

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

SUPPLEMENTAL COMPLIANCE REPORT  
OF  
MIDDLEBURY COMMUNITY SCHOOLS  
ELKHART COUNTY, INDIANA  
July 1, 2014 to June 30, 2016



**FILED**  
05/29/2018



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mark D. Snyder	07-01-14 to 06-30-18
Superintendent of Schools	Jane A. Allen	07-01-12 to 06-30-19
President of the School Board	David Black	01-01-14 to 12-31-18



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

This report is supplemental to our audit report of the Middlebury 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 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

April 24, 2018

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat of Finding 2014-001 over receipts from the immediately prior audit.

*Condition*

There were several deficiencies in the internal control system of the School Corporation related to Financial Transactions and Reporting.

*School Corporation Transactions:*

*Receipts*

The School Corporation had not separated incompatible activities related to receipts, posting of receipts, and the preparation of the bank reconcilements. There was no oversight over all the receipts that were processed by the Treasurer, who also was responsible for preparing the bank reconcilements.

*Disbursements - Fringe Benefits*

There was no oversight for the School Corporation's share of fringe benefits, such as payments to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the School Corporation's share of Social Security and Medicare. These disbursements were not included on the claims docket approved by the School Board.

*Disbursements - Payroll - Time Card Approvals*

Audit evidence was not available to verify the approval of the time cards. The time cards were available for audit; however, the School Corporation's time card software system did not maintain an audit trail of the approvals.

*Self-Insurance Fund:*

*Financial Transactions and Reporting*

The activities of the Self-Insurance fund were not included in the School Corporation's ledger, but were accounted for separately by the Treasurer. There was no oversight over the receipts, disbursements, cash reconcilements, or reporting for this fund. There was no approval process for the Self-Insurance fund transactions. The disbursements were made electronically by the claims administrator without approval from the School Board. Included in these disbursements were flex payments for certain types of insurance and there was no supporting documentation provided for these disbursements. There was no oversight of the receipts, disbursements, cash reconcilements, or reporting for this fund.

*Context*

This was a systematic problem that continued through the audit period.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*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.

*Effect*

The failure to establish controls could have enabled 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, time card approvals, and School Board approvals for all Self-Insurance fund disbursements.

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

*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). Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA occurred.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Context*

This was an isolated event that applied to the Special Education\_Grants to States, Project No. 1425-016-PN01, which was overstated by \$174,888. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

*Criteria*

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

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

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

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

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § \_\_\_\_\_.310. . . ."

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.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

*Cause*

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

*Effect*

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

*Recommendation*

We recommended that the School Corporation's management establish controls related to the preparation of the SEFA.

*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: Title I Grants to Local Educational Agencies - Internal Controls

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): 14-2275, 15-2275, 16-2275

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles,  
Period of Performance, Special Tests and Provisions -  
Comparability, Special Tests and Provisions - Assessment  
System Security

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, Period of Performance, Special Tests and Provisions - Comparability, and Special Tests and Provisions - Assessment System Security compliance requirements.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance*

The Business Manager Assistant updated the employee's 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.

Fringe benefits claims were not being approved by someone knowledgeable about the grant requirements or by other school officials. Fringe benefit payments were not going through the normal claim approval process.

*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.

*Special Tests and Provisions - Assessment System Security*

The School Corporation did not have a process in place to ensure that all individuals involved in the testing process received the proper training and signed the required Indiana Testing Security and Integrity Agreement. At the high school, sign-in sheets were used to ensure that everyone who attended the training also signed the agreements. This process was not used at the other school locations.

*Context*

The lack of controls was a systemic issue. There were no documented controls over the compliance requirements noted in the *Condition* 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 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 an effective system of internal controls that segregated key functions.

MIDDLEBURY COMMUNITY SCHOOLS  
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.

**FINDING 2016-004**

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 Grants to Local Educational Agencies  
CFDA Number: 84.010  
Federal Award Numbers and Years (or Other Identifying Numbers): 14-2275, 15-2275, 16-2275  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate  
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 Special Tests and Provisions - Annual Report Card, High School Graduations Rate compliance requirement. The codes used by the High School's Registrar office were determined and processed by one individual and the Student Withdrawals Clearance forms authorizing the removal of the student were not always approved by the school official.

