views of Responsible Official: Internal control was lacking relating to prepaid receipts and summer food service lunch receipts, including the segregation of duties.

Description of Corrective Action Plan:

1. Summer Lunch monies will be collected and deposited weekly from each building.
2. Internal controls are in place, as of December 7, 2017, including the segregation of duties, for additional verification by someone other than the preparer.



FINDING 2016-003 – INTERNAL CONTROLS OVER CHILD NUTRITION CLUSTER

Contact person responsible for Corrective Action: Scott Bumgardner/Kendra Miller
Contact phone number: 260-982-7518

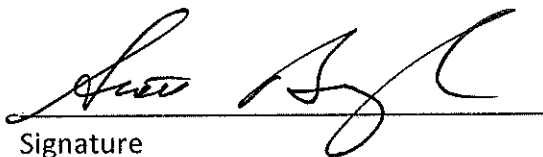
Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Number and Year: FY 2014-2015, FY 2015-2016
Pass-Through Entity: Indiana Department of Education

View of Responsible Official: Lacking an effective internal control system which includes segregation of duties, cash management, program income, reporting and special tests and provisions.

Description of Corrective Action Plan:

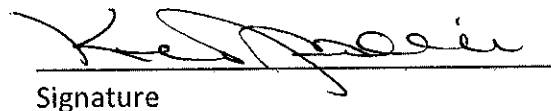
1. An Internal Control System is in place, as of December 7, 2017. This includes cash management calculations, paid lunch equity calculations, annual financial reporting, segregation of duties, and reporting monthly reimbursement claims. Internal Control is also in place to ensure that program income is properly determined in compliance with program requirements.

ANTICIPATED COMPLETION DATE: DECEMBER 7, 2017


Signature

Business Manager
Title

12-13-17
Date


Signature

Asst. Treasurer
Title

12-13-17
Date

MANCHESTER COMMUNITY SCHOOLS
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

Similar comments appeared in prior Reports B46055 and B41708, entitled *OVERDRAWN CASH BALANCES*.

The School Lunch fund had overdrawn cash balances at June 30, 2015, and June 30, 2016, in the amount of \$1,818 and \$17,206, respectively.

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)

MANCHESTER COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2017, with Scott T. Bumgardner, Treasurer; Kendra J. Miller, former Treasurer; Michael E. Pettibone, Interim Superintendent of Schools; Stephen D. Flack, President of the School Board; and Tim McLaughlin, School Board member.