

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT

WELLS COUNTY, INDIANA

July 1, 2014 to June 30, 2016



**FILED**

01/31/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Brad Yates	07-01-14 to 06-30-18
Superintendent of Schools	Wayne Barker	07-01-14 to 06-30-18
President of the School Board	Brent Hiday Dawn M. Frauhiger	01-01-14 to 12-31-15 01-01-16 to 12-31-17



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TO: THE OFFICIALS OF THE BLUFFTON-HARRISON METROPOLITAN  
SCHOOL DISTRICT, WELLS COUNTY, INDIANA

This report is supplemental to our audit report of the Bluffton-Harrison Metropolitan School District (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 that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report.

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

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

December 21, 2017

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Preparation of the 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 contained the following errors:

1. The Special Education Cluster (IDEA) expenditures were overstated by \$221,722 in fiscal year 2015 and understated by \$127,278 in fiscal year 2016.
2. The Career and Technical Education -- Basic Grants to States subrecipient amounts were not included, resulting in understatements of \$204,443 and \$270,162 in fiscal years 2015 and 2016, respectively.
3. The Career and Technical Education -- Basic Grants to States expenditures were overstated by \$2,400 in fiscal year 2016.
4. The Summer Food Service Program for Children expenditures were not included, resulting in understatements of \$5,500 and \$11,732 in fiscal years 2015 and 2016, respectively.
5. The National School Lunch Program commodities were understated by \$9,261 in 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.

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

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
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. . . ."

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. . . ."

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

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 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 ensure accurate and complete reporting of federal expenditures on the SEFA.

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
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: Special Education Cluster (IDEA) - Matching, Level of Effort, Earmarking and 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): 14213-001-PN01, 14214-001-PN01,  
14215-001-PN01, 14216-001-PN01,  
99914-001-TA01, 45714-001-PN01,  
45715-001-PN01, 45716-001-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Matching, Level of Effort, Earmarking; Reporting

Audit Finding: Material Weakness

*Condition*

The School Corporation was a member of the Adams-Wells Special Services Cooperative (Cooperative). The Cooperative operated the Special Education program on behalf of the School Corporation and managed the Special Education grants. There was no oversight of the Cooperative by the School Corporation. Since the grant agreements were between the Indiana Department of Education (IDOE) and each member school corporation of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place at the Cooperative in order to ensure compliance with requirements related to the grant agreement and the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

*Context*

The Cooperative's internal control was that the reports were to be reviewed by the Director prior to submission to the IDOE. The Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for audit were not the original reviewed and signed reports. Also, some of the reports presented were incomplete. Per inquiry of School Corporation's officials, there was no oversight, at the School Corporation, over the filing of required reports submitted to the IDOE.

Of the Quarterly Proportionate Share Monitoring Reports for Non-Public Schools presented for the audit, we could not verify the reported "proportionate share" expenditures. Per inquiry of the Director of the Cooperative, the reported expenditures were calculated by multiplying the applicable monthly reimbursed expenditures by the nonpublic school usage percentage, which was calculated based on a Time Study conducted annually by the Cooperative's Director. A copy of the Time Study was requested, but, it was not available for audit.

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

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
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 designed or implemented a system of internal control for the Matching, Level of Effort, Earmarking, and Reporting compliance requirements.

*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.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls related to the Matching, Level of Effort, Earmarking and Reporting compliance requirements.

*Views of Responsible Officials*

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

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-003***

Subject: Title I Grants to Local Educational Agencies - Cash Management and Reporting  
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): 14-8445, 15-8445, 16-8445  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirements: Cash Management, Reporting  
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 following compliance requirements: Cash Management and Reporting.

*Context*

There were no controls in place to ensure that the Monthly Reimbursement Requests and the Annual Expenditures Reports for fiscal year 2015 and 2016 were accurate. Reports were prepared and filed by the Title I Director with no other review, oversight or approval process, or any other compensating control. The lack of controls was a systematic problem, occurring 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). . . ."