The School Corporation did not comply with Special Tests and Provisions - Annual Report Card, High School Graduation Rate requirement that students removed from the High School cohort graduation rate for mobility reasons have written documentation to support the student's removal from the cohort. The School Corporation reported students as missing without the documentation required for classifying a student as missing.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Context*

This was a systemic problem. Fifteen percent of the population, who were removed from the cohort during the audit period, were tested and the School Corporation did not have supporting documentation for five percent of these students. The Student Withdrawal Clearance form was not signed by the appropriate school official for fifty-eight percent of the students tested.

*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 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. . . .

MIDDLEBURY COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

(2) *Transitional graduation rate.*

(i) Prior to the deadline in paragraph (b)(4)(ii)(A) of this section, a State must calculate graduation rate as defined in paragraph (b)(1) of this section or use, on a transitional basis—

(A) A graduation rate that measures the percentage of students from the beginning of high school who graduate with a regular high school diploma in the standard number or years; or . . .

(ii) For a transitional graduation rate calculated under paragraph (b)(2)(i) of this section—

(A) 'Regular high school diploma' has the same meaning as in paragraph (b)(1)(iv) of this section;

(B) 'Standard number of years' means four years unless a high school begins after ninth grade, in which case the standard number of years is the number of grades in the school; and

(C) A dropout may not be counted as a transfer. . . ."

*Cause*

The School Corporation's management had not developed an effective system of internal controls that segregated key functions.

*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 establish controls to ensure compliance and 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.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-005***

Subject: Special Education Cluster (IDEA) - Activities Allowed or Unallowed,  
Allowable Costs/Cost Principles, Period of Performance, and Level  
of Effort - Maintenance 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): 14214-016-PN01, 14215-016-PN01,  
14216-014-PN01, 45714-016-PN01,  
45715-016-PN01, 45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost  
Principles; Period of Performance; Matching,  
Level of Effort, Earmarking

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, Period of Performance, and Level of Effort - Maintenance of Effort compliance requirements.

*Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance*

Fringe benefits claims were not approved by someone knowledgeable about the grant requirements or by other school officials. Fringe benefit payments were not going through the normal claim approval process.

*Level of Effort - Maintenance of Effort*

Maintenance of effort calculations were being performed by one individual without an oversight, review, or approval process to ensure accuracy.

*Context*

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

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

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 an effective system of internal controls 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.

**FINDING 2016-006**

Subject: Special Education\_Grants to States - Period of Performance  
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): 14216-014-PN01  
Pass-Through Entity: Indiana Department of Education  
Compliance Requirement: Period of Performance  
Audit Finding: Other Matters

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Condition*

The School Corporation did not comply with the Period of Performance compliance requirement. The School Corporation paid \$38,039 for services that were rendered prior to the start of the period of performance.

*Context*

This was an isolated issue only applicable to the summer payrolls paid in July and August 2015. These payrolls were the final pays on the teachers' contracts for the prior school year, but were charged to the grant for the next school year.

*Criteria*

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). . . ."

2 CFR 200.77 states:

"*Period of performance* means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award (see §§ 200.210 Information contained in a Federal award paragraph (a)(5) and 200.331 Requirements for pass-through entities, paragraph (a)(1)(iv))."

2 CFR 200.309 states:

"A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in § 200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity."

*Cause*

The School Corporation's management had not developed an effective system of internal controls that segregated key functions.

*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.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Questioned Costs*

There were \$38,039 of questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with and comply with the Period of Performance 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 2016-007**

Subject: Special Education Cluster (IDEA) - Activities Allowed or Unallowed

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 Number): 14214-016-PN01, 14215-016-PN01,  
14216-014-PN01, 99914-016-TA01,  
45714-016-PN01, 45715-016-PN01,  
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Activities Allowed or Unallowed

Audit Findings: Material Weakness, Modified Opinion

*Condition*

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between the Indiana Department of Education and each member 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 School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed compliance requirement. There were no controls in place to ensure that expenditures charged to the grant were adequately documented to show compliance over Activities Allowed or Unallowed.

The ECSEC provided special education services to its participating member school corporations (members) and billed them from expenditures paid within the ECSEC funds during the audit period. The ECSEC gave its members credits on their bills for amounts the members were awarded from the budgeted grant category, *Services from Another Educational Agency*. Members did not directly request reimbursement for *Services from Another Educational Agency*, but rather, the ECSEC requested reimbursement on the member's behalf for special education services provided under other categories such as *Certified Salaries, Non-Certified Salaries, Employee Benefits, Purchased/Contracted Services, Conference/Travel, Materials/Supplies, and Buildings*. The ECSEC did not provide any documentation to support the allocation charged to the grant for members' credits in order to test the population for Activities Allowed or Unallowed. Total allocations charged to Special Education\_Grants to States by the ECSEC for member's credits for school years ending June 30, 2015 and 2016, were \$345,319 and \$247,449, respectively.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

The funds requested by the ECSEC for members were receipted in the GCS's Spec Ed Part B Funds and never transferred into the appropriate ECSEC fund. As a result, the requested funds that belonged to the ECSEC were commingled with the Special Ed Part B fund transactions that benefited the GCS and may not have benefitted the other remaining members. Audit procedures over Special Ed Part B fund transactions revealed a lack of a review or approval process over payroll disbursements; however, sampled transactions as a whole, were made in compliance with Activities Allowed or Unallowed.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, adequate documentation did not support the ECSEC expenditures allocated to the grant for members' credits and the comingling of Spec Ed Part B funds and expenditures 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). . . ."

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

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.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

(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.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

*Cause*

The School Corporation and the ECSEC had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Activities Allowed or Unallowed compliance requirements. Additionally, an effective internal control structure had not been established to ensure adequate documentation over ECSEC expenditures allocated to the grant for members' credits and the comingling of Spec Ed Part B funds and expenditures 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 requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain adequate documentation over ECSEC expenditures allocated to the grant for members' credits and the comingling of Spec Ed Part B funds prevented the determination of the School Corporation's compliance relating to Activities Allowed or Unallowed and the expenditures identified in the *Condition*.

*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 compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure adequate documentation will be maintained.

*Views of Responsible Officials*

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

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-008***

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

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): 14214-016-PN01, 14215-016-PN01,  
14216-014-PN01, 99914-016-TA01,  
45714-016-PN01, 45715-016-PN01,  
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

*Condition*

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between the Indiana Department of Education and each member 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 School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Expenditures made by the GCS out of Special Ed Part B funds for salaries and benefits charged to the Special Education Cluster (IDEA) were paid without adequate documentation to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. Personnel Activity Reports or other documentation of personnel expenses for employees who worked on multiple activities or cost objectives during the audit period were not completed or presented. Also, Semi-Annual Certifications or other documentation of personnel expenses for employees whose salaries were paid 100 percent out of the grant funds were not accurate or completed. The following is a list of issues found during our audit:

1. In a test performed on 31 employee payroll transactions, 22 of those transactions were not supported by personnel activity reports or other personnel expense documentation to support the percentage of their pay being charged to the Special Education Cluster (IDEA).
2. For two employees who did complete personnel activity reports or other personnel expense documentation, only 13 out of 20 personnel activity reports or other personnel expense documentation were signed by a supervisor.
3. The School Corporation maintained a listing of employees who were to be paid from the Special Ed Part B funds. The School Corporation paid two employees from the Special Ed Part B funds who were not on that list.
4. The GCS did not adequately maintain personnel expense documentation to support substitutes' pay that was charged to the Special Education Cluster (IDEA).