*Cause*

The School Corporation had not developed a system of internal controls that segregated key functions.

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
FEDERAL FINDINGS  
(Continued)

*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, 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.



# BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT

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805 EAST HARRISON STREET  
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## CORRECTIVE ACTION PLAN

### Finding 2016-001

Auditee Contact Person: Brad Yates  
Title of Contact Person: Assistant Superintendent / Treasurer  
Phone number: 260-824-2620  
Expected Completion Date: Upon Submission of Gateway report for school year 2017-2018  
Views of Responsible Officials: We concur with the findings.

The district submitted the report timely but with errors. Bluffton-Harrison MSD is working to understand the information required to be entered into Gateway for this specific report. In practice, the Deputy Treasurer receipts in all of the EFT's notices of the Federal Grants and I, as the treasurer of the Corporation, review the information in Gateway prior to the Deputy Treasurer's submission of the report.

As indicated in the Finding 2016-001, the district will ensure Federal programs within a cluster (Special Education Cluster), Federal programs as subrecipients (Career and Technical Education), and all aspects of Federal programs (National School Lunch Program) are included in the report. At the time of preparation, if any questions arise from the Deputy Treasurer and/or Treasurer regarding the preparation process or inclusion of expenditures for a particular Federal program, the district will contact the State Board of Accounts for assistance in accurately preparing the report to ensure accuracy and thoroughness.

December 21, 2017

Brad Yates  
Assistant Superintendent  
Bluffton-Harrison MSD  
805 East Harrison Street  
Bluffton, Indiana 46714



# BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT

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## CORRECTIVE ACTION PLAN

### Finding 2016-002

Auditee Contact Person: Brad Yates  
Title of Contact Person: Assistant Superintendent / Treasurer  
Phone number: 260-824-2620  
Expected Completion Date: Immediately  
Views of Responsible Officials: We concur with the findings.

Additional control processes have been implemented to enhance internal controls over reporting conducted by both the district and the Adams-Wells Special Education Cooperative. The district will review the Adams-Wells Special Education Cooperative internal control practices to ensure compliance with requirements related to the grant agreement and the Matching, Level of Effort, Earmarking, and Reporting compliance requirements. Quarterly, the district Assistant Superintendent/Treasurer will engage the Adams-Wells Special Education Cooperative Director and/or Treasurer to review Quarterly Proportionate Share Monitoring Reports. After review, the district will provide any relative commentary for the reports, and then the district will approve of the report for submittal to the State.

December 21, 2017

Brad Yates  
Assistant Superintendent  
Bluffton-Harrison MSD  
805 East Harrison Street  
Bluffton, Indiana 46714



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## CORRECTIVE ACTION PLAN

### Finding 2016-003

Auditee Contact Person: Brad Yates  
Title of Contact Person: Assistant Superintendent / Treasurer  
Phone number: 260-824-2620  
Expected Completion Date: Immediately  
Views of Responsible Officials: We concur with the findings.

The district will correct internal control procedures related to Title I cash management and reporting. Corrective internal control procedures will include the following: The Deputy Treasurer will report Title I expenditures to the Assistant Superintendent/Treasurer. Following receipt of the expenditure report, the Assistant Superintendent/Treasurer will prepare the Title I reimbursement request using the provided expenditure report. Prior to submission by the Assistant Superintendent/Treasurer, the Title I Coordinator/Elementary School Principal will review the reimbursement request and provide signed approval of the request to the Assistant Superintendent/Treasurer. Following review and approval, the Assistant Superintendent/Treasurer will electronically submit the reimbursement request.

December 21, 2017

Brad Yates  
Assistant Superintendent  
Bluffton-Harrison MSD  
805 East Harrison Street  
Bluffton, Indiana 46714

BLUFFTON-HARRISON METROPOLITAN SCHOOL DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2017, with Brad Yates, Treasurer; Wayne Barker, Superintendent of Schools; Brenda Clamme, Deputy Treasurer; and Dawn M. Frauhiger, President of the School Board.