MIDDLEBURY COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Furthermore, the ECSEC provided special education services to its participating member school corporations (members) and billed them from expenditures paid within the ECSEC funds during the audit period. The ECSEC gave its members credits on their bills for amounts the members were awarded from the budgeted grant category, *Services from Another Educational Agency*. Members did not directly request reimbursement for *Services from Another Educational Agency*, but rather, the ECSEC requested reimbursement on the member's behalf for special education services provided under other categories such as *Certified Salaries, Non-Certified Salaries, Employee Benefits, Purchased/Contracted Services, Conference/Travel, Materials/Supplies, and Buildings*. The ECSEC did not provide any documentation to support the allocation charged to the grant for members' credits in order to test the population for Allowable Costs/Cost Principles. Total allocations charged to Special Education\_Grants to States by the ECSEC for member's credits for school years ending June 30, 2015 and 2016, were \$345,319 and \$247,449, respectively.

The funds requested by the ECSEC for members were receipted in the GCS's Spec Ed Part B Funds and never transferred into the appropriate ECSEC fund. As a result, the requested funds that belonged to the ECSEC were commingled with the Special Ed Part B fund transactions that benefitted the GCS and may not have benefitted the other remaining members. Audit procedures over Special Ed Part B fund transactions revealed a lack of a review or approval process over payroll disbursements; however, sampled transactions as a whole, except as noted above, were made in compliance with Allowable Costs/Cost Principles.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support the expenditures 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:

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- 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:

". . . (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(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:
  - (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. . . .
- (g) 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:

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (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); . . .
- (vii) 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. . . ."

*Cause*

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to Personnel Activity Reports or other documentation of personnel expenses and the expenditures 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 Allowable Costs/Cost Principles compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to Personnel Activity Reports or other documentation of personnel expenses and the expenditures identified in the *Condition*.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure adequate supporting documentation will be maintained.

*Views of Responsible Officials*

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

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

***FINDING 2016-009***

Subject: Special Education Cluster (IDEA) - Cash Management

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): 14214-016-PN01, 14215-016-PN01,  
14216-014-PN01, 99914-016-TA01,  
45714-016-PN01, 45715-016-PN01,  
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Cash Management

Audit Findings: Material Weakness, Modified Opinion

*Condition*

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between Indiana Department of Education (IDOE) and each member 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 School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement.

The reimbursement request form prescribed by the IDOE required dual signatures for approval before submission. Multiple requests presented for audit did not have the required dual signatures.

Expenditures charged to the Special Education Cluster (IDEA) were paid without adequate documentation; therefore, we could not determine whether expenditures were paid prior to the ECSEC requesting reimbursement.

The ECSEC, who operated out of its own fund on the GCS's ledger and provided services to its member school corporation (members) and billed its members for those services, requested special education funds on behalf of its members in exchange for credits on its members' bills. The members budgeted and used the category, *Services from Another Educational Agency*, to account for the activity they wanted to receive from the ECSEC. For instance, the grant award, 14215-016-PN01, the ECSEC requested reimbursement on April 15, 2015, and on September 15, 2015, for the activities, *Certified Salaries* and *Employee Benefits*, but did not provide any supporting documentation for a total of \$214,569. The ECSEC's requested funds were received by the GCS and comingled with the GCS's Spec Ed Part B Funds. The ECSEC did not bill its members for its services until January 8, 2016. The funds the ECSEC requested were never transferred to the appropriate GCS fund to reimburse the credits that were given to ECSEC members.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support requests for reimbursement and that expenditures were made prior to the request, and evidence was not presented to support approval of requests identified in the *Condition*.

MIDDLEBURY COMMUNITY SCHOOLS  
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 74.22 states in part:

". . . (e)(1) When the reimbursement method is used, the Secretary makes payment within 30 days after receipt of the billing, unless the billing is improper. . . ."

(f). . . Thereafter, the Secretary reimburses the recipient for its actual cash disbursements. . . ."

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 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;
- (d) The share of that cost provided from other sources; and
- (e) 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."

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Cause*

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Cash Management compliance requirement. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to the reimbursement requests and expenditures 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 requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to the reimbursement requests and expenditures identified in the *Condition*.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the Cash Management compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure supporting documentation will be maintained.

*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) - Period of Performance

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): 14214-016-PN01, 14215-016-PN01,  
14216-014-PN01, 99914-016-TA01,  
45714-016-PN01, 45715-016-PN01,  
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Period of Performance

Audit Findings: Material Weakness, Modified Opinion

*Condition*

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between Indiana Department of Education and each member of the Cooperative, each member school corporation was

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

ultimately responsible for ensuring compliance with the requirements. An effective internal control system was not in place at the School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Period of Performance compliance requirement. There were no controls in place to ensure that all expenditures charged to the grant fund were obligated within the Period of Performance. Expenditures charged by the ECSEC to the Special Education Cluster (IDEA) were paid with no supporting documentation to determine if expenditures were within the Period of Performance.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support the expenditures 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). . . ."

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."

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;

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) 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 Period of Performance compliance requirement. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to the expenditures 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 requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to the expenditures identified in the *Condition*.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the Period of Performance compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure supporting documentation will be maintained.

*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): 14214-016-PN01, 14215-016-PN01,  
14216-014-PN01, 99914-016-TA01,  
45714-016-PN01, 45715-016-PN01,  
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Condition*

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between Indiana Department of Education and each member 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 School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. There were no controls in place to ensure that all expenditures charged to the grant fund were reported correctly.

The ECSEC, who requested funds on behalf of its members, did not provide any documentation supporting its reimbursement requests and were submitted without an oversight, review, or approval process to ensure they were accurate and in compliance with the Reporting compliance requirement. In addition, the ECSEC prepared and submitted the final reports for its member school corporations without an oversight, review, or approval process to ensure they were accurate and in compliance with the Reporting compliance requirement.

*Context*

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support the reimbursement requests and expenditures 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 section 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:

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

- (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.
  - (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. . . ."

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

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

*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 enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system 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 program. Noncompliance with the grant agreement and the Reporting compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to reporting identified in the *Condition*.

*Questioned Costs*

There were no questioned costs identified.

MIDDLEBURY COMMUNITY SCHOOLS  
FEDERAL FINDINGS  
(Continued)

*Recommendation*

We recommended that the School Corporation's management establish controls to ensure compliance with the Reporting compliance requirement. Additionally, we recommended that management of the School Corporation establish controls to ensure supporting documentation will be maintained.

*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**

Contact Person Responsible for Corrective Action: Mark Snyder  
Contact Phone Number: (574)825-9425

#### Views of Responsible Official:

We felt that we had an adequate system of internal controls for receipting by having one staff member input the receipting into the financial system, then have another staff member review receipt and deposit, then input into a ledger. Then at the end of the month, three signatures were necessary on the end of month financial statement, including the Director of Business (preparer), Assistant to the Director of Business (reviewer), and Superintendent (reviewer). A thorough review of all receipting was necessary during this step. We have added some additional steps detailed below that should be a more adequate system for internal controls.

#### Description of Corrective Action Plan:

**Receipts:** One staff member will receipt all deposits into the financial system, and another will review all receipts and deposit, and then sign a certification page verifying the corresponding deposits are accurate and complete, including the date of the receipt and the total receipted on that date.

**Disbursements – Fringe Benefits:** All payment made to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the Corporation's share of Social Security and Medicare will be processed on a claims docket and approved by the School Board.

**Disbursements – Payroll, Time Card Approvals:** While there has always been approval of time cards from designated building level personnel, there was no record of that approval. We contacted the Time Management vendor and requested that a checkbox be added that allows the designee to authorize and verify the time card for submission.

**Self-Insurance Fund:** As far as receipting, the Payroll/Benefits clerk has always collected checks from retirees and written checks covering employee premiums, corporation premiums, and flex contributions. These checks were given to the Director of Business monthly to deposit into the trust account. A copy of the deposit slip was then given to the Payroll/Benefit clerk for verification. Effective 10/1/17 we switched Third Party Administrators (TPA). The new TPA includes more detailed reporting on claims and flex payments to correspond with the electronic payments. The Director of Business will reconcile the receipts (deposits made by school corporation, any stop-loss reimbursement, or any other miscellaneous receipts) and the detailed disbursements sent by the TPA to the monthly trust statement. Once all is reconciled to

# Middlebury Community Schools

the bank statement, a certification page verifying balances, debits and credits will be signed by the Director of Business, Superintendent, and Assistant Treasurer or Payroll/Benefits clerk.

Anticipated Completion Date: Immediately

MARCO D. DUNN  
(Signature)

Director of Business  
(Title)

4/24/18  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-002**

Contact Person Responsible for Corrective Action: Mark Snyder

Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

For future filings, prior to entering the data into Gateway, the Director of Business will verify the numbers with reports from the financial software that either the Assistant to the Director of Business or the Assistant Treasurer has submitted. Once those numbers are verified, both the Director of Business and either the Assistant to the Director of Business or the Assistant Treasurer will sign the reports prior to the Director of Business entering the data into Gateway.

Anticipated Completion Date: Immediately

Mark D. Snyder

(Signature)

Director of Business

(Title)

4/24/18

(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-003**

Contact Person Responsible for Corrective Action: Mark Snyder/ Dr. Robby Goodman  
Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance: Either the Assistant to the Director of Business or the Assistant Treasurer will update the employee's file of employees to be paid from the grant fund, then the other will verify that only the appropriate employees are being paid from the grant within the correct time period. Both the Assistant to the Director of Business and the Assistant Treasurer will sign the reimbursement requests, in addition to any other necessary persons once all documentation is reviewed.

As stated in Audit Finding 2016-001, all payments made to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the Corporation's share of Social Security and Medicare will be processed on a claims docket and approved by the School Board.

Special Tests and Provisions – Comparability: The Title I program administrator will calculate for compatibility, then give the final report, along with all documentation to the Assistant Superintendent or Superintendent for review. The Title I program administrator and either the Assistant Superintendent or Superintendent will sign the comparability report after verifying accuracy and completeness, prior to submitting.

Special Tests and Provisions – Assessment Security: Our understanding is that 2017-2018 was the first year that the IDOE required a sign-in sheet after participating in the staff training on Indiana Test Security protocols. All teachers, paras, custodians, or any other staff that could potentially encounter ISTEP materials signed the individual Test Security Agreement during the audit period, and these were all given to auditors. Effective 2017-2018, a sign-in sheet was required as dictated by the IDOE and will continue in subsequent years.

Anticipated Completion Date: Immediately

Mark D. Snyder / Robby Goodman  
(Signature)

Director of Business / Assistant Superintendent  
(Title)

4/24/18  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-004**

Contact Person Responsible for Corrective Action: Dr. Robby Goodman / Linda Grant

Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Student withdrawal from cohort: While the same process and forms will continue to be utilized, we acknowledge that more effort must be made to obtain all necessary signatures. Either the Student Attendance Monitor or the Director of Guidance (or designee if unavailable, likely another counselor), will review the Student Withdrawal Clearance form and certifying that the process is complete and accurate, and all necessary items are signed.

Anticipated Completion Date: Immediately

  
\_\_\_\_\_  
(Signature)

*Assistant Superintendent*  
\_\_\_\_\_  
(Title)

*4/24/18*  
\_\_\_\_\_  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-005**

Contact Person Responsible for Corrective Action: Mark Snyder

Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance: As stated in Audit Finding 2016-001, all payments made to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the Corporation's share of Social Security and Medicare will be processed on a claims docket and approved by the School Board.

Level of Effort – Maintenance of Effort: Either the Assistant to the Director of Business or the Assistant Treasurer will calculate the maintenance of effort, then the other member or the Director of Business will verify accuracy. Both the preparer and the reviewer will sign the reimbursement requests verifying accuracy and completeness. In addition, any other necessary persons will sign once all documentation is reviewed.

Anticipated Completion Date: Immediately

Mark Snyder  
(Signature)

Director of Business  
(Title)

April 24, 2018  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-006**

Contact Person Responsible for Corrective Action: Mark Snyder  
Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Either the Assistant to the Director of Business or the Assistant Treasurer will update the employee's file of employees to be paid from the grant fund, then the other will verify that only the appropriate employees are being paid from the grant within the correct time period. Both the Assistant to the Director of Business and the Assistant Treasurer will sign the reimbursement requests, in addition to any other necessary persons once all documentation is reviewed and then submitted for reimbursement.

Anticipated Completion Date: Immediately

*Mark D. Snyder*

(Signature)

*Director of Business*

(Title)

*4/24/18*

(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-007**

Contact Person Responsible for Corrective Action: Mark Snyder/ECSEC  
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

While Middlebury Community Schools acknowledges that as a member of the Cooperative they, along with other member schools, are equally responsible to ensure that all state and federal regulations are adhered to in the accounting and documentation of the programs and related federal grants, it should be stated that the shortcomings documented in this finding are of an internal nature at the administrative school (GCS). The audit completed by the State Board of Accounts for this period on the records of Middlebury Community Schools relative to special education programs and related grants also found deficiency related to this requirement.

Description of Corrective Action Plan:

The entire ECSEC operation is going through some transitions. These transitions range from different personnel in place who handle the programs and related grants to the decentralization of some of the programs. Through these transitions procedures are being upgraded to establish controls for adequate documentation that will ensure compliance with all state and federal guidelines as they relate to the programs. Middlebury Community Schools business office personnel and our Special Education Coordinator will not only continue to follow established guidelines as they understand them, but will also monitor the related procedures put in place by the administrator (GCS) to the best of their abilities.

Anticipated Completion Date: Immediately

Mark Snyder  
(Signature)

Director of Business  
(Title)

4/24/18  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-008**

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC  
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

While Middlebury Community Schools acknowledges that as a member of the Cooperative they, along with other member schools, are equally responsible to ensure that all state and federal regulations are adhered to in the accounting and documentation of the programs and related federal grants, it should be stated that the shortcomings documented in this finding are of an internal nature at the administrative school (GCS). The audit completed by the State Board of Accounts for this period on the records of Middlebury Community Schools relative to special education programs and related grants also found deficiency related to this requirement.

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Anticipated Completion Date: Immediately

Mark R. Snyder

(Signature)

Director of Business

(Title)

4/24/18

(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-009**

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC  
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

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Description of Corrective Action Plan:

The entire ECSEC operation is going through some transitions. These transitions range from different personnel in place who handle the programs and related grants to the decentralization of some of the programs. Through these transitions procedures are being upgraded to establish controls for adequate documentation that will ensure compliance with all state and federal guidelines as they relate to the programs. Middlebury Community Schools business office personnel and our Special Education Coordinator will not only continue to follow established guidelines as they understand them, but will also monitor the related procedures put in place by the administrator (GCS) to the best of their abilities.

Anticipated Completion Date: Immediately

Mark D. Snyder  
(Signature)

Director of Business  
(Title)

4/24/18  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-010**

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC  
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

While Middlebury Community Schools acknowledges that as a member of the Cooperative they, along with other member schools, are equally responsible to ensure that all state and federal regulations are adhered to in the accounting and documentation of the programs and related federal grants, it should be stated that the shortcomings documented in this finding are of an internal nature at the administrative school (GCS). The audit completed by the State Board of Accounts for this period on the records of Middlebury Community Schools relative to special education programs and related grants found no deficiencies related to this requirement.

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Anticipated Completion Date: Immediately

Mark D. Snyder  
(Signature)

Director of Business  
(Title)

4/24/18  
(Date)



CORRECTIVE ACTION PLAN

**FINDING 2016-011**

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC  
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

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Anticipated Completion Date: Immediately

Mark D. Snyder  
(Signature)

Director of Business  
(Title)

4/24/18  
(Date)

MIDDLEBURY COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2018, with Mark D. Snyder, Treasurer; Jane A. Allen, Superintendent of Schools; David Black, President of the School Board; and Robby Goodman, Assistant Superintendent of Schools